

COUNTRY RISK WEEKLY BULLETIN

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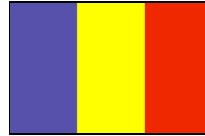
IN THE HEADLINES



WORLD ECONOMY

Gee whiz?

The G-20 Pittsburgh summit last week elevated that group into the premier forum for international economic co-operation and maintained the constructive tone of April this year. Financial reforms were to the fore, but just as important was a commitment to a Framework for Strong, Sustainable and Balanced Growth, which intends to address the co-ordination of the exit from short-term stimulus and address the savings imbalances, which were a root cause of the current crisis. While this is all commendable, implementation will rely on peer pressure, which leaves the same old problem of how to make surplus countries comply if doing so does not suit their self-interests.



ROMANIA

Nic named

The IMF completed the first review under a 24-month Stand-By Arrangement, enabling a disbursement of EUR1.9bn. The Fund agreed to adjust the 2009 fiscal deficit target from 4.6% to 7.3% of GDP to account for the loss in revenues resulting from the collapse in GDP (-7.5% yr/yr in H1). Nevertheless, considerable fiscal tightening is still required. Yesterday, the central bank cut its key interest rate by 50bps to 8% as inflation continues to ease—to 5% yr/yr in August. However, sound policies may be disrupted because of political tensions—this week, PM Boc fired Interior Minister Nica, a member of the SDP, which is a coalition partner.



VIETNAM

Constructing recovery

Early official estimates put the growth of real GDP in the first nine months of 2009 at 4.6% yr/yr (3.9% H1), which implies a 5.8% increase in Q3. The recovery continues to gather momentum and the government target of 5% for the year is now within sight. The upturn is supported by lower interest rates, increased bank lending—encouraged by the government—and a fiscal boost, and is led by construction and services. Latest trade data put the surplus for the first nine months at USD6.5bn, less than half that of a year earlier, but the external balance remains fragile. With imports picking up, exchange rate pressures could re-emerge if the authorities over-stimulate.

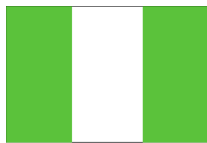


UKRAINE

Raine check

Despite support from a USD16.5bn IMF loan package, the economy contracted by 19% yr/yr in H1. Expect real GDP to decline by 15%+ in calendar 2009, before returning to modest growth of around 2% in 2010. The potential for renewed political tensions in the run-up to the presidential election in January 2010 adds to downside risks. Parliament is currently paralysed by opposition calls for social expenditure increases, implementation of which would breach commitments to the IMF. After stabilising in Q2, the hryvnya again fell by around 10% against the USD (14% against the EUR) on the interbank market in Q3.

ALSO IMPORTANT...



NIGERIA

On the block

Revelations that a Chinese state-owned company may be bidding for stakes in existing oil blocks—currently being explored, developed or actually producing crude under JVs between the Nigerian state and western oil groups—re-affirms potential risks of commercial (at least) confrontation as world economic powers try to tie up future commodity requirements. Abuja may be using China's interest as a ploy to improve its own allocation of oil revenues through renewal negotiations of existing licences. With around one-third of potential oil output not being pumped because of inefficiencies—and instability in the Niger delta—expect additional ST uncertainties to hinder business growth.



KENYA

Damper outlook?

East Africa's current drought is reportedly the worst in 10 years, with potential for 23mn people to be directly affected. In Kenya, the last long rains (April) failed completely, with adverse repercussions on agricultural output and on subsistence living. Meanwhile, the US is currently taking steps towards sanctions on individual Kenyan officials because Washington has not seen evidence of political consolidation and limitation of corruption. Against this background, and despite access to a rapid-disbursing USD209mn IMF facility, expect GDP growth now to be around 1.5% this year—following 1.7% in a politically-troubled 2008—and below 3% in 2010.

COUNTRY REVIEW SUMMARIES



CHILE

Copperwork

H1 real GDP contracted by 3.5% yr/yr, but a modest upturn may be underway, underpinned by stimulatory fiscal and monetary policies and copper prices that are up from earlier lows. (Copper accounts for 17% of GDP and 52% of exports). The policy response of the authorities to the global crisis has been sound and external liquidity measures remain strong, although debt repayments/FX reserves are on the high side. Elections are scheduled for December 2009. President Bachelet is not permitted a second consecutive term, so expect a change, probably to the opposition, although do not expect this to threaten overall stability.



OMAN

Man power

Despite moderate concerns relating to succession, Sultan Qaboos remains popular and the political environment is stable. International relations are generally good. Despite economic volatility because of dependence on oil prices and energy output cycles, fiscal and external accounts remain in surplus. Moreover, there is an active policy of diversification into liquefied natural gas (LNG) and energy-related downstream activities. FX reserves provide import cover of 6-9 months and 'excess' oil revenues feed into an oil stabilisation account. Expect GDP growth of 3-4% this year and in 2010.

IN BRIEF

Interest rates Guinea

Hungary: policy rate cut by 50 bps to 7.5%. **Russia:** policy rate cut by 50 bps to 10%.
There are concerns for stability in the lead-up to elections in January 2010, following street violence this week.

Edited by Andrew Atkinson