COUNTRY RISK WEEKLY BULLETIN

27 May 2009

London: David Atkinson +44 (0)20 7860 2807; Andrew Atkinson +44(0)20 7860 2577 **Hamburg:** Manfred Stamer +49 (0)40 8834 3607

IN THE HEADLINES

ARGENTINA

Fern land and...

With mid-term congressional elections on 28 June, President Cristina Fernandez de Kirchner is struggling to avoid heavy losses, with her own popularity hit by feuds with the farmers and a rapidly deteriorating economy. GDP growth was still positive in March, but just 2.3% yr/yr. To bolster the government's chances, former president Kirchner (Cristina's influential husband) declared his own senate candidacy in the key Buenos Aires province and, to attract voters, there are plans to field well-known candidates on the electoral list who will not take their places in congress, should they win. Expect the government to lose seats and the economy to deteriorate further.

MALAWI

...fertile ground

Two opposition parties, the UDF and MCP, combined to field a single candidate—John Tembo—in 19 May presidential elections. However, this manoeuvre failed to unseat Bingu wa Mutharika of the Democratic Progressive Party (DPP). Indeed, the DPP received a stronger mandate to govern in concurrent elections for the legislature. This should quicken the pace of policy implementation. Mutharika's popularity stems from a fertiliser subsidy scheme that coincided with favourable weather conditions and led to improved agricultural production and overall GDP. With uranium production now on-stream expect GDP growth of 5-7% in 2009.

LEBANON

Quoted company?

General elections scheduled for 7 June are keenly awaited by the international community, with speculation that Hezbollah will gain ground. Expect this to be so as Hezbollah has a good track record of service provision, but—on its own—it will not win an overall majority as the quota-based seat allocation in the National Assembly ensures governance by coalition. Indeed, if Hezbollah and its allies (Michel Aoun's Christian faction and the Shia Amal) together form a majority they may choose to include the largely Sunni Future Movement and the Christian Druze in a government of national unity. However, expect tensions to be high, with factional street violence a possibility.

GABON

Drum beat

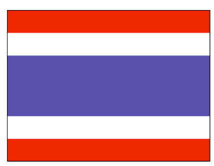
President Omar Bongo—Sub-Saharan Africa's longest serving head of state—is reported to be receiving medical treatment in Spain. Earlier this month, Bongo relinquished some functions of state leadership. Concerns for his health inevitably raise questions relating to succession, given untested constitutional terms. The president's son, Ali Bongo, is defence minister and a daughter, Pascaline, also has a cabinet role so that—as in Togo and elsewhere in the continent—a dynasty may be established. However, expect the oil-based economy to stagnate this year, at best, and social discontent to be more in evidence, so the politics is uncertain.

ALSO IMPORTANT...

MEXICO

Full...

Real GDP in Q1 contracted by a worse-than-expected 8.2% yr/yr. This pre-dates the swine-flu epidemic, which primarily will impact Q2 data, although the effect on tourism may linger. With over 80% of exports destined for the US, the prospects for recovery are heavily linked to those of industrial output north of the border, so some improvement is likely in H2, although GDP in 2009 as a whole can now be expected to shrink by close to 5%. (The Finance Minister reportedly is now projecting -5.5%). Inflation in the first half of May, however, continued to fall and that may allow further interest rate cuts, the central bank having cut rates by a further 75bps at its last meeting.

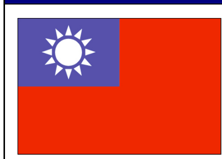


THAILAND

...force

Recession deepened in Q1 as real GDP contracted by 7.1%, hit by the full force of the global recession. Net exports were positive, but this reflected an even larger fall in imports than exports, while private sector investment fell by almost 16% and private consumption contracted for the first time since 1999. Dysfunctional politics is an added drag on economic performance, with little prospect of things improving soon, limiting also the likely effectiveness of a fiscal boost. However, interest rates, having fallen fast, are on hold, although the central bank may re-appraise its view. Expect GDP to contract by around 3% in 2009 as a whole.

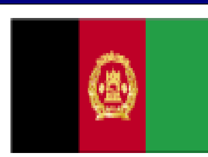
COUNTRY REVIEW SUMMARIES



TAIWAN

Straitened times?

The KMT (generally pro-unification) has a strong mandate with President Ma Ying-jeou's election in March 2008 and a comfortable majority in the Legislative Yuan (parliament). As a result, cross-straits' relations have improved, but will remain a highly-sensitive issue. The export-dependent economy has been hit hard by global recession and GDP contracted by 10.2% yr/yr in Q1 2009—the sharpest fall since records began in 1952. Expect -5.5% in 2009 as a whole. Stimulus plans will widen the fiscal deficit but public and external debt start relatively low. Interest rates have been cut sharply and consumer prices may fall in 2009. External liquidity also remains strong.



AFGHANISTAN

Amid ships

Presidential polls in April returned Hamid Karzai for a further five-year term but the country outside Kabul remains largely under the control of tribal leaders, warlords and insurgents. Moreover, security is poor, with militants targeting both US-led foreign military forces and government units. The formal economy is heavily dependent on agriculture (around 40% of GDP) and remains aid dependent. Further challenges include poor infrastructure, high levels of poverty, an under-developed financial system, low administrative capacity and weak private-sector business environment, as well as problems of a pervasive drug economy.

IN BRIEF

Mongolia	The Democratic Party candidate—and non-incumbent—Tsakhiagiin Elbegdorj won presidential polls on 24 May.
South Africa	Q1 2009 GDP contracted by 6.4% qtr/qtr (seasonally adjusted and annualised) after -1.8% in Q4 2008.

Edited by Andrew Atkinson