

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



UKRAINE

Another rainy day

President Yushchenko has signed a parliament-approved bill to raise public sector wages and pensions, despite government and IMF calls for him to veto it. This looks like yet another element in the January 2010 presidential election campaign, but the decision puts at risk the latest release of a scheduled USD3.5bn tranche of the IMF Stand-by Agreement this month. Worse, resulting funding problems could trigger another European gas-supply crisis in the coming months and choke off the gradual recovery from Ukraine's severe recession. More positively, the pace of decline in industrial output moderated to 23% yr/yr in Q3 (32% in Q1 and 30% in Q2).



HONDURAS

Pushing on?

With a push from Washington, the two sides in the disputed presidency have reached agreement on a way to end the crisis. This includes the formation of a national unity government and a commitment to respect the outcome of the 29th November presidential election—neither interim president Micheletti nor President Zelaya will stand. However, Zelaya's re-instatement—the crucial issue—depends on congress. Yesterday, its leaders voted to wait for the Supreme Court's non-binding ruling before starting its own deliberations. However, expect ensuring the election's legitimacy to be the decisive factor, which should work in favour of a solution.



INDONESIA

Holding on

Inflation eased to 2.6% yr/yr in October from 2.8% in September. Having fallen from 11.3% a year ago to an average 2.7% in the past four months, however, thanks to lower fuel prices and the recent strengthening of the rupiah, inflation appears to have reached bottom. Recovery in domestic demand and the rebound in global oil and food prices are likely to increase inflationary pressures through 2010. This was a key factor in the central bank's decision today to keep its key policy interest rate on hold (6.5%) and maintain a neutral bias for the third consecutive month, which it considers consistent with the 4-6% inflation target set for 2010.



EGYPT

Like father...

The 6th annual congress of the ruling NDP provided some insights into future political developments. Gamal Mubarak, head of policy and son of the incumbent state president, played a pivotal role and is campaigning for extra funding for rural infrastructure. Expect the NDP to win comfortably parliamentary elections in November 2010 and its nominated candidate to win presidential elections in 2011. While a Mubarak presidency appears assured do not discount Hosni Mubarak, subject to health concerns, remaining head of state. All this suggests relatively sound economic management and further improvements in the trading environment.

ALSO IMPORTANT...



BRAZIL

Solid signs

September's 0.8% mo/mo increase in industrial production was disappointing. Yet, while this may warrant some caution over the more optimistic 2009-10 growth projections, other indicators—latest PMIs, retail sales—point to solid growth in Q3 and Q4 continuing into 2010. Expectations of a strong recovery have been reflected in exchange rate appreciation, so much so that the authorities have imposed a tax on portfolio inflows, a clear sign of Brazil's new found resilience, though such flows can easily reverse. The central bank is also more confident on growth as it kept interest rates on hold in October, where they are likely to remain at the next meeting in December.



MOZAMBIQUE

Arm chair

A process of legislative, presidential and provincial elections began last week. Expect President Armando Guebuza to win a second and constitutionally final term and the ruling Frelimo party to gain a sizeable parliamentary majority, thereby engendering policy stability. However, the concentration of power within a narrow circle could induce LT disaffection with governance. Indeed, expect prevention of the new opposition group MDM from running in 70% of constituencies to foster a more potent challenge to Frelimo going forward. For now, expect continued tight state control of the economy and business ventures to require Frelimo support.

COUNTRY REVIEW SUMMARIES



LEBANON

...and on

Domestic sectarian divides have yet to be bridged and regional tensions persist. Despite a declaration of political power-sharing, a government of national unity under PM-designate Saad Hariri has still to be formed and serious downside risks to the political and security environments remain. Much-needed economic reforms (public debt reduction—160% of GDP—privatisation etc.) will remain stalled pending formation of an effective government. More positively, international funding (through the Diaspora and GCC states) remains available. Expect 3.5% GDP growth this year and 5% in 2010, subject to overall political stability.



TURKEY

Trying

Although in deep recession in H1 (real GDP fell 10.6% yr/yr), the economy has shown remarkable resilience to the global economic crisis, supported by substantial fiscal stimulus. The TRY exchange rate and FX reserves have recovered from initial sharp declines, inflation fell to a record low 5.1% yr/yr in October and annual credit growth has slowed to 4%. Yet, country risk remains high as large external financing needs leave the economy highly vulnerable to the still fragile global environment and longer term the financing of fiscal stimulus through domestic debt risks ballooning public debt.

IN BRIEF

MEXICO

Congress has approved the budget and fiscal package for 2010, though not without amendments.

Edited by David Atkinson

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