COUNTRY RISK WEEKLY BULLETIN

6 January 2010

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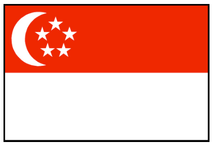
IN THE HEADLINES



SINGAPORE

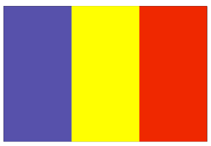
Seasonal greetings

Real GDP expanded by 3.5% yr/yr in Q4 (advance estimate), partly as a result of a base effect as economic activity collapsed at the end of 2008. However, on a qtr/qtr, seasonally-adjusted annualised basis, real GDP contracted by 6.8% in Q4, which appears to be also subject to base effects as it can be seen as a correction of unsustainably rapid growth in Q2 (21.6%) and Q3 (14.9%). The main culprit was manufacturing, which contracted by 38% qtr/qtr after a 30% surge in Q3—largely because of volatile output of bio-medical products. All other major sectors continued to grow. Expect GDP growth of around 4% in 2010 after a 2.1% decline in calendar 2009.

VIETNAM

Twin pressures

Official estimates put 2009 real GDP growth at 5.2%, implying a strong Q4 yr/yr (almost 7%) continuing the recovery. The government target for 2010 is 6.5%. However, the authorities face a delicate policy balancing act, steering between overheating from fiscal and monetary stimulus—with a consequent threat to the balance of payments, particularly if export growth is less than expected, as Vietnam has a substantial trade deficit—while avoiding too rapid tightening. There is some risk that growth will exceed target and inflation will accelerate, followed by another lurch to rapid tightening to alleviate exchange rate pressure.



ROMANIA

First Base

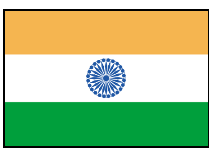
After his narrow re-election was confirmed by the Constitutional Court in mid-December, President Basescu nominated the incumbent PM Boc to form a new government. Boc had led a caretaker administration from October, when his previous coalition government collapsed. Boc's new government was confirmed on 23 December with the support of his DLP, the ethnic Hungarian UDMR and, crucially, independents whose number increased after several opposition MPs deserted their parties. Expect the new government's priority to be to pass a credible 2010 budget and thereby unlock IMF funding, suspended in October.

YEMEN

Menace?

The Christmas Day Detroit airliner plot brought the activities of al-Qaida in the Arabian Peninsula (AQAP) to a wider audience and raised concerns relating to Yemeni statehood. However, the country's problems—a lawless hinterland, Houthi insurgency in the north, succession demands in the south, declining oil output and dwindling water supplies—are long standing. Expect additional international support for the Sanaa-based government but AQAP to remain a potent threat to regional stability (the Yemen-Saudi Arabia border is lengthy and porous) and to international terrorism.

ALSO IMPORTANT...



INDIA

Tel tale

Plans to divide Andhra Pradesh to create an additional state, Telangana, have caused some concerns and refocused risks to political rather than economic factors. Firstly, formation of Telangana was not supported by all in the state legislature and the future of Hyderabad—capital and an IT hub—remains uncertain. Secondly, other ethnic and regional groups are likely to seek state status. Thirdly, other groups—principally Maoists in central regions—are likely to be more vocal and, perhaps, militant in their demands. Additionally, long-running border disputes exist with Pakistan and China. Expect a stronger economy in 2010 but mounting political/social pressures.

CROATIA

Inter Milan and...

The candidate of the main opposition SDP, Ivo Josipovic, won the first round of presidential elections on 27 December (32.4% of votes) and faces a run-off against Milan Bandic (14.8%), a former SDP member turned populist. The relatively poor showing of Andrija Hebrang (12%), the ruling HDZ's nominee, has added to party uncertainties. Former PM Sanader was expelled from the centre-right HDZ after challenging the leadership of PM Kosor, who succeeded him just six months ago. HDZ infighting continues to threaten to bring down the coalition government, which holds 82 out of 153 seats and relies on minority parties.

COUNTRY REVIEW SUMMARIES

UNITED ARAB EMIRATES

New World?

The surprise announcement at end-2009 that Dubai World was seeking a six-month debt standstill and restructuring raised uncertainties and re-emphasised a lack of corporate transparency. Although intervention by Abu Dhabi appears to have avoided outright default, the effectiveness of economic management in a country seeking to be a major financial player, as well as a regional commercial/ trading hub, was called into question. Expect some adverse impact on private capital inflows but GDP of the UAE still to expand by around 3-4% this year, after contraction of around 2.5% in 2009. However, Dubai itself may remain in recession and further corporate stress is expected.

BELIZE

Totally tropical

The economy depends on tourism, shrimp and lobster farming, agriculture and limited oil production and is vulnerable to tropical storms. Real GDP, after contracting in 2009, should grow, but only modestly (1.5%) in 2010, with a low inflationary environment. The fiscal deficit and the public debt-GDP ratios have been reduced but remain high and have increased in the downturn. Monetary policy is geared to the pegged exchange rate. The current account deficit is a large 6.5-7% of GDP. FX reserves are adequate and external debt ratios have improved. The next elections are scheduled for 2013 and the government has a parliamentary majority.

IN BRIEF

Oil prices	Benchmark Brent USD80/barrel (USD62.7/b year average in 2009, USD98.5/b year average in 2008).

Edited by Andrew Atkinson