COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES

HUNGARY

Internal constraints

The flash estimate of Q3 real GDP revealed a 7.2% yr/yr fall—only marginally less worse than the -7.5% of Q2—and a qtr/qtr contraction of 1.8% (seasonally adjusted). With necessary fiscal tightening scheduled under the IMF programme and credit conditions likely to remain tight, a return to growth will depend heavily on an upturn in the Euro-zone, as consumer spending can be expected to remain weak. Nonetheless good progress continues to be made with policy adjustment, reflected in last week's staff level agreement on the fourth review of the SBA. Expect GDP to contact by 6.5% in 2009 and another 0.5% in 2010.

ISRAEL

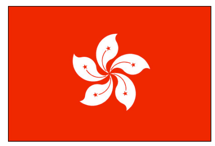
Manufactured recovery?

Latest PMIs reached two-year highs, pointing to expectations of increased manufacturing activity. Indices improved across most components, including employment prospects and raw material inventory build-up. Foreign trade data are also supportive of economic recovery, with exports of goods increasing by 46% yr/yr in August to October and nearing pre-global recession levels. Meanwhile, inflation was 2.9% yr/yr in October and within the official 1-3% target range, although the year-to-date figure is 3.6%. In 2010, expect 2.5% GDP growth (after near stagnation this year) and average inflation to hit the target range.

COLOMBIA

Ground rules

The national electoral council (CNE) has declared invalid a petition calling for the referendum on a constitutional amendment allowing President Uribe to stand for a third consecutive term. What happens next depends on the Constitutional Court which will rule on the CNEs decision, as well as on the re-election bill itself. The CNEs action raises uncertainty as it squeezes the window in which the referendum can take place, as the Constitutional Court decision is not expected until February and the elections are in May 2010. In the meantime candidates who are waiting to see if Uribe is ruled out before campaigning could find themselves losing too much ground.



HONG KONG

Spending power

In contrast to other economies in the region, real GDP rose by just 0.5% qtr/qtr (seasonally adjusted). The yr/yr contraction slowed to 2.4% from 3.6% in Q2. The main reason for the relatively low growth was the weak performance of exports, which declined, though personal consumption barely edged upwards, despite a sharp rise in equity and property prices that has prompted concerns over "bubbles". Nonetheless, Q3 should prove temporary. Although GDP is likely to contract by 3.7% in 2009, expect growth of around 4% in 2010, as global growth supports exports and unemployment edges down, helping personal spending.

ALSO IMPORTANT...

SRI LANKA

Beware the rath?

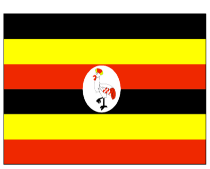
Former army head, General Sarath Fonseka, who led the victorious campaign against the Tamil Tigers, resigned from the more-ceremonial post of Chief of Defence Staff. As a civilian, Fonseka may use his current popularity to challenge incumbent Rajapaksa for the presidency in elections scheduled for April 2010. Expect a Rajapaksa-Fonseka contest—if it materialises—to split the ruling alliance support base but not to result in a win for opposition factions. Also expect political campaigning to accelerate the Tamil resettlement process as Sri Lanka attempts to avoid EU suspension of trade privileges because of alleged abuses of human rights.

LEBANON

Unity?

After five months of political deadlock, a government of national unity has been created under PM Saad Hariri comprising a cabinet of 15 of the (pro-West) majority coalition, 10 opposition MPs (including two from Hezbollah) and five "independents". At least one of the latter is an opposition sympathiser, which gives that group a potential veto on some proposed legislation. This may prevent implementation of economic reforms and, indeed, don't expect formation of a cabinet, in itself, to lead to effective governance. Moreover, perceptions that Hezbollah is increasing its presence in formal political structures are likely to heighten tensions with Israel.

COUNTRY REVIEW SUMMARIES



UGANDA

Mus keep...

President Yoweri Museveni has overseen a period of relative stability since the 1990s and economic reforms receive support from the IMF, World Bank and the wider donor community. Economic growth has been relatively strong (annual average 7%+ 2001-08) but needs to be sustained for a lengthy period. For all its progress, Uganda—landlocked and therefore dependent on other countries for primary trade routes—is still one of the poorest countries in the world. Despite significant foreign debt reduction through multilateral agreements and recent oil discoveries, it remains aid dependent. Expect GDP growth of 3.5% this year and 5% in 2010.

ARUBA

....going

The economy is highly vulnerable to US recession, as a result of the importance of tourism, particularly arrivals from the US. Real GDP contracted in 2007 and 2008 and probably will decline by a further 2-3% in 2009. Debt ratios, the exchange rate peg and the banking system, however, should be sufficiently robust to avoid recession turning into unmanageable systemic stress. Aruba also has strong links with the Netherlands. The Structural Business Environment is above average and the political system is stable, though a new government has recently taken office after elections in September 2009 (won by the opposition AVP).

IN BRIEF

ROMANIA	Presidential elections and a referendum on a single-chamber legislature will be held on 22 November

Edited by David Atkinson