

COUNTRY RISK WEEKLY BULLETIN

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THE WORLD IN 2010



WORLD

Driving recovery

Expect **world GDP** to expand by 2.6% in 2010, after contracting by 2.2% in 2009, with the US growing by 2.3%, Japan 1.1% and the Euro zone by just 0.9%. However, revival is still quite weak relative to the downturn and recovery in 2010 will remain modest and fragile. Expect **world trade** to continue to recover, though at 6% the increase will not offset the 11% fall in 2009. **Emerging economies** will provide much of 2010 global growth, as key economies—notably **China, India and Brazil**—are experiencing domestic demand-led recoveries. But, expect markets to differentiate among emerging economies, favouring those with stable government, a good starting point for policy adjustment, a strong external liquidity position and low debt ratios. Risks will remain high elsewhere and a number of economies, notably in **Emerging Europe**, will remain dependent on international IMF-led support. **Commodity prices, including oil**, have recovered ground after plunging in early 2009.



ASIA

Early starters

The region had a relatively strong position going into the global crisis, allowing fiscal expansion and monetary policy relaxation, and benefited with early recovery that should be maintained in 2010. **Expect growth of 6.7%** after 4.7% in 2009. **China's** massive policy stimulus is likely to be withdrawn only in line with a sustained recovery of export growth, so growth will be 8-9%. **Hong Kong, Taiwan, South Korea and Singapore** are also recovering faster than expected. Indonesia has been remarkably robust and will grow by 4-5%. The **Philippines** and **Vietnam** also avoided recession, though the latter's external balance remains fragile. **ASEAN** growth will recover to around 4% in 2010 from 0.5% in 2009 (annual average 5.6% in 2002-08). A strong recovery is also evident in **India**, with growth of 6-7% in 2009-10 and monetary tightening looming. Stability and security in **Pakistan, Nepal and Sri Lanka** remain uncertain, though the prolonged insurgency in the latter appears over.



LATIN AMERICA

Mixed performance

Expect regional growth of 3% in 2010 (after contracting by 2.2% 2009). **Brazil**—remarkably resilient in the crisis—is set to grow by 4-5%. Elections are due in October, but profound policy discontinuity is unlikely. The strength of **Mexico's** nascent recovery will depend on oil prices and the US. **Argentina** is seeking to restore market access, but questions remain over policy implementation. Commodity producers with sound policies such as **Chile and Peru** should recover strongly. **Colombia** too has proved resilient, but faces presidential elections in May. Energy producers with radical-left leaderships, such as **Venezuela and Ecuador**, will fare less well. A newly elected president in **Honduras** may eventually end the political crisis that has cut off international finance. Other **Central American and Caribbean** economies need US recovery to lead an upturn in tourism and remittances but many will struggle with high public debt ratios.



CENTRAL & EASTERN EUROPE

Laggard

The region has been hardest hit by the global crisis and is the laggard in terms of economic recovery. But most economies have at least hit bottom and the annual pace of regional GDP contraction eased to around 6% yr/yr in Q3 2009 from 8% in Q2. Most countries are forecast to grow modestly in 2010 but fiscal austerity programmes attached to IMF loan packages will restrain growth in **Hungary, Romania, Latvia and Ukraine**. The latter three have already struggled to meet IMF loan conditions (in time) and disbursements were delayed. Any ultimate suspension of IMF funding would aggravate country risk in the country concerned. **Turkey and Russia** will recover from deep recessions but remain vulnerable to political and external shocks. **Expect modest regional growth of 1.7% in 2010** after a 6.4% contraction in 2009. Recession-related insolvencies, corporate refinancing risk and vulnerable currencies remain the key concerns across the region.



MIDDLE EAST

Economic recovery but...

Regional GDP growth is expected to have slowed to around 1% in 2009, following four years of above 5% expansion. In addition to global recession and accompanying weaker energy demand, growth was subdued by OPEC output quotas and a correction in over-inflated property and other asset sectors, particularly in the GCC states. **Saudi Arabia, UAE and Kuwait** are all likely to have been in recession in 2009. The current debt problems afflicting **Dubai** are likely to prevent that emirate (but not the **UAE** federation as a whole) from joining in the recovery this year. **Expect regional GDP growth of 3-4% in 2010**. Disclosure of a second uranium enrichment plant in **Iran** and perceived intransigence in the nuclear negotiations could herald further sanctions, which will restrict economic development and possibly heighten internal tensions. Moreover, enduring flashpoints in **Iraq, Lebanon** and the **Palestinian territories** show little prospect of swift resolution.



AFRICA

...political uncertainties

Through its consumption of commodities and direct investment strategy, China helped minimise the downturn in 2009. Outright recession in the largest economy, **South Africa**, was the main drag on regional expansion last year, which is likely to have been around 1%. The recovery in 2010 will be broad-based, with oil exporters, non-energy commodity producers and service-based economies (South Africa will host the Football World Cup) all contributing. However, **regional GDP growth of 4-5%** will remain below recent trend (over 7% 2005-08). Security and stability concerns in the **Horn of Africa** provide heightened risks in East Africa and there are current concerns for the health of leaders in **Nigeria** (the region's largest energy exporter) and **Guinea** (the world's second largest bauxite producer). North Africa's recovery will depend on the strength of key EU markets, particularly for tourism and workers' remittance inflows into **Morocco and Tunisia**.