COUNTRY RISK WEEKLY BULLETIN

6 May 2009

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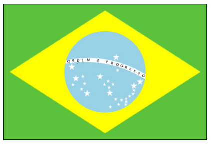
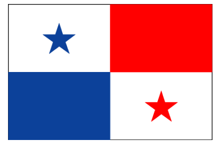
IN THE HEADLINES



BRAZIL

Haul age?

Industrial production increased for the third successive month in March—0.7% mo/mo—and, although still 10% down on a year earlier, the pace of the yr/yr fall has slowed from the 17.4% and 16.8% collapse in Jan and Feb. Latest data also showed an increase in the April trade surplus, as imports continued to fall sharply from a year earlier while the yr/yr contraction of exports continued at the more moderate pace of March. The central bank also cut interest rates again last week, by another 100bps to 10.25%. Recovery is still going to be a long haul—expect GDP to contract by 1% or more in 2009—but the latest crop of data tentatively suggest that the bottom could be close.



PANAMA

Time for a change?

Presidential elections last weekend resulted in a landslide 24 point margin win for Ricardo Martinelli of the centre-right opposition Alianza por el Cambio—breaking the hold of the two main political parties (PRD and PP). With 61% of the vote the new president—a successful businessman—has a strong mandate and, with the inclusion of the PP in the Alianza coalition, may also have a legislative majority. Crime and alleged campaign financing irregularities were the main election issues, but expect a probable contraction of GDP in 2009—after annual average growth of almost 9% in the previous five years—to dominate the immediate agenda.

RUSSIA

Key cut

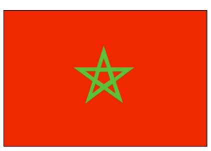
As a result of an easing in food and transport prices and some recent currency stabilisation, inflation moderated to a 14-month low of 13.2% yr/yr in April, down from 14% in March. Although such levels of inflation remain higher than those recorded by most regional economies, the central bank cut its key refinancing interest rate by 50 bps to 12.5% in late April. As its policy of rouble stabilisation—announced in January—appears to have been successful, the central bank may now turn to a much-needed stance of economic stimulation. The economy ministry has estimated a 9.5% yr/yr contraction of real GDP in Q1 and expects a similar decline in Q2.

LITHUANIA

Long and unwinding road

The economy contracted by 12.6% yr/yr in Q1 (advance estimate), following a 2.2% decline in Q4. On a qtr/qtr, seasonally and working-day adjusted basis, real GDP contracted by 9.5%, after a 1.4% fall in Q4. The steep downturn was broadly based. Weak consumer confidence and the unwinding of high levels of credit affected private consumption, reflected in retail sales plummeting 30% yr/yr in Q1. Collapsing external demand (exports dropped by over 20% in Jan-Feb), combined with the credit squeeze, led to a 13.5% fall of industrial output in Q1. Expect the economy to contract by about 10% in 2009 as a whole.

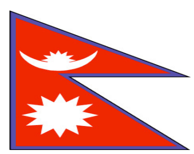
ALSO IMPORTANT...



MOROCCO

Hard roc?

GDP growth was 4.7% yr/yr in Q1, reflecting a record grain harvest (projected at 10.2mn tonnes in 2009, compared with 5mn in 2008) after good rains. The merchandise trade deficit narrowed in Q1 as a result of weaker oil prices. However, exports were down 19% in Q1, largely because of weak EU markets (destination for 60% of exports). The global environment will also limit hard currency inflows from tourism (8% of GDP) and workers' remittances. Accordingly, official forecasts of GDP growth of 5.7% in Q2 and 6% overall in 2009 may be overly optimistic. Indeed, despite the good harvest, expect GDP growth in 2009 to be around 3% (average 5% 2004-08).

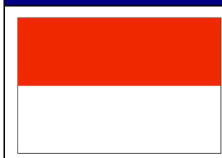


NEPAL

Ram saves Rook

Monday's resignation of PM Pushpa Kamal Dahal puts Nepal's nascent democracy at risk. Dahal—leader of the majority Maoist party—attempted to remove the head of the army, General Rook Mangud Katawal, only to have his decision over-ruled by President Ram Baran Yadav. Assimilating ex-guerrilla fighters into the formal army was always going to be difficult and appears to be a principal area of current dispute. Without swift resolution, the political stand-off may lead to a return to violent street demonstrations. Expect political discord to exacerbate social/economic hardships, including increasing prices, fuel shortages and power outages.

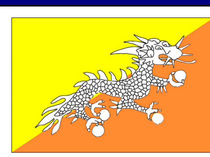
COUNTRY REVIEW SUMMARIES



INDONESIA

Flight directive

Political stability has improved in recent years under the government of President Yudhoyono, who is expected to be re-elected in July. Macro-economic fundamentals have also improved in recent years, but remaining weaknesses have come to the fore amid the ongoing global economic crisis. Increased global risk aversion to emerging markets, capital flight and a looming recession in 2009 have put considerable downward pressure on the exchange rate and FX reserves. The private sector's external debt-service burden is very high in 2009, so expect a number of firms to have problems refinancing their debt.



BHUTAN

Jig saw pieces

King Jigme Khesar Namgyel Wangchuck succeeded when his father abdicated in December 2006. He is overseeing the later changes in a political transition from absolute monarchy to parliamentary democracy. India provides direct financial assistance, as well as project support for infrastructure and power developments. Annual average real GDP growth (5.6% 1990-99 and 8.5% 2000-08) was boosted by generator capacity coming on-stream at the 1,020MW Tala hydroelectric plant. Expect aid inflows (particularly Indian) and receipts from energy exports to enable continuing current account surpluses.

IN BRIEF

Oil prices	Benchmark dated Brent USD54/barrel (year-to-date average USD47/b, 2008 average USD98.5/b).
South Africa	The central bank cut its key repo rate by 100bps to 8.5%. Expect further cuts this year.

Edited by Andrew Atkinson