

# COUNTRY RISK WEEKLY BULLETIN

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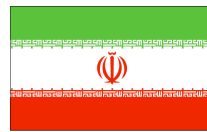
## IN THE HEADLINES



### LATVIA

#### Pegged out?

Recent events have increased the risk that the currency peg may collapse sooner rather than later. Last week a local LVL50mn (EUR70mn) government bond auction failed. Earlier, Sweden's central bank bolstered its reserves by borrowing EUR9.3bn, sparking suspicions that it was preparing to support Swedish banks in the event of a LVL devaluation. Moreover, an increasing number of officials are considering or even advocating devaluation while the government struggles to meet IMF conditions required to maintain external funding. Devaluation would sharply increase credit risks related to private sector debt, 85% of which is denominated in EUR.



### IRAN

#### Supreme court

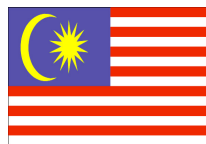
The outcome of presidential elections on 12 June is difficult to predict. The main opposition "reformist" candidate, Mir-Hossein Mousavi, has campaigned strongly and will gain votes largely from urban-dwelling, educated and professional classes. However, the incumbent "radical" Mahmoud Ahmadi-Nejad appeals to the rural communities and hardline religious groups. Whoever wins, do not expect a significant change in relations with the West near-term, though US President Obama's call for "a partnership" may be easier with new leadership in Tehran. Expect the Supreme Leader, Ayatollah Khamenei, to ensure that continuity will prevail in the ST.



### BRAZIL

#### Rate...

Q1 real GDP contracted 0.8% qtr/qtr, confirming recession, and by 1.8% yr/yr. Personal consumption held up reasonably well, but fixed investment and exports fell sharply, as did imports. Manufacturing and construction bore the brunt on the supply side. However, the pace of contraction slowed markedly from the 3.6% qtr/qtr in Q4 2008 and was less bad than many had feared. With lower interest rates, which the monetary policy committee could cut further this week, easing credit conditions and absence of further external shocks, prospects for a return to qtr/qtr growth, albeit relatively weak, are improving. Nonetheless, expect real GDP to contract by up to 1% in 2009 overall.



### MALAYSIA

#### ...support?

Real GDP contracted by 6.2% yr/yr in Q1 as both domestic and external demand were hit hard by the global economic downturn. Net exports remained positive, though, reflecting an even larger fall in imports (23.5%) than exports (15.2%). Investment declined by 10.8% and private consumption was down 0.7%, but most significant was a huge drop in inventories, which subtracted 11.6% from growth. As the latter is unlikely to continue, expect the next quarters to be less bad and the economy to contract by 3-4% in 2009 as a whole. Interest rates have been on hold since February but may be cut soon as inflation is falling rapidly.

## ALSO IMPORTANT...



### BOTSWANA

#### Africa's gem

The African Development Bank (AfDB) approved its largest yet budgetary-support loan facility, with USD1.5bn extended to one of Sub-Saharan Africa's more successful economies. Botswana has been adversely affected by the global recession and, in particular, the collapse in demand and prices for diamonds. Botswana has not borrowed from the AfDB for 17 years but, with diamonds accounting for around 65% of export earnings, its budget deficit in FY2009/10 could reach 10-15% of GDP. With large FX reserves providing double-digit import cover, the loan appears an extension of the country's sound economic management, but expect real GDP to contract by 5-10% in 2009.

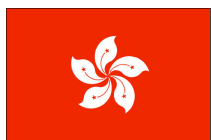


### LEBANON

#### On the march

Elections sprung a surprise, with the ruling March 14th pro-West alliance winning a clear renewed mandate, with 68 out of 128 parliamentary seats. However, expect the March 8th grouping (including Hezbollah), which won 57 seats, to have a significant impact on governance. Under the provisions of a previous agreement, March 8th was given one-third of cabinet seats and thereby had a blocking veto on policies. However, Saad Hariri, leader of March 14th, ruled out a similar arrangement this time, which could cause political discord and return to street violence. Expect continuing political paralysis, even if a government of national unity can be forged.

## COUNTRY REVIEW SUMMARIES



### HONG KONG

#### Demanding

With a very open economy (exports 200% of GDP), Hong Kong is feeling the full force of the collapse of world trade—Q1 real GDP contracted by 7.8% yr/yr. Expect -6.5% for calendar 2009, followed by modest 2-3% growth in 2010. Fiscal stimulus measures (amounting to 4% of GDP) will cushion domestic demand, but push the fiscal deficit to around 3.5% of GDP in 2009/10. However, with low public debt and high fiscal reserves (around 30% of GDP) this should not be a problem. The external balance remains very strong and the currency board should remain in place. Systemic political stability is not under serious threat.



### SLOVAK REPUBLIC

#### Euro-centric

The export-dependent economy faces a deep downturn in 2009 as external demand is hard hit by EU recession. But, as strong growth in recent years has been fuelled by large FDI inflows and not by excessive foreign borrowing, overall macroeconomic fundamentals are still fairly solid. Moreover, euro adoption this year practically eliminated inconvertibility/currency risk. Total external debt is manageable, but relatively high ST external debt may cause roll-over difficulties for some firms amid the current global financial crisis. Expect the number of insolvencies to rise sharply.

## IN BRIEF

### GABON

President Omar Bongo—Africa's longest serving head of state—died, raising succession questions.

Edited by David Atkinson

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