

# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES



### POLAND

#### Pole position

Q2 real GDP growth edged up to 1.1% yr/yr from 0.8% in Q1, driven mainly by net trade on the back of a sharp 20.3% fall in imports (17.6% in Q1) as exports fell 14.6% (as in Q1). Private consumption growth slowed to 1.9% (3.3% in Q1) and investment declined 2.9% (+1.2% in Q1). The slowdown was also cushioned by a fiscal stimulus that, together with revenue shortfalls, may cause public debt to breach a key threshold of 55% of GDP. This would trigger sharp fiscal tightening in 2010. Poland may be one of only a few countries in Europe to grow in 2009, but expect expansion to be limited to 0.8%-1.5% in 2009-2010.



### COLOMBIA

#### Home run?

Legislation to permit a third consecutive term for President Uribe has cleared the lower house and now has the full approval of congress. However, before President Uribe is finally clear to stand in the May 2010 elections, two other hurdles must be overcome. Amendments must be approved by the Constitutional Court and then by national referendum. Neither is certain and Uribe has yet to confirm that he will run but, assuming constitutional court approval, given his popularity rating—currently just under 70%—expect the referendum, which would probably be held before the end of 2009, to be supportive.



### INDIA

#### Rain check

GDP expanded by 6.1% yr/yr in Q2 (April-June), following 5.8% in Q1, with strong contributions from manufacturing, construction and service sectors. While the positive overall data suggest that India remains resilient in the current global recession—aided by accommodative fiscal and monetary policies—there are some moderate concerns. Growth remains well below levels of one year ago and poor and untimely monsoon rains will restrict output in Q3 and Q4, as well as increase inflationary pressures. Moreover, fixed capital formation and exports remain relatively weak. Nevertheless, expect overall GDP to grow by around 5.5% in 2009/10, rising to 6-7% next year.



### BRAZIL

#### Cause for pause?

Industrial production, although down 9.9% yr/yr in July, was up 2.2% mo/mo seasonally adjusted, the seventh consecutive monthly increase. With other indicators more positive (including expectations that real GDP increased in Q2) and the worst of the global recession looking to have passed, expect the central bank to leave the policy interest rate (SELIC) unchanged at 8.75% at its meeting today, for the first time in six meetings, having cut rates by 500bps so far this year. Inflation is still likely to end the year well within target range, but was up in August, adding to the likelihood of a pause in policy interest rate movements.

## ALSO IMPORTANT...



### SAUDI ARABIA

#### SAMA house

This week, the central bank (SAMA) released data showing that inflation in July was down to 4.2% yr/yr, compared with 11.1% in the corresponding month of last year. A combination of slowing growth in domestic demand and global factors contributed to this fall. Expect further easing in inflationary pressures, with annual average inflation of 4.5-5% in 2009, after almost 10% in 2008. Meanwhile, SAMA indicated that GDP growth was 4.5% in 2008, although expect reduced global energy demand this year to result in contraction of GDP in 2009, by around 1% (following an average +4.5% in the preceding five-year period). Also expect GDP growth of around 3% in 2010.



### PHILIPPINES

#### Phil up?

The economy grew 2.4% qtr/qtr in Q2, after a 2.1% decline in Q1, avoiding recession. On a yr/yr basis, real GDP growth picked up to 1.5% from 0.6% in Q1. The main drivers were government spending (growing 9.1%, up from 4.5% in Q1) and private consumption (2.2%, 1.3% in Q1), with the latter benefiting from a large fiscal stimulus, low interest rates and resilient flows of remittances (up 3% yr/yr in Q2, despite the global recession). While the decline in imports eased to 2.7% yr/yr, exports (-16%) and investment (-9.8%) contracted sharply, indicating a still uncertain outlook. Expect growth of about 1.3% in 2009 as a whole.

## COUNTRY REVIEW SUMMARIES



### TURKEY

#### In the balance

Stabilisation in both the TRY/EUR exchange rate and FX reserve levels, evident since April 2009, has continued and previous deep macro-economic imbalances are unwinding rapidly. Inflation eased to 5.4% yr/yr in July and the current account deficit (5.6% of GDP in 2008) is narrowing quickly, having fallen 76% yr/yr in H1. Nevertheless, the economy is now in deep recession, GDP having contracted 13.8% yr/yr in Q1, and the budget deficit is surging as a result of the large fiscal stimulus, which is now a key medium term concern. An IMF stand-by facility is still not in place. On balance, expect country risk to remain high, particularly in relation to refinancing of private-sector ST debt.



### ETHIOPIA

#### Addis way

GDP per capita is one of the lowest in the world, the country is prone to natural and man-made disasters (drought, floods, famine and locust infestation) and the economy is highly dependent on rain-fed agricultural output and international assistance (including emergency food aid). In 2001-08, annual economic growth averaged 7.8%. However, the current global recession and dependence on commodity exports and workers' remittances suggest that economic management will be challenging in 2009-10. Expect GDP growth of around 4-5% in 2009, after averaging 11% in 2005-08. Also expect the Horn of Africa region to remain tense and volatile.

## IN BRIEF

### UAE

A key interest rate—on liquidity support facilities to banks—was cut by 100bps to 1.5% (effective 1 September).

Edited by Andrew Atkinson

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