


# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES

 <p><b>RUSSIA</b></p> <p><b>Bond rush?</b></p>	<p>The government has signalled its intention to issue up to USD18bn international bonds next year to bolster public finances, as fiscal deficits of 7-10% of GDP in 2009 (roughly USD110bn) and 6-7% in 2010 are expected. So far, the deficit has been financed by drawing on the Reserve Fund—created for this purpose in years of high energy revenues. The Fund was depleted by USD60bn to USD76bn in March-September, however, and, if this pace were to be maintained, would run out sometime in 2010. Moreover, Russia may need to raise even more debt in 2009-10, though just how much will depend on oil prices and the RUB/USD exchange rate.</p>	 <p><b>HUNGARY</b></p> <p><b>On the huf</b></p>	<p>The key policy interest rate was cut by 50bps to 7% this week, taking the cumulative reduction to 250bps since June and 450bps from a year ago. The central bank appears to be giving priority to exchange rate stability—the HUF has recovered and stabilised from its March lows—and economic recovery over inflation which, at 4.9% yr/yr in September, remained above its 2-4% target range. However, high FX-denominated debt servicing and continued tight credit conditions are likely to dampen the impact of monetary loosening on output growth. Expect real GDP to contract by 6.5% or so in 2009 and by 0.5% in 2010.</p>
 <p><b>MEXICO</b></p> <p><b>Add on</b></p>	<p>The central bank (CB) kept the policy interest rate on hold last week on the expectation of a return to economic growth in Q3 and Q4. Also, inflation, while on a downward trend and having hit a 17-month low of 4.9% yr/yr, is still above target, which CB president Ortiz has confirmed will be retained. Meanwhile, a key committee of the lower house has approved a series of tax increases in the 2010 budget. The opposition PRI blocked the government's proposed 2% universal sales tax, but raised VAT to 16% from 15% instead and agreed the temporary rise in income tax. This will result in a slightly higher budget deficit than originally planned, but is in the right direction.</p>	 <p><b>URUGUAY</b></p> <p><b>On Broadway</b></p>	<p>The presidential election first round and elections for congress will be held on Sunday. President Tabares Vazquez is not permitted a second consecutive term, but latest opinion polls put the ruling centre-left Broad Front coalition's candidate, Jose Mujica, ahead, though unlikely to gain the 50% required to avoid a second round. This will probably be against centre-right, former president Luis Alberto Lacalle of the National Party, the main opposition. Nonetheless, with the economy showing renewed signs of life and having avoided the worst of the global recession, Mujica should have enough momentum to win the 29 November run-off.</p>

## ALSO IMPORTANT...

 <p><b>NIGERIA</b></p> <p><b>MENDING fences</b></p>	<p>The Niger delta has long been a source of militancy—particularly through the Movement for the Emancipation of the Niger Delta (MEND)—social unrest, political intrigue and economic under-performance. The country's oil output is around one quarter of capacity. Now, the federal government hopes to alleviate some tensions (and boost overall revenue generation) by offering citizens of the region a 10% stake in oil and gas ventures. Under the scheme, communities could receive cash benefits, perhaps delivered through a trust-style mechanism. The plan is a bold step, with potential LT benefits, but don't expect an end to militancy or an increase in oil output in the ST.</p>	 <p><b>SRI LANKA</b></p> <p><b>Clothes line</b></p>	<p>Last week it was announced that presidential polls (the term expires in November 2011) will be held in conjunction with parliamentary elections by April 2010. The ruling UPFA wants to take advantage of increased popularity following the army's victory over the Tamil Tigers in May. However, this boost to popularity is likely to be temporary and serious challenges remain. Among the latter, is a potential suspension from the EU's GSP+ mechanism for trade access because of perceived abuses of human rights. Around half of export receipts are from shipments of clothing, so expect adverse economic effects for the economy if trade advantages are lost.</p>
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## COUNTRY REVIEW SUMMARIES

 <p><b>NAMIBIA</b></p> <p><b>Hifi dealer</b></p>	<p>Although Sam Nujoma—head of state from 1990 to 2004—retains significant political influence, President Hifikepunye Pohamba appears to be adopting an independent line. Expect Pohamba and the ruling SWAPO to win, with comfort, elections in November and policy continuity and overall stability to prevail. Land reform remains a critical issue but the mining sector (chiefly diamonds but also uranium and gold) drives economic expansion. With current weak global demand for metals and minerals, expect fiscal deficits this year and next but the current account to continue to register surpluses. Also expect GDP to contract by around 1% this year before recovering to +2% in 2010.</p>	 <p><b>PAPUA NEW GUINEA</b></p> <p><b>New ways?</b></p>	<p>Political stability has improved in recent years, but the ruling coalition is unwieldy and the PM is threatened by political scandal. There is also a long history of instability and systemic political risk remains relatively high. Macroeconomic risk indicators have deteriorated as a result of the economy's high degree of vulnerability to a sudden collapse in commodity prices as occurred in Q4 '08 and Q1 '09. Real GDP will slow very sharply in 2009, but external liquidity is adequate and the position should be manageable, provided political stability is maintained. The Structural Business Environment, however, is relatively weak.</p>
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## IN BRIEF

<b>BRAZIL</b>	A 2% tax on portfolio capital inflows has been imposed to curb exchange rate appreciation.
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Edited by David Atkinson

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