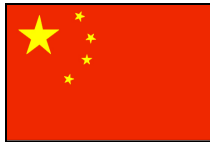


COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



CHINA

Stimulating

Economic growth looks set to meet the government's target of 8% this year. Real GDP increased by 8.9% yr/yr in Q3 and in September industrial value-added expanded by 13.9%, the strongest since July last year. Given base effects and clear underlying momentum, expect further strong growth in Q4, which should also be maintained in Q1 2010. With the growth objective in sight, the authorities are signalling some concern about inflation, as the State Council noted that stimulus will need to be balanced with managing inflation expectations. However, expect inflation to remain subdued in the near-term and, consequently, any policy changes to be very gradual.



INDIA

On the turn?

The RBI did not overtly tighten monetary policy yesterday, leaving key interest rates (3.25%-4.75%) and cash reserve requirements (5%) unchanged. However, it did increase the statutory liquidity ratio by 100bps to 25%, thereby requiring banks to hold more T-bills, and withdrew some measures designed to alleviate liquidity problems during the global crisis. The repo rate was cut six times from October 2008, by a cumulative 425bps, but recovery in industrial output and in inflationary pressures suggests that a policy reversal is taking shape. Expect interest rates to rise in Q1 2010 and monetary policy to be further tightened through the year.



RUSSIA

Rustle?

The pace of contraction of real GDP moderated to 9.4% yr/yr in Q3 (Q2 10.9%) and that of industrial output to 11% (15.4%). On a qtr/qtr basis, GDP reportedly grew 0.6% in Q3. Moreover, in September, the PMI for manufacturing moved into positive territory for the first time in 14 months. Even though the economy appears to have bottomed out, expect it to shrink by 8%+ in calendar 2009, given the weak cumulative GDP figure for Q1-Q3 (down 10% yr/yr). Meanwhile, UC Rusal, the world's largest aluminium producer, is reportedly close to restructuring a large part of its USD7.3bn foreign debt in a deal that could be precedent-setting.



SOUTH KOREA

Advance copy

The strong economic recovery continued in Q3 as real GDP expanded by 2.9% qtr/qtr (advance estimate), after 2.6% in Q2. On a yr/yr basis, real GDP increased by 0.6%, after three quarters of negative growth rates, driven by private consumption (+0.6% from -0.8% in Q2) and exports (+0.9% from -3.9%) which benefitted from increased Chinese demand. Government consumption slowed to 4.9% yr/yr in Q3 (7.1% in Q2), reflecting a moderating fiscal stimulus, while the decline in investment fell to 1.4% (2.7% in Q2). Expect GDP growth to be close to flat in calendar 2009 and to pick up to 2-3% in 2010.

ALSO IMPORTANT...



ARGENTINA

Sale or return?

The government is proceeding with an offer to bondholders who did not participate in the 2005 debt restructuring. It is likely that the take-up will be good (60% plus) in what is a precondition for a successful return to international capital markets, lack of access to which is a major cause of concern over the sustainability of current debt servicing. However, there is still a long way to go, as another factor is normalisation of relations with Paris Club creditors, for which IMF approval will be required. While there are signs that the authorities and the Fund are attempting to find the basis for an Article IV consultation, data transparency issues could make progress slow and arduous.



TUNISIA

Beneficiary

President Zine al-Abidine Ben Ali was re-elected for a fifth term, having received over 89% of the vote. In concurrent parliamentary polls, Ben Ali's ruling RCD won all but two of 214 contested seats. However, the absence of effective representation and lack of succession strategy—Ben Ali has been president for 22 years—provide LT concerns, but expect policy continuity in the ST. This signifies continuing sound economic management. In addition to tourism receipts and oil earnings, the economy has a significant industrial base, with some manufactured exports receiving duty free access to the EU. Expect annual GDP growth of 2-3% in 2010.

COUNTRY REVIEW SUMMARIES



MACAO

Roll of the dice

Macao, like Hong Kong, is a special administrative region of China, with a similar relationship to Beijing. Fernando Chui Sai-on—elected uncontested in September—will succeed current Chief Executive Edmund Ho in December 2009. Services dominate the economy, particularly gambling. Real GDP more than doubled between 2002 and 2008, but contracted in H1 2009 as the global downturn hit arrivals and investment. Expect recovery through 2010 but the pace will depend on how quickly investments in the casino sector are re-started. With a fiscal surplus, low debt, robust exchange rate peg, current account surplus and high FX reserves, systemic economic risk is low.



CONGO, REPUBLIC

Guess work

President Denis Sassou-Nguesso and the ruling party appear firmly in control. However, opposition to the regime is likely to come from non-parliamentary sources. In addition, there are regional uncertainties (neighbouring DR Congo remains a potential flash point). The economy is oil based (90% of exports) and subject to volatility reflecting global energy demand. Diversification has been lacklustre. The business environment is particularly weak, with reports of corruption and inefficiency, particularly in the state sector. Nevertheless, expect solid annual GDP growth of 5-10% this year and 2010 and the CFA franc to limit potential transfer risk.

IN BRIEF

Lithuania Uruguay

Q3 real GDP contracted by 14.3% yr/yr.

Elections: a presidential run-off on 29 Nov. (Mujica vs. Lacalle). The Broad Front retains a legislative majority.

Edited by Andrew Atkinson