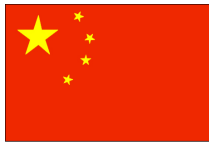


COUNTRY RISK WEEKLY BULLETIN

16 September 2009

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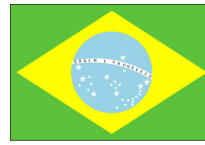
IN THE HEADLINES



CHINA

Banking on growth

Data for August released at the end of last week indicate that growth is continuing to pick up, driven by domestic demand. Industrial output was up 12.3% yr/yr, retail sales (nominal) rose 15.4% yr/yr and urban fixed asset investment in the first eight months was up 33% on a year earlier. All of which is underpinned by continued rapid expansion of bank lending and, with the CPI still falling, there is little to suggest imminent major monetary tightening. Exports remain relatively weak though well off the floor of early 2009, and imports are still well down. Expect growth to exceed the government's 8% target in the next few quarters.



BRAZIL

Bouncing back

After contracting for two consecutive quarters, Q2 real GDP advanced 1.9% qtr/qtr, though still down 1.2% yr/yr. Tax incentives and monetary relaxation supported consumer spending and net exports contributed strongly. Exports rose 14.1% qtr/qtr (-15.8% Q1). Inventories also were positive, but investment remains weak. Net exports may weaken as the initial bounce fades and the inventory correction moderates, but qtr/qtr growth should be positive in H2, limiting the fall of calendar 2009 GDP to -0.5%. Expect 2.8% (perhaps more) growth in 2010 and interest rates to be on hold for some time.



TURKEY

Not quite delight

The pace of real GDP contraction slowed to 7% yr/yr in Q2 from 14.3% in Q1, largely thanks to private consumption which fell by just 1.2% (-10.3% in Q1). Government consumption was almost flat while investment remained weak, shrinking by 24.6% yr/yr (Q1 -27.5%). Q2 exports fell by 10% (Q1 -11%) while the decline in imports moderated to 20% (Q1 -31%). Monthly data on industrial output and external trade indicate that the improving trend is likely to continue in Q3. However, given the very weak H1, expect calendar 2009 GDP to contract by around 6%. Fiscal tightening should limit growth in 2010 to about 2%.



UAE

Close ranks

Expect new legislation to permit 100% foreign ownership in non-strategic industries, particularly hi-tech. The UAE ranks 33 out of 183 economies in the World Bank's Doing Business 2010 survey, above Taiwan and Hungary and a recent Fraser Institute survey into economic freedoms ranked it 19 out of 141 countries. Further regulatory protection will boost the attractiveness to foreign businesses and investors, particularly into manufacturing sectors. Dubai has been adversely affected by the global financial crisis and recession so expect further corporate failures/commercial losses, but also expect Abu Dhabi support and a bounce back.

ALSO IMPORTANT...



CROATIA

Good neighbour?

EU accession negotiations have been effectively stalled since December 2008 when neighbouring Slovenia decided to block progress owing to a long-standing bilateral border dispute. However, last week the two countries' PMs reportedly agreed to separate the border issue from accession talks. If the deal holds, it should enable Croatia to conclude negotiations in 2010 and join the EU probably in 2011, subject to completion of the EU constitutional reform (a precondition for further enlargement). Meanwhile, the Croatian economy contracted by 6.3% yr/yr in Q2 (flash estimate), after a 6.7% decline in Q1.

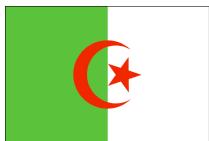


UGANDA

Bug bear

President Yoweri Museveni is introducing measures to keep unelected traditional leaders out of politics. This follows last week's riots that left over 20 dead. Recent violence partly reflects disputes over land and power, with Buganda, one of four ancient kingdoms, having aspirations of self-government. Presidential and legislative elections are due in early 2011 and political manoeuvring is already evident. Expect Museveni to win another term but only if he can pacify Buganda (17% of the population). Meanwhile, expect further unrest and considerable pre-election deal-making.

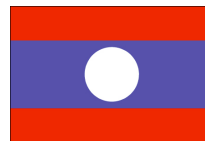
COUNTRY REVIEW SUMMARIES



ALGERIA

Bout time

Expect political continuity, following April elections that gave President Abdelaziz Bouteflika a third term. Algeria is of strategic importance in relation to Europe's needs for energy imports. Despite some volatility in oil prices in H1, economic data remain strong. Expect continuing (albeit reduced) fiscal and current account surpluses, of 3.5% and almost 12% of GDP, respectively, this year. Moreover, foreign debt ratios are low and FX reserves provide import cover of over 36 months. However, there are concerns relating to new business regulations, including compulsory use of documentary credits for import payments.



LAOS

Lost and found?

Agriculture still accounts for 45% of GDP and per capita incomes are among the lowest in East Asia. Growth was an annual average 7.4% in 2005-08—driven by the industrial sector, notably hydro-electric projects and gold and copper mines—but will be significantly lower in 2009-10, reflecting the global downturn, which caused exports to slump. The large current account deficit is fully covered by FDI inflows and official aid. External public debt is relatively high at almost 60% of GDP but most of the debt is on concessional terms. The structural business environment is weak and Laos remains a one-party state.

IN BRIEF

RUSSIA

Policy interest rates were cut by a further 25bps this week.

Edited by David Atkinson