

# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES



### INDIA

**Loose  
change?**

This week, the RBI left policy interest rates unchanged, reflecting a cautiously optimistic economic outlook—Q1 GDP figures were better-than-expected and industrial production and demand for credit are recovering. Although agriculture now accounts for only around 17% of GDP (almost 30% in 1990) expect poor and untimely monsoon rains to limit potential overall economic expansion and to increase domestic prices, particularly of foodstuffs. Nevertheless, expect GDP growth in 2009 now to be around 5-6% (government forecast 7%). However, with sound growth and return of inflationary pressures expect loosening in monetary policy to be close to (or at) an end.



### SOUTH KOREA

**Korea  
prospects**

Advance estimates show that the economy expanded by 2.3% qtr/qtr in Q2, after growth of 0.1% in Q1, supported by fiscal stimulus, loose monetary policy and rebound in external trade. Private consumption expanded by 2.8% qtr/qtr, investment 2.9%, exports 11.2% and imports 8.8%. As a result, real GDP contraction slowed to 2.5% yr/yr from 4.2% in Q1. The gradual improvement should continue in H2, although the ongoing difficult external environment and overall economic uncertainty will pose downside risks and prevent a more rapid recovery. Expect GDP to contract by 1-2% in 2009 as a whole, with only modest positive growth likely in 2010.



### BOSNIA & HERZEGOVINA

**High  
command**

The IMF approved a 36-month USD1.57bn Stand-By Arrangement after weeks of wrangling over cuts in war veterans' benefits. The funding is intended to support the currency board, to shore up public finances and to secure sufficient external finance and bank liquidity. On the political front, Mustafa Mujezinovic replaced Nedžad Brankovic, who resigned in May, as PM of the Bosniak-Croat Federation—one of the two entities of the federal republic. Republika Srpska—the other entity—has tense relations with the international High Representative, Valentin Inzko, who recently annulled several laws.

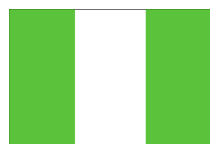


### SOUTH AFRICA

**Up for the Cup**

In an attempt to end a nationwide strike that has disrupted public services, the local government association SALGA revised upwards its offer of wage increases for municipal workers from 10.5% to 13%. Meanwhile, official data show that 267,000 jobs were lost in Q2 (when unemployment reached 23.6%). Expect the economy to contract by 1-2% this year after an average growth of 4.6% in 2005-08 but infrastructure spending and FX inflows related to the 2010 World Cup to boost GDP by around 3.5% next year. Also expect further periodic wage claims, industrial action and some social disharmony.

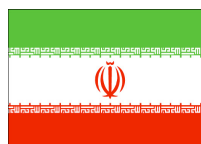
## ALSO IMPORTANT...



### NIGERIA

**Trouble up  
north**

The federal authorities boosted the presence of armed security forces in northern states following attacks by Islamic militants on government buildings. The main industrial and financial centres are in the south, which has a Christian majority, while poverty, unemployment and weak service provision have heightened religious tensions in the north, which is predominantly Moslem. Meanwhile, separatists and criminal gangs in the oil-rich Niger delta continue their campaign of militancy, which has cut oil output and reduced government earnings. Against this background and with weak global oil demand, expect GDP growth of only 2-3% in 2009 and 2010 (average 5.8% in 2005-08).



### IRAN

**Leading edge?**

Following the contested results of recent elections, Supreme Leader Ayatollah Ali Khamenei indicated his support for President Mahmoud Ahmadi-Nejad. However, apparent tensions between the two have now surfaced, with Khamenei instructing the removal of Ahmadi-Nejad's appointed first vice-president. The president promptly named that individual as a senior adviser and dismissed two cabinet ministers, perhaps for dissent. The balance of power between theocrats and government and reformists and conservatives is now more tenuous so, with heightened uncertainties, do not expect progress in relation to US overtures.

## COUNTRY REVIEW SUMMARIES



### ESTONIA

**On the landing**

After overheating, the economy has suffered a hard landing and is now in the midst of a deep recession. Expect real GDP to contract by 10%+ in 2009. Economic risk remains high even though deep macro-economic imbalances, including a large current account deficit, high inflation and excessive credit growth, have already diminished. The authorities have opted for maintenance of the existing currency board and for economic adjustment through internal devaluation (through measures including wage cuts and fiscal restraint). While this has been successful to date, there is a non-negligible risk of contagion from potential sharp currency devaluation in Latvia.



### VIETNAM

**Switch gear**

Progress has been made in stabilising a precarious external balance and high inflation associated with overheating. Indeed, growth is now below trend, as the global financial crisis caused prices of export commodities and manufactured exports to collapse, prompting a switch to expansionary policies. H1 real GDP grew at 3.9% yr/yr, with a marked pick-up in Q2. Expect the recovery to continue with growth of 4.3% in 2009. However, the fiscal deficit could rise to 12% of GDP, there is a risk of re-kindling import demand and/or food prices again and the de facto pegged exchange rate remains a constraint.

## IN BRIEF

### Kyrgyzstan

Incumbent President Bakiyev officially won a snap election on 23 July, with 76% of the vote.

Edited by Andrew Atkinson

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