

# COUNTRY RISK WEEKLY BULLETIN

26 August 2009

London: David Atkinson +44 (0)20 7860 2807; Andrew Atkinson +44(0)20 7860 2577 Hamburg: Manfred Stamer +49 (0)40 8834 3607

## IN THE HEADLINES



### ISRAEL

**Tight corner?**

This week, the Bank of Israel increased interest rates by 25bps (effective September)—the first sign of monetary tightening by a leading central bank in the current recession. However, there are specific reasons for Israel's tightening. Nominal rates are currently low by international standards and real rates are negative, inflation is above the official 1-3% target range and there are tentative signs of moderate GDP growth (+1% yr/yr in Q2 after two monthly declines). Do not expect other central banks to follow immediately, though modest, piecemeal tightening in some other emerging economies may not be that far off.



### BULGARIA

**Still sliding?**

Q2 real GDP contracted by 4.8% yr/yr (advance estimate), after a 3.5% decline in Q1. The downturn would have been worse had government spending not grown strongly by 11%. Private consumption fell by 8% and investment plunged by 14%. Exports shrank by 19% but imports fell by an even steeper 27%. More positively, the current account deficit—still a very large 25% of GDP in 2008—narrowed 52% yr/yr in H1 (in EUR terms) and inflation was just 1.6% yr/yr in July, down markedly from 14.5% a year earlier. Also, FX reserves have been fairly stable so far in 2009.



### TAIWAN

**Turning...**

As elsewhere in Asia the economy bounced back in Q2 with a qtr/qtr increase in real GDP of 4.8%, the first rise in a year, though yr/yr GDP contracted by 7.5% (-10.1% Q1). After plunging in Q1, investment recovered and private consumption continued to grow, both benefiting from fiscal stimulus. Exports in real terms also rose qtr/qtr for the first time since Q3 2008, though were not back to the Q3 level. The impact of Typhoon Morakot on GDP should be fairly limited, notwithstanding important humanitarian costs and possible negative repercussions on government popularity. Expect the economy to shrink by 4-5% in 2009 and to grow by 2-3% in 2010.



### THAILAND

**the corner?**

Real GDP contracted by 4.9% yr/yr in Q2, but this was still an improvement on -7.1% in Q1. Recovery signs are more evident in qtr/qtr data, which show 2.3% growth after a 1.8% drop in Q1. The improvement is largely due to fiscal stimulus, which supported 4.8% qtr/qtr growth of investment (Q1 -11.8%) and 0.8% for private consumption (-3.4% Q1). The latter was also boosted by falling consumer prices—deflation reached 4.4% yr/yr in July. The central bank kept its key policy interest rate unchanged today, at 1.25%. Nonetheless, expect calendar 2009 GDP to contract by around 4% and interest rates to remain low.

## ALSO IMPORTANT...



### KENYA

**Counter measure**

On Monday, a population and housing census began, information from which should aid national planning. It is currently estimated that the population is 38-40mn, with 12mn households and a potential labour force of 14mn. A key element in the current census is the question of ethnicity. Kenya is multi-ethnic, having approximately 40 different main tribal groups (including Kikuyu 22%, Luhya 14%, Luo 13%, Kalenjin 12% and Kamba 11%). An estimated 1,300 people died in post-election violence in early 2008, which was largely tribal. For this reason, expect the official results not to release details on ethnicity (as in the 1999 census) but tensions to rise at a political and social level.



### VENEZUELA

**Gap year**

The government is increasingly concerned over the wide gap between the official and parallel exchange rates. The problem is lower oil prices. The same issue has stretched the fiscal balance as oil accounts for 50% of formal government revenues. Devaluation would be one answer to both problems, but the government will probably look for other ways in the ST, probably increased FX bond issues, gambling on oil prices rising further as the global economic recovery takes hold. However, with GDP contracting and public spending still rising, devaluation pressures can only increase if oil prices stall on muted recovery—a more likely scenario.

## COUNTRY REVIEW SUMMARIES



### INDIA

**National Trust?**

The National Congress-led UPA government received a decisive renewed mandate to govern in May's general elections, which should ease policy implementation. Although deficits in the current and fiscal accounts (3% and 9% of GDP in 2008, respectively) require careful management, do not expect financing problems. Inward investment is picking up and FX, at over USD250bn, exceeds total foreign debt stock and provides import cover of almost 10 months. Moreover, the economy has proved resilient against a weak global economy, assisted by a large domestic market and stimulatory policy packages, so expect GDP growth of 5.5% this year and 6-7% in 2010.



### CAMBODIA

**Bodes well?**

The democratic framework, though fragile under Cambodian People's Party (CPP) dominance, is holding. GDP may contract in 2009, before growing again in 2010 (3-4%). Garment production and tourism were hit by global recession and construction weakened. Growth is a government priority, as 2009-10 inflation will be in low single digits. The fiscal deficit will widen considerably in 2009, increasing the public debt-GDP ratio (from around 28%) but most is on concessional terms. The current account deficit is around 10% of GDP, but aid inflows should increase in 2009. FX reserves are more than ten times external debt due in 2009.

## IN BRIEF

**Hungary**

Policy interest rate cut another 50bps, a cumulative 350bps since the emergency 300bps hike in October 2008.

Edited by David Atkinson

The content of the report (which is subject to change without notice) reflects only our opinion, which is based on information received by us. Accordingly no warranty, representation or other assurance is given as to the accuracy or completeness of the report. The report is for general information and is not intended to address any requirements you may have, for which you must obtain independent advice. The report does not constitute any form of advice, recommendation or arrangement by Euler Hermes UK plc or by the Euler Hermes Group of Companies and must not be relied upon in the making of any decision, agreement or arrangement. © Euler Hermes UK plc 2009.