









COUNTRY RISK WEEKLY BULLETIN

8 July 2009

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 <p>BULGARIA</p> <p>On board?</p>	<p>The opposition centre-right GERB party, led by Sofia mayor Borisov, won the general election on Sunday with 39.8% of the vote, followed by the ruling BSP (17.9%) and MRF (14.2%). Though GERB will fall just short of a parliamentary majority, it is expected to form a coalition government with Blue Coalition (6.7% of the vote and also centre-right). While the new government will remain committed to the currency board, it is likely to re-tighten recently relaxed fiscal policy and may seek a (precautionary) IMF programme to calm fears of a potential financial crisis. However, do not expect a quick economic recovery.</p>	 <p>INDIA</p> <p>Going for growth</p>	<p>Reforms remained on the back-burner in this week's first budget after the government's convincing re-election in May, with the focus firmly on restoring growth to 9% and rural development. The FY09-10 budget gives an estimated additional fiscal stimulus of 0.5-1% of GDP with a central government deficit of 6.8% of GDP, up from 6.2% in FY08-09. The general government deficit will be around 10% of GDP. The deficit is targeted to fall to 5.5% of GDP in 2011, but, while growth should begin to pick up, don't expect the 9% objective to be achieved any time soon. The 2011 deficit objective also looks optimistic.</p>
 <p>MEXICO</p> <p>Panned</p>	<p>The opposition PRI won the mid-term elections last weekend convincingly, with more than 37% of the vote against the ruling PAN's 28% and the PRD's 12%. The PRI also won 5 of 6 governorships contested. The win—no surprise given recession and security issues—is important for several reasons. It gives the PRI a lower house majority (with its small partner, the PV), strengthens its bid for the presidency, which it held for almost 70 years, in 2012 and re-affirms its traditional strength as the most widely representative party. It remains to be seen just how much the PRI will block the government's agenda as the severity of the recession may force co-operation in some areas.</p>	 <p>UKRAINE</p> <p>It never rains...?</p>	<p>Q1 real GDP shrank by a huge 20.3% yr/yr, after contracting by 8% in Q4 2008. The steep downturn was broadly based, as manufacturing plummeted 39% while retail trade fell 10.8% (after a 20% increase in Q4). Merchandise exports plunged 39%, though imports dropped by an even steeper 48%. Indicators for April suggest that the pace of yr/yr declines of industrial production and retail sales has further accelerated, contrary to hopes that the economy had hit bottom. Expect the economy to shrink by 15%+ in 2009 as a whole and the government to struggle to meet the IMF-agreed fiscal deficit target of 4% of GDP.</p>
ALSO IMPORTANT...			
 <p>LATVIA</p> <p>Lat show</p>	<p>The European Commission last week approved the release of the second, EUR1.2bn, tranche of an EU emergency loan—which had been held back since March—apparently endorsing budget cuts decided last month that target a 2009 fiscal deficit of 11% of GDP and a reduction to 3% by 2012. The disbursement will ease funding problems and devaluation risk in the near term, but overall country risk remains very high. The pace of decline of industrial output accelerated again in May to 19.3% yr/yr (17% April) suggesting that the economy has not yet hit bottom. Expect real GDP to shrink by 15%+ in 2009.</p>	 <p>PERU</p> <p>Proving ground</p>	<p>A USD1bn bond issue—a reopening of the global 2025—was completed successfully earlier this week. The bulk of the funds will be used to prepay Paris Club debt—mainly to France and Italy—and will reduce debt repayments in the near term. Importantly, the issue indicates that market access is there for countries that can demonstrate sound economic policies and a strong external balance. However, the government continues to struggle to convince its domestic audience. There will be a cabinet reshuffle this weekend following recent indigenous unrest and three days of strikes and protests this week.</p>
COUNTRY REVIEW SUMMARIES			
 <p>THAILAND</p> <p>Unsettling erosion?</p>	<p>Affected by the global economic crisis, expect the economy to shrink by about 4% in 2009 and a sharp rise in the number of insolventcies. Still, macroeconomic fundamentals remain fairly strong, limiting debt refinancing and external liquidity risks in the near term. A swift recovery of the economy, however, may be held back by increased political instability and unpredictability. The anti-government protests in April, which turned violent, underscored once again that a return to political normalcy is a long way off. There is a medium-term danger that continued weak policymaking eventually erodes economic fundamentals and increases country risk further.</p>	 <p>TOGO</p> <p>Sing-along?</p>	<p>Political and social tensions can be expected to rise as elections approach next year, with opposition parties—if allowed—likely to challenge President Faure Gnassingbé, whose father ruled for 38 years before him until 2005. The economy is reliant on re-export regional trade. Following parliamentary elections in October 2007 external aid was restored and debt reduction under an IMF PRGF programme followed. The current account deficit is set to narrow to 5-6% of GDP in 2009, but remains a constraint on growth, which at best will be 2% this year. As part of The CFA franc zone inconvertibility risk is minimal.</p>
IN BRIEF			
<p>CROATIA</p> <p>HONDURAS</p>	<p>PM Sanader has resigned unexpectedly without giving any clear reasons</p> <p>President Oscar Arias of Costa Rica is to act as mediator between the two sides in the disputed presidency</p>		

Edited by David Atkinson

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