

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



HONDURAS

Por favor?

Elections are scheduled for 29 November, although there is still no resolution of the disputed presidential crisis—ousted president Zelaya has withdrawn from the US-brokered agreement, as congress won't consider his reinstatement until 2 December. Meanwhile, interim-President Micheletti stood down until after the election, polls for which show opposition candidate Porfirio Lobos Sosa ahead. None of this helps the international legitimacy or local credibility of the new government, a situation further complicated by the apparent involvement of the US in the brokered agreement to recognise the winner regardless.



THAILAND

Head way?

Real GDP recorded a second qtr/qtr gain in Q3, although at a slower pace than Q2 (1.3% against 2.2%) and below consensus expectations. Household consumption was up 1% and fixed investment was also positive, although still well below the levels of Q3 2008. The net export contribution was also positive, although largely the result of falling imports. Year-on-year, output fell by 2.8%. The recovery appears to be continuing, underpinned by fiscal expansion, much of which has still to feed through, so expect growth in 2010, but fragile consumer confidence and political stability could cause headwinds.



MEXICO

Good news ...and bad

The authorities finally have some good news as Q3 real GDP increased by 2.9% qtr/qtr, after three consecutive quarters of contraction. This has been a very severe recession—GDP was down in Q3 6.2% yr/yr and the full year 2009 fall is likely to exceed 7%, a measure of the linkages with the US—but expect a relatively moderate recovery in 2010, with 3% growth. The worst may be over in terms of lost output, but the first long-anticipated sovereign downgrade arrived this week as Fitch changed its rating to BBB from BBB+, largely reflecting medium-term structural over-reliance on oil and the lack of full-scale reforms in the sector. However, the rating remains investment grade.

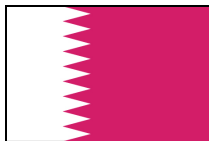


SOUTH AFRICA

Quarter back?

After three consecutive quarters of negative growth, the economy expanded by 0.9% qtr/qtr in Q3. The main drivers were manufacturing (7.6%), construction (6%) and electricity (4%), with negative contributions from agriculture (-9.8%), mining (-5.8%) and retail, wholesale and hotel trades (-1%). Over the course of the first three quarters of this year, GDP contracted by around 1.8% yr/yr, so expect -1.6% overall in 2009. Also expect the recovery to be gradual, with no quick return to annual rates of 5% as any further boost from the 2010 World Cup will be partially offset by a strong rand and household deleveraging. Expect 2010 GDP growth of 3%.

ALSO IMPORTANT...



QATAR

Gas explosion

Last week's USD7bn bond issue—USD3.5bn in 5-year, USD2.5bn in 10-year and USD1bn in 30-year notes—represents the largest ever from an emerging country. The money raised will allow Qatar to improve its infrastructure, provide a financial cushion in case of future emergencies and boost domestic capital markets. Qatar possesses oil reserves that will last a further 54 years at current rates of extraction and the world's third largest natural gas reserves (after Russia and Iran). It is the world's largest exporter of LNG and output is set to almost double in 2010. Accordingly, expect GDP growth—double digit average 2006-08 but slowing to 9% this year—of 20%+ in 2010.



PAKISTAN

Ease off?

Yesterday, the central bank cut its key policy interest rate by 50bps. Expect this to be the last such monetary easing in the current cycle, particularly as inflationary pressures have been subdued but are likely to grow in 2010. Headline inflation in October was 8.9% yr/yr but this was the first single digit growth for two years. After appearing close to collapse in Q3 2008, the economy has stabilised with assistance from an IMF facility and donor support. However, expect the economic recovery to be muted—partly because of continuing political and security concerns—with GDP expanding by 2-3% in FY2009/10 (July-June) after 2% last year.

COUNTRY REVIEW SUMMARIES



EL SALVADOR

No fun for Funes

Real GDP will contract in 2009—hit by strong linkages with the US—and the fiscal deficit and public and external debt ratios have deteriorated. However, the banking system is holding up reasonably well and the economy is formally dollarised. Systemic political risk has increased since the election of president Funes of the left-wing FMLN in 2009. While the configuration of congress and the need to ensure short-term economic stability (along with the absence of energy resources) should push policies towards the centre, the risk of a leftward lurch at some point—including constitutional reform—is not insignificant. The structural business environment is adequate.



LESOTHO

Water fall

The country is landlocked by South Africa, which acts as a regional stabilising force. The prevalence of HIV/AIDS has direct negative consequences on the labour market, public finances, industrial production (the textile and clothing sector is labour intensive) and overall economic growth. Over 80% of the population lives in rural areas and is dependent on agriculture, mainly subsistence farming, but poor soil quality and erosion limit agricultural output. Workers' remittances and exports of water, hydro-electric power and diamonds are key FX earners. Expect real GDP to contract by 2-4% in 2009 and only a moderate recovery to 2-4% positive growth in 2010.

IN BRIEF

Uruguay

Presidential second-round run-off on 29 November.

Edited by Andrew Atkinson

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