

# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES



**UAE**

**Uncertain world**

The announcement that two flagship companies (Dubai World and its real estate subsidiary Nakheel) are seeking a six-month standstill on debt as a first step towards restructuring was a shock. This action sent the cost of insuring Dubai's debt against default soaring. Estimates of Dubai World's liabilities range from USD22-59bn, with the element to be restructured believed to be towards the bottom of this range. A perceived lack of transparency and uncertainties as to the status of the debt and level, if any, of government support sent adverse ripples across the global economy. Expect a restructuring agreement to be forged but investor confidence in the Gulf to be dented.



**INDIA**

**On the up...and up?**

Q3 GDP data surprised on the up side, with overall economic growth of 7.9% yr/yr, after 6.1% in Q2. Significantly, a key driver of expansion was manufacturing (9.2% yr/yr). Services, boosted by counter-cyclical public spending boosts, also grew strongly and even agriculture recorded a positive contribution, despite weak monsoon rains. Expect the latter to have a negative impact on agricultural output in Q4 figures and final quarter growth to be below that of Q3. Nevertheless, expect overall growth this year to be around 6%, aided by a large domestic market and effective policy reaction, with 7-8% possible in 2010, but also monetary tightening.



**HONDURAS**

**Lobo lobby**

The presidential elections were won comfortably by opposition candidate Porfirio Lobo (52% to 36% for his nearest rival) and, importantly, on a turnout of around 62% (above 2005). Crucially, the US has recognised the elections, though with the caveat that it is only a step towards normalisation. This will require the formation of a national unity government, a congressional decision on the return of ousted president Zelaya (the debate starts today and is likely to decide against) and the establishment of a Truth Commission. Expect Lobo to pursue all of these as he tries to broaden approval of his election to moderate Latin American governments and the EU, among others.



**TAIWAN**

**Not wanting?**

Q3 real GDP data released last week suggest that the economy has turned the corner with growth of 2% qtr/qtr and a slowdown in the yr/yr pace of decline to 1.3%, better than expected. Net exports made a positive contribution to growth and, importantly, this reflected continued growth of exports. Household consumption picked up more momentum and gross investment was positive for the second successive quarter. Expect growth of 4.5% in 2010 (-3.5% 2009) as global demand continues to recover, but high unemployment levels and limited scope for further fiscal spending may leave domestic demand growth fragile.

## ALSO IMPORTANT...



**VIETNAM**

**Ding dong**

Last week the dong exchange rate (VND) was devalued again, by just over 5%, and the policy interest rate was raised from 7 to 8%. The government has also announced that it will end early a key economic stimulus programme of subsidised loans. The problem is that, unlike other Asian economies, it is running both a fiscal and current account deficit and a return to strong growth, not led by exports, leads to deterioration in the trade balance (evidenced in recent months). FDI disbursements are in line with expectations, but this is not enough to avoid pressure on FX reserves. Whether or not this devaluation holds will depend a lot on the pace and sustainability of the global recovery.



**NAMIBIA**

**Amba light?**

Parliamentary and presidential elections were held at end-November. Previous polls in 1994, 1999 and 2004 indicated an effective (if not fully developed) democracy. Official results are not yet through but expect the ruling SWAPO to retain a majority, with ease, and President Hifikepunye Pohamba to be re-elected for a second and constitutionally final term. Nevertheless, expect social issues (high income inequalities, unemployment and poverty) and current economic woes (Q1 GDP contracted by 12.4%) to provide challenges going forward. With tentative signs of economic recovery in South Africa, expect GDP growth of around 2% in 2010.

## COUNTRY REVIEW SUMMARIES



**SOUTH AFRICA**

**Jacob's ladder**

ANC leader Jacob Zuma was sworn in as state president in May 2009. Initial concerns relating to a fundamental change in policy direction have so far been largely unfounded. Indeed, Zuma emphasises that the recent sound—perhaps conservative—market economics will remain the basis for policy. Economic data have been generally good, although current account—and now fiscal—deficits require careful management. Q3 GDP data indicated that economic recovery is underway, with positive growth after three consecutive quarters of contraction. Expect GDP growth of 3% in 2010, following outright contraction of 1.6% this year.



**ST VINCENT & GRENADINES**

**Unremitting vulnerability?**

Heavy dependence on tourism and remittances make the economy highly vulnerable to recession in the US and other major economies. High public debt ratios are a serious concern and the fiscal deficit will widen in 2009-10. The current account is large and less than half covered by net FDI. As a member of ECCU, the exchange rate depends on trends among all the eight member states. The peg has been in place for 28 years but is not without risk owing to chronically large current account deficits and very high public debt ratios. Systemic political risk is moderate.

## IN BRIEF

**URUGUAY**

As expected, Jose Mujica (ruling Broad Front coalition) won the second round run-off in the presidential elections.

Edited by David Atkinson

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