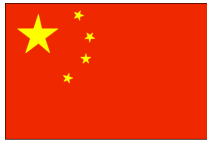


# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES



### CHINA

#### Mixed bag

A raft of July economic data was released this week. Most striking were the sharp drop in the growth of lending and modest slowing in the rate of urban fixed investment growth. Industrial production growth levelled off but maintained momentum at 10.8% yr/yr (10.7% June) as did retail sales (up 15.2%). Trade data showed exports down 23% yr/yr, though imports were only 14.9% down. The consumer price index fell by 1.8% yr/yr. Loan data may indicate some trimming of monetary policy but a major shift towards strong tightening is unlikely until there is more evidence of sustained recovery and a return of inflation. Expect growth of 8%+ to be maintained in H2.



### RUSSIA

#### Kud' he be right?

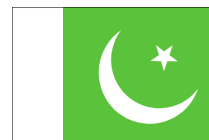
Real GDP contracted by 10.8% in Q2 (9.8% Q1), worse than preliminary estimates and expectations. Another interest rate cut by the central bank last week may help stabilise the economy in H2, when GDP will benefit from a lower base for comparison in any event, but last week's PMI indicator suggests only a modest improvement and is still not firmly consistent with growth. In a statement this week, President Medvedev pushed the need for structural reforms, while economy minister Kudrin suggested that it could take 4-5 years to recover fully to former growth rates, recognition of the deep-rooted problems facing the economy.



### HONDURAS

#### Zela's market?

There is still no resolution of the constitutional crisis following President Zelaya's military-backed removal. The latest mediation attempt is by an OAS delegation. However, with delays surrounding permission for the entry of the head of the OAS and the negotiations seemingly set to focus on the already rejected Arias plan, which envisages the re-instatement of Zelaya ahead of elections, a move robustly opposed by the interim government, the signs are not auspicious. Nonetheless, support remains for Zelaya internally (albeit of uncertain size) and externally and Honduras is now largely cut off from international finance, so there is pressure to find a solution.



### PAKISTAN

#### Pak on tack?

Following completion of a second review of economic performance under a Stand-By Arrangement (SBA), the IMF this week approved an additional USD3.2bn, bringing its current total financial support to USD11.3bn, equivalent to over 6% of Pakistan's GDP. Moreover, the Fund extended the SBA until the end of 2010. Also, the wider donor community remains supportive, there are tentative signs of economic recovery and rebel Taliban forces have received set-backs. However, do not expect domestic politics and border/security issues to have stabilised completely and the economic and trading environments remain high risk.

## ALSO IMPORTANT...



### LEBANON

#### Jumbled politics

Last week's decision by Druze leader Walid Jumblatt to withdraw his Progressive Socialist Party from the pro-Western March 14 coalition further dislocates formation of a government. PM-designate Saad Hariri has yet to establish a cabinet under a power-sharing deal whereby March 14 will not have an outright majority and the other main political camp (Shi'ite Amal, Hezbollah and Christian allies) will not have power of veto. Contrasting with political uncertainties, the economy remains resilient, with tourism and foreign investment inflows recovering and a 60% yr/yr increase in FX reserves. However, expect a government debt-GDP ratio of 160% to challenge any government.



### MADAGASCAR

#### And so on

On 9 August, leaders of four main political groups—three former presidents and the head of the current Transitional High Authority, Andry Rajoelina—signed an agreement aimed at a peaceful resolution of the country's current political impasse. A Government of National Unity will be formed, leading to elections within 15 months. However, the agreement is a framework only, with little of substance in relation to the modalities of power sharing and institutional scope for the return of democracy. Moreover, there is a lengthy gap before elections so expect donor funding to remain limited, public finances to be tight and trade flows could be disrupted.

## COUNTRY REVIEW SUMMARIES



### CAMEROON

#### Biya beware?

President Paul Biya has been head of state since 1982 and his ruling party remains firmly in control. Transfer risk is low because of membership of the CFA franc zone, and external debt ratios and liquidity have improved, following extensive debt relief. Nevertheless, the economy remains highly exposed because of its dependence on the oil sector (reserves and output have declined) and agriculture. Accordingly, fiscal and current account balances require careful management, even with access since July to USD144mn from the IMF's Exogenous Shocks Facility. Expect annual GDP growth of only 1-2% in 2009-10.



### BARBADOS

#### On tour?

The political system has been stable since independence from the UK in 1966. The small, island economy is primarily tourism-based, hit by global recession. Q1 real GDP contracted 2.8% yr/yr. Expect -2.3% for 2009. The fiscal deficit widened to 5.1% of GDP in 2008/09 and the public debt-GDP ratio increased to 98% in 2008. The primary surplus required to stabilise the debt will be hard to achieve. These trends, along with chronic large current account deficits could pose problems for the pegged exchange rate in the future, though FX reserve levels provide some near term cushion.

## IN BRIEF

**Economy** Q2 real GDP: **Indonesia** +4% yr/yr; **Latvia** -19.6% yr/yr.

Edited by David Atkinson

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