COUNTRY RISK WEEKLY BULLETIN

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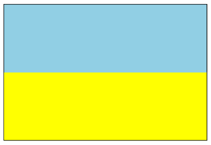
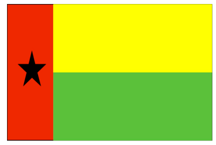
IN THE HEADLINES



UKRAINE

Taking the stand

Last week, the IMF completed the second review and disbursed the third tranche of funding (USD3.3bn) of the USD16.5bn loan under the two-year Stand-By Arrangement (SBA) agreed last November. The current account is adjusting rapidly and the hryvnya has stabilised in 2009, after a 60% fall against the USD in the last four months of 2008. However, the recession is deeper than expected. Real GDP slumped by 20.3% yr/yr in Q1, and early indicators for Q2 suggest little sign of recovery as industrial output contracted by 30% yr/yr in that period, after 32% in Q1. In addition, the decline in retail trade accelerated in April-May from a 12% yr/yr fall in Q1.



GUINEA-BISSAU

San has got his hat on

Malam Bacai Sanha, candidate of the ruling PAIGC, won the second round run-off in presidential elections at end-July, with 63% of the vote. Importantly, Kumba Yala, the defeated candidate of the main opposition PRS, has accepted the result. The outcome affords an opportunity to improve political stability in a country that has a history of military coups and where the previous president, João Bernardo Vieira, was assassinated by soldiers in March. However, Sanha needs to secure the support of the military and the government to create a more peaceful political environment, which could then lead to resumption of full donor funding.

ISRAEL

Dor closing?

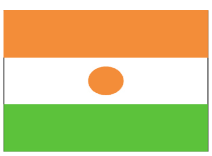
Foreign Minister Avigdor Lieberman has pledged to stand down if charged over corruption allegations relating to bribery, money-laundering and obstructing justice. Former PM Ehud Olmert resigned under similar circumstances, indicating that malpractice by politicians is broadly non-acceptable. Lieberman leads the right-wing Yisrael Beiteinu, the second-largest party in the governing coalition and the third-largest in parliament, so expect ST political and governance uncertainties at a time when PM Binyamin Netanyahu is already involved in attempts to resolve laboured relations with the US over Iran and the Palestinians.

BULGARIA

Minor profit?

The European Commission's latest interim report acknowledges some progress in judicial reform and in limiting corruption and organised crime—as requested upon EU accession in 2007—and does not recommend imposition of punitive measures. However, it urges broader and stronger reforms. PM Borisov's GERB party won recent elections on pledges to fight corruption and crime but it fell just short of a parliamentary majority, so the PM opted for a minority government in order to rule unfettered by concessions. However, unavoidable reliance on other parties may still slow reforms.

ALSO IMPORTANT...



NIGER

Dou process

President Mamadou Tandja is seeking to extend his rule through this week's referendum, which could enable constitutional changes on the maximum length of presidential tenures. Tandja is scheduled to step down in December, having then completed two five-year periods in office. With parliament and the constitutional court currently dissolved, the president ruling by decree and tightened security, Tandja has defied domestic and international condemnation of anti-democratic practices. Expect the vote to go in his favour. However, the EU has frozen some budgetary aid and other assistance may now be withheld, so expect deterioration in business and trading conditions.

YEMEN

Men-of-war?

Recent violent unrest in the south, with increasing calls for secession, is adding to the country's problems, which also include militant rebellion in the north and al-Qaida terrorism. Such a combination of forces is exerting strong challenges to the authority of President Ali Abdullah Saleh and the security forces. The country only came into existence in 1990 when North and South Yemen were united and many allegiances have remained at the local tribal level, particularly away from the capital, Sanaa. Expect continuing uncertainties, with regional repercussions—the northern border with Saudi Arabia remains under dispute.

COUNTRY REVIEW SUMMARIES

EGYPT

Drive way

President Hosni Mubarak has been in power since 1981 and—subject to health considerations—is likely to remain head of state and thereby provide policy continuity. Annual real GDP growth averaged 6.4% in 2005-08 but the current weak global environment has adversely affected key economic drivers (Suez Canal dues, tourism, workers' remittances and oil and gas receipts) so expect only 3.5% GDP growth this year. Although deficits will be registered in the fiscal (large) and current account (small) balances, FX reserves (USD30bn+) remain strong and provide import cover of 5-6 months. Moreover, liberalisation reforms have improved the business and trading environment.

KAZAKHSTAN

Bank vaults?

Amid the ongoing global financial crisis, excessive credit growth in recent years has resulted in severe banking illiquidity since H2 2007. Meanwhile, three large banks defaulted on their foreign debt repayments and seek restructuring. In the wake of (now) sharply declining credit growth, markedly lower oil prices and the generally weakening external environment since mid-2008, expect real GDP to contract by around 2% in 2009. External debt is high at around 85% of GDP and debt repayments due in 2009 are double the current level of FX reserves. Accordingly, country risk has increased and a larger number of insolvencies is to be expected.

IN BRIEF

Iran	President Mahmoud Ahmadi-Nejad has been sworn in for a further (final) five-year term.

Edited by Andrew Atkinson