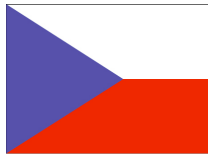


COUNTRY RISK WEEKLY BULLETIN

23 September 2009

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IN THE HEADLINES



CZECH REPUBLIC

Gone Fischeing?

The government agreed spending cuts aimed at reducing the budget deficit to Kc155.3bn or 5.2% of GDP, from 7.4%. According to FM Janota, this will lower growth of GDP in 2010 by 0.6pps, although his projected -0.3% looks overly pessimistic. If the measures are approved in parliament on Thursday the technocrat interim government of Jan Fischer, in place since March when the ruling coalition collapsed, may continue until mid-2010 as, first, elections scheduled for October were put off by a court challenge and then, second, the CSSD pulled out of an agreement to hold them in November. If the measures are not approved the interim government could resign.



HONDURAS

Hard Zel?

Ousted president, Manuel Zelaya, returned to Honduras this week, taking refuge in the Brazilian embassy (there is a warrant out for his arrest). In response, the interim government imposed a curfew and troops have surrounded the embassy, but the interim leader Roberto Micheletti has also said that he will talk to Zelaya if he first recognises the elections scheduled for November. Recently, the presidential candidates in these elections signed up to the San Jose accords, which envisage the restoration of Zelaya ahead of the elections and a positive outcome now seems to hinge on finding a way to make the elections legitimate internationally.



LEBANON

Dated politics?

PM-designate Saad Hariri of the pro-West March 14 coalition is currently attempting—for the second time since June elections—to forge a consensus government. The Hezbollah-led March 8 opposition rejected Hariri's first cabinet proposals, which would have prevented the March 8 alliance from having a veto-allowing number of seats. Do not expect a national unity government to be formed quickly as neither side appears willing to make significant compromises and such deadlocks often turn out to be lengthy. Expect positions to harden further in the ST, leaving scope for more internal violence and (possibly) Hezbollah rocket attacks on Israel, as on 11 September.

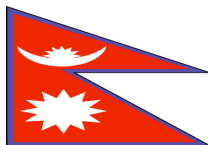


KAZAKHSTAN

Cut price

State-owned BTA, the largest bank, signed a memorandum of understanding (MoU) with foreign creditors to restructure its debt—in default since April. The agreement is not finalised and the MoU includes proposals from BTA and creditors. The final agreement is likely to involve a heavy discount to face value, as BTA wants to cut its total debt by around 80%. However, the BTA proposal also subjects trade finance to the heavy haircut, whereas the creditor proposal treats it separately. Debt reduction will help normalise the risk profile, but inclusion of trade finance at a heavy discount could pose a big constraint on trade in the near future.

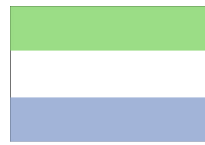
ALSO IMPORTANT...



NEPAL

Kamal driver

Street protests and other demonstrations continue to limit political development, in turn reflecting the absence of Maoists from central government. Pushpa Kamal Dahal, the Maoist leader, resigned as PM in May and took his party (with most seats in parliament) out of government. Since then parliamentary proceedings have been in abeyance and current PM Madhav Kumar Nepal's multi-party centre-left coalition appears very fragile. Do not necessarily expect that peace will break down (a Maoist insurgency lasted for a decade until recently). However, expect full political stability to remain elusive, even if the Maoists are somehow re-assimilated into government.



SIERRA LEONE

Venus rising?

Recent announcements of positive exploration results from the offshore Venus oil well—part of a basin extending to Ghana—may herald a brighter economic future, although West Africa's management of resource windfalls has been far from good, to date. Meanwhile, the IMF yesterday announced that all performance criteria for end-June under a Poverty Reduction and Growth Facility were met, despite adverse global conditions. The Fund deems fiscal and monetary policies appropriate and expects a gradual recovery in mining exports from H2, particularly diamonds. Expect GDP to expand by around 4% this year and 5% in 2010.

COUNTRY REVIEW SUMMARIES



COSTA RICA

Oscar performance

Although the economy has contracted, in line with much of the global economy, external sector pressures have eased in recent months, lowering exchange rate risk, although external liquidity indicators remain on the weak side. However, external debt ratios remain low and a precautionary IMF stand-by programme is in place. The fiscal deficit has widened, but public finances should remain manageable in 2009-10. The political system is not under threat, but elections are due in February 2010, in which the current president, Oscar Arias, cannot stand, and legislative action can be long and fractious, which impedes needed measures such as tax reform.



LIBERIA

That surname

Ellen Johnson-Sirleaf won presidential polls in 2005 and became the country's first elected head of state, taking over that role following 14 years of debilitating and violent civil war. The West African regional environment remains tense. Annual GDP expanded by 6.5% in 2004-08, with donor-funded reconstruction activity and agriculture (60% of GDP) leading the recovery. Mining (including diamonds) provides FX-earning capacity and oil may provide additional revenues in the longer-term. Continuing domestic recovery (from a very low base) will limit the local downturn, so expect annual real GDP growth of around 5-7% in both 2009 and 2010.

IN BRIEF

Oil prices Benchmark Brent USD70.5/barrel (year-to-date average USD58.1/b, 2008 average USD98.5/b).

Edited by Andrew Atkinson

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