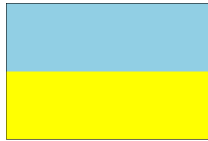


COUNTRY RISK WEEKLY BULLETIN

20 January 2010

London: David Atkinson +44 (0)20 7860 2807; Andrew Atkinson +44(0)20 7860 2577 Hamburg: Manfred Stamer +49 (0)40 8834 3607

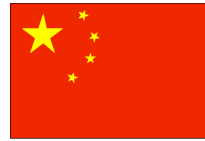
IN THE HEADLINES



UKRAINE

Only be one Viktor?

Viktor Yanukovich, whose contested victory five years ago was overturned by the Orange Revolution, has made a remarkable comeback, winning the first round of presidential polls (35%). Former leaders of the Orange revolution (but now bitter opponents) PM Yulia Tymoshenko (25% and due to face Yanukovich in a 7 February run-off) came second and incumbent President Viktor Yushchenko fifth (5%). The result probably largely reflects disenchantment with fractious government and the perceived failure to deliver by the Orange politicians. Against the backdrop of recession, Tymoshenko faces an uphill struggle to win over defeated candidates' supporters.



CHINA

Tightening up?

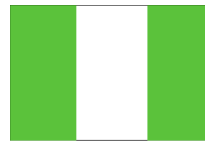
Last week, the central bank signalled its intent to curb the ultra-loose monetary policy in place for most of 2009 by raising bank reserve requirements by 50bps. The bank also allowed yields on 12-month bonds to rise. This move, which came earlier than expected, probably also presages interest rate increases in the coming months, although serious tightening will be reflected in loan demand targets and possibly the re-introduction of credit quotas at some point. However, expect the authorities to remain fairly cautious until sustained export growth is firmly entrenched. Also, expect strong Q4 GDP growth figures this week.



CHILE

Pinning their hopes?

Sebastian Pinera of the centre-right Coalicion por el Cambio won the presidential election run-off last Sunday against Eduardo Frei of the ruling Concertacion Coalicion, with 52% of the vote. This ends 20-years of centre-left coalition rule and came about despite outgoing President Bachelet's own high popularity ratings, which failed to rub off on Frei. The switch to a centre right executive is unlikely to herald a major shift in economic policies and, in any event, the Coalicion does not have a majority in either house of congress and will need to negotiate with the opposition. One area of change could be to allow private sector involvement in state copper producer Codelco.



NIGERIA

Good luck

A federal court ruled that Vice-President Goodluck Jonathan can exercise executive powers in the health-related absence of President Umaru Yar'Adua. However, no formal transfer of power is envisaged and this raises uncertainties. It is an unwritten rule that the presidency rotates every two terms between the north and south and incumbent Yar'Adua is from the former and Jonathan the latter. Expect elements within the ruling PDP to continue strategic manoeuvres ahead of a potential handover but, with recent violent ethnic clashes in Jos and continuing security problems in the oil-rich delta region, expect a politically challenging 2010.

ALSO IMPORTANT...



VENEZUELA

Multi-faceted

The bolivar was devalued and a two-tier official exchange rate created earlier this month. The move was not unexpected, although it is the first devaluation in four years. Importantly, it will ease fiscal pressures by raising oil revenues in local currency. Lowering the real exchange rate will have little impact on exports, as non-oil exports are only 10% of the total (10%) but inflation will accelerate (already 25%). With legislative elections in September this year, it looks like the government may be hoping that maintaining public spending on basics will outweigh the impact of inflation on the result—one foreign-owned supermarket chain was nationalised this week allegedly for price speculation.

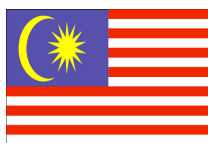


ALGERIA

Son-in-law?

The chief executive and other senior officials of Sonatrach, the state oil company, are being investigated following allegations of corruption. Do not expect this to interrupt the company's daily operations—Sonatrach accounts for around 95% of export receipts—but management disruption could delay some policy initiatives. Moreover, there may be a political dimension to this issue and it could lead to changes in government personnel. While all this raises uncertainties and weak oil prices from Q4 2008 to Q3 2009 reduced FX earning capacity, the economic fundamentals remain relatively strong. Expect GDP growth of around 4% in 2010.

COUNTRY REVIEW SUMMARIES



MALAYSIA

Raz(or) edge?

Rising ethnic-religious tensions and growing public resentment with the long-ruling BN coalition have been disturbing the political status quo for some time. The opposition has strengthened, but expect the BN under Najib Razak, PM since April 2009, to retain power for now. The global financial crisis affected adversely the export-dependent economy—real GDP contracted by around 4% yr/yr in Q1-Q3 2009 and public finances have deteriorated—but macro-economic fundamentals have remained sound overall and monetary policy has been appropriate, allowing an early recovery. Expect real GDP growth of around 3% in 2010 after -2.2% in 2009.



TANZANIA

On the map

The semi-autonomous Zanzibar islands remain a focus of political and security uncertainty and perceptions of corruption remain high. Nevertheless, expect Jakaya Kikwete and the ruling Chama Cha Mapinduzi party to triumph in presidential and parliamentary elections by end-2010 and policy continuity to prevail. Annual average GDP growth of 7% (2002-08) reflects sound economic management and sustained support from the wider donor community. Current high gold prices have increased revenues from the key export sector and the economy should get a boost through the regional common market. Expect GDP growth of around 5.5% in 2010.

IN BRIEF

Croatia Ivo Josipovic was elected president in a run-off on 10 January.

Edited by Andrew Atkinson

The content of the report (which is subject to change without notice) reflects only our opinion, which is based on information received by us. Accordingly no warranty, representation or other assurance is given as to the accuracy or completeness of the report. The report is for general information and is not intended to address any requirements you may have, for which you must obtain independent advice. The report does not constitute any form of advice, recommendation or arrangement by Euler Hermes UK plc or by the Euler Hermes Group of Companies and must not be relied upon in the making of any decision, agreement or arrangement. © Euler Hermes UK plc 2010.