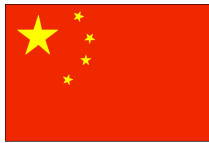


COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



CHINA

On the up...

Industrial production and retail sales grew strongly in October, the former by 16.1% y/yr (13.9% September) and the latter by 16.2% (15.5% September). Urban fixed asset investment was up 33.1% in the first ten months compared with the same period of 2008, up slightly on the increase in the first nine months. Exports continue to decline—down 13.8% y/yr (nominal terms)—but at a decelerating pace, as do imports. All told, these data underscore the quickened pace of growth evidenced in Q3 statistics. However, credit growth in October slowed, which may indicate a little more caution on the part of the authorities, but against that the CPI fell again (0.5% y/yr).



INDONESIA

...and up?

Q3 real GDP growth was 4.2% yr/yr, following 4% in Q2 and the acceleration—the first in five quarters—was largely driven by domestic demand, while the drag from external demand faded. Private consumption grew by 4.7% yr/yr in Q3 (4.8% in Q2), government consumption by 10.2% (17% in Q2) and investment by 4% (2.7% in Q2). The decline in exports moderated to 8.2% in Q3 (-15.7% in Q2) while imports contracted by 18.3% (-23.9% in Q2). On the supply side, transport (+18.2% yr/yr), utilities (+14.6%), construction (+8.8%) and mining (+6.5%) were the strongest sectors in Q3. Expect 4.3% growth in calendar 2009 and 5% in 2010.



VENEZUELA

The sound and the fury?

President Chavez ordered the mobilisation of the armed forces to prepare for war against the alleged threat from Colombia, escalating tensions over President Uribe's decision to allow the US to use military bases in Colombia and his long-running attempts to end by force the FARC insurgency (ideologically more aligned with Chavez' radical left). In response, Colombia has threatened to take matters to the UN and OAS. Chavez' action is probably largely diversionary rhetoric, as he faces legislative elections in 2010 with the economy not doing well, but confrontation risks something going unexpectedly wrong and trade relations, already badly hit, are unlikely to improve.



POLAND

Pole axe?

The only EU economy expected to grow in 2009 is struggling to contain its fiscal deficit and public debt because of lower tax revenue and fiscal stimulus measures. However, the government has denied reports from last week that it may suspend constitutional rules that trigger austerity measures if public debt rises above 55% of GDP. While a forthright suspension of the rules may well fail to get parliamentary approval, the government could find ways to dilute them, e.g. by moving some items off the state's balance sheet. Expect any such move to be good for ST growth but bad for investor sentiment and for growth in the longer term.

ALSO IMPORTANT...



YEMEN

Borderline

There is mounting concern about stability, with long-running inter-tribal conflicts, a Houthi insurgency in the north, calls for secession in the south and continuing activity of al-Qaida-linked factions. The Saudi military has become involved as it has repelled rebel Yemeni groups that had allegedly transgressed across a porous and indeterminate border. The Houthis are Shia so expect Iran to proffer assistance and for this to further heighten tensions in the region—Saudi is reportedly supporting the government of President Ali Abdullah Saleh in its conflict with the Houthis. Also expect trade disruptions, partly because gas for LNG exports is piped to seaports in the south.



EQUATORIAL GUINEA

Mann in the street

Presidential elections are scheduled for 29 November. Expect incumbent Teodoro Obiang Nguema Mbasogo to win easily, perhaps by his traditional 97% of the vote. Increases in public sector salaries and the minimum wage, as well as the recent high profile release of Simon Mann, leader of an attempted coup in 2004, should ensure a renewed 7-year mandate. However, the health of Obiang—Sub-Saharan Africa's longest serving head of state in the region's fourth largest oil producer—is a concern and the succession process opaque. Expect the Fang ethnic group to continue to dominate but in-fighting has the potential for destabilisation.

COUNTRY REVIEW SUMMARIES



URUGUAY

Eking out a win

Presidential elections in October have gone to a run-off on 29 November with Jose Mujica, the ruling Broad Front (FA) candidate, ahead. If Mujica wins—as seems likely—expect him to align with the region's pragmatic left, prioritising economic stability, as did his predecessor. The FA also retained a small majority in congress. The economy returned to growth in Q2, after contracting sharply in Q1 and recovery should be maintained (+0.5% in 2009 and +2.8% in 2010). External liquidity is adequate, although debt ratios remain high and the banking system has weathered the global storm reasonably well. However, the economy is vulnerable to developments in its larger neighbours.



NIGER

Tannery?

President Mamadou Tandja this year engineered constitutional changes to allow him to remain in power and he has adopted an increasingly autocratic stance that has produced strong local and external condemnation, with a risk of aid cuts and economic sanctions. Annual economic growth of 6% in 2001-08 was supported by increased uranium output, and a record cereal harvest enabled 9.5% growth last year. Expect GDP growth of only 2-5% in 2009 and 2010, reflecting reduced agricultural output and weaker global commodity demand. Despite large-scale debt relief under HIPC and MDR initiatives, Niger remains aid dependent.

IN BRIEF

Latvia

Q3 real GDP contracted by 18.4% yr/yr.

Edited by Andrew Atkinson