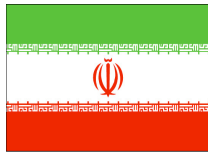


COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



IRAN

Guarded response?

Presidential elections resulted in an unexpectedly large official victory margin of 62.6% of the votes for the incumbent Mahmoud Ahmadi-Nejad against 33.7% for his main challenger, Mir-Hossein Moussavi. Street demonstrations and violence reflected a partial non-acceptance of the result, which was met with a heavy response by the security forces. Perhaps indicating surprise at the strength and depth of opposition to the result, the Guardian Council is now charged with reviewing the elections. Do not expect the result to be over-ruled but the clerical hierarchy will have noted the voice of the people. Some reforms may be introduced (slowly) but there is heightened ST uncertainty.



BRIC

Building bloc?

Leaders of Brazil, Russia, India and China—BRICs—met this week in Yekaterinburg. As expected, the summit was short on specifics but nonetheless serves to reinforce the group's shared aim of carrying more weight in the post-global financial crisis world order, particularly in the IFIs, such as the IMF. China, Russia and Brazil are all proposing to take up the IMF's bond issue that will partly fund its increased lending, reflecting their strong FX reserves. Yet, while these countries have some commonalities, differences predominate, politically and economically, so don't expect much in the way of substantive agreements from this informal grouping.



CHINA

Slow boat?

Consumer prices in May continued to fall, although the pace eased slightly to -1.4% yr/yr from -1.5% in April. However, non-food prices fell by -1.7%. Inflation should re-emerge by year-end, although, with output growth below trend, it should not be a problem in the short term. Indeed, deflation still looks more of a risk. Exports fell by 22.6% yr/yr in May (more than expected) while imports fell 23%. However, both were probably flat mo/mo in real terms. Fixed asset investment in the five months to May was up 32.9% (an implied increase of 39% in May alone). Expect domestic demand to lead recovery through the rest of 2009, but at a relatively slow pace.



ECUADOR

Back home

The government has completed the buyback of external bond debt defaulted in December 2008 after being declared illegitimate by the External Debt Audit Commission. USD2.9bn (out of USD10bn total debt) has been retired—91% of the outstanding at around 30% of the face value. Expect negotiations over official sector debt deemed to be illegitimate to follow, but on a bilateral basis. Despite the relative success of the default tactic there is still a potential legal threat from the 9% of hold-outs and creditors will be cautious in the future, which suggests that Ecuador will have difficulty accessing international markets for some time.

ALSO IMPORTANT...



KAZAKHSTAN

Ten-pointer

Real GDP contracted by 2.2% yr/yr in Q1, after 3.2% growth in 2008 as a whole. While stronger oil revenues would suggest a modest recovery in the remainder of the year, signs of growing distress in the banking sector pose a significant downside risk to such an outlook. Overdue loans for the six major banks range between 12% and 43%. BTA (the largest bank) and Alliance Bank (fourth), which were effectively nationalised in February, have defaulted on their foreign debt and are now seeking a restructuring as the government has withdrawn its pledge to honour the two banks' existing obligations. Expect downward pressure on the tenge.



TANZANIA

Kik start

In a deliberate show of unity within the framework of the East African Community, the governments of Kenya, Uganda, Rwanda and Tanzania last week simultaneously unveiled state budgets. All four provided stimulus packages to ease the effects of the global recession, which has hit commodity exports, workers' remittances and inward FDI flows. A feature of the Tanzanian budget was the reduction of VAT from 20% to 18%. This week, President Jakaya Kikwete announced an overall USD1.3bn rescue plan for key sectors, particularly agriculture, tourism, mining and horticulture. Expect GDP growth of 4% in 2009 (average 7% in 2002-08).

COUNTRY REVIEW SUMMARIES



SAUDI ARABIA

King pin

King Abdullah bin Abdel-Aziz al-Saud remains firmly in control and succession is now mapped out more completely. A tentative reform agenda is discernible but changes will only be implemented slowly. Regional stability provides a downside risk, with uncertainties relating to bordering Iraq and neighbouring Iran. The economy remains highly dependent on markets for hydrocarbons but robust external accounts in 2003-08 provide a cushion to withstand the current global recession. Expect continuing fiscal and current account surpluses this year, although much reduced at 5-7% and 10-13% of GDP, respectively, but GDP to contract by around 1% in 2009.



LITHUANIA

Board room?

Real GDP contraction of 13.6% yr/yr in Q1 suggests a deep and prolonged recession. Expect GDP declines of 10% in 2009, as a whole, and 2.5% in 2010. This will aggravate social hardship, which is already evident as the government has opted to restore competitiveness through internal devaluation (real wage cuts, sharp fiscal tightening) while maintaining the currency board. Yet, the risk of collapse of the board has increased as the real overvaluation of the LTL has risen to 15% and FX reserves continue to fall. Moreover, contagion from a potential sharp currency devaluation in Latvia has become a serious threat.

IN BRIEF

Chile

Policy interest rate cut 50bps to record low 0.75%.

Edited by Andrew Atkinson

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