COUNTRY RISK WEEKLY BULLETIN

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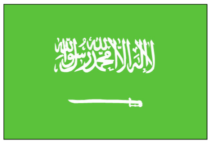
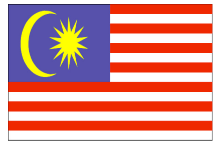
IN THE HEADLINES



SAUDI ARABIA

Oil gauge

Following a five-year USD100bn development project, oil production capacity is now a record 12.5 million barrels a day (mbpd). This is in sharp contrast to investment cut-backs elsewhere in the global industry and compares with current Saudi output of 8.3mbpd. This may alleviate some longer-term supply concerns but the kingdom accounts for around 90% of global spare oil capacity so expect the world to be even more dependent on Saudi supplies. OPEC is meeting this week. Expect the kingdom to promote policies of "no change" to existing output ceilings—largely because current prices broadly reflect OPEC's target range of USD70-80/b—and relative price stability.



MALAYSIA

Malaise easing?

Real GDP contraction slowed to 3.9% yr/yr in Q2 from 6.2% in Q1. Private consumption showed a turnaround by growing 0.5%, after -0.7% in Q1, while public consumption increased by 1%. Investment was still weak, contracting by 9.8% (-10.8% in Q1). Both exports (-17.3%) and imports (-19.7%) continued to fall sharply in Q2. Recovery signs are more evident in qtr/qtr data, which show (seasonally unadjusted) 4.8% GDP growth after a 7.8% fall in Q1. Deflation reached -2.4% yr/yr in July, but the central bank left its key policy interest rate unchanged at 2% at end-August. Expect calendar 2009 GDP to contract by around 3.5%.

MEXICO

Taxing times

The 2010 budget submitted to congress yesterday proposes modest tax increases and spending cuts—including axing of three government departments—in response to expected lower oil revenues. The aim is to reduce spending by 1.5-2% of GDP. GDP is assumed to contract by 6.8% in 2009 and increase 3% in 2010, with oil prices at USD53.9/b in 2010. However, congress is controlled by the opposition and the proposals include a sensitive new sales tax on all items, including food (currently exempt), so passage may not be smooth. Meanwhile, President Calderon has replaced the attorney-general, the agriculture minister and the head of the state oil company.

GABON

Bon voyage

Ali Ben Bongo of the ruling Parti démocratique gabonais (and son of the previous incumbent who died in June) was declared the winner in presidential polls, with 47.1% of the vote, compared with around 25% each for the two other candidates. The political opposition is alleging electoral malpractice and there have been violent street protests, particularly in Port Gentil, the second-largest city. Bongo appears to have control of the army and his victory has been acknowledged by France, so expect the result to stand. However, also expect continuing protests and ethnic tensions, a hiatus in policy implementation and some disruptions to trade.

ALSO IMPORTANT…

URUGUAY

In Front?

As presidential and legislative elections on 25 October approach, the ruling Broad Front candidate, Jose Mujica, has a significant lead over his nearest rival, Alberto Lacalle of the PN, and is gaining momentum. However, at this stage, with 47% of the vote to Lacalle's 34%, according to the latest local poll (Factum), Mujica looks like falling short of a first round win, so expect a run-off in November. Although Mujica is from the FA's left-wing—like the current president, who cannot stand for a second consecutive term—his running mate and the potential FM are both regarded as centrist. That suggests a good degree of policy continuity.

EAST AFRICA

EAMU to take flight?

The East African Community's (EAC) five partner states—Burundi, Kenya, Rwanda, Tanzania and Uganda—are meeting to discuss creation of an East African Monetary Union (EAMU). The latter is the third pillar of EAC integration, with a Customs Union already in place and Common Market scheduled for 2010. The EAMU and a single currency are some way off but the regional dynamic is now more positive. Expect further integration to be spurred by the flow of commodities from East Africa to Asia but, in turn, this requires heavy expenditure on infrastructure so expect further Chinese investment.

COUNTRY REVIEW SUMMARIES

RUSSIA

T(rouble)?

Stabilisation in both the exchange rate of the rouble and the levels of FX reserves, evident since February 2009, has continued. As inflation has also eased (to a still high 11.6% yr/yr in August), policy interest rates have been cut by a cumulative 225bps since April. The fiscal stimulus has been very significant—and will produce a large deficit in 2009. Nonetheless, the recession deepened in Q2, with real GDP contracting by 10.9% yr/yr (-9.8% in Q1). The refinancing of non-sovereign external debt maturing in the next 12 months, estimated at around USD100bn, remains a serious problem. The banking sector remains weak, but a systemic banking collapse is unlikely.

DOMINICAN REPUBLIC

Majority vote?

Presidential elections are not due until 2012, but congressional elections are scheduled for May 2010. With the government's popularity ratings slipping, the ruling PRD's legislative majority may come under pressure, although the opposition PLD is internally divided. Inflation and the current account deficit are improving but this is at the expense of economic growth (expect zero in 2009 and 2% in 2010) and fiscal pressure, prompting measures to cut spending. However, monetary policy has been eased with successive interest rate cuts. External liquidity overall is relatively weak, but external debt is moderate and the exchange rate is managed flexibly.

IN BRIEF

Gold prices	Broke through USD1,000/oz. Year average to date is USD924/oz, compared with USD872/oz in calendar 2008.

Edited by Andrew Atkinson