

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



CHINA

Trading up?

January trade data released this week show exports (value) up by 21% yr/yr and imports up 85.5%. The figures are distorted by the timing of the Lunar New Year and are also off a low base but, nevertheless, point firmly in the direction of recovery in the external sector, underlined by a 73% increase in imports for processing and re-export. Commodity imports, however, continued to slow. Emerging economies remain the main beneficiaries of Chinese import demand. Just how strong the export recovery is will not be fully evident for a few months, but expect it to weigh heavily on the timing and extent of the withdrawal of the domestic demand stimulus.



UKRAINE

Viktory

Last Sunday's run-off in the presidential election was won by Viktor Yanukovich with 49% of the vote against Yulia Tymoshenko's 45.5%, according to preliminary results from the Central Electoral Commission. Yet, Tymoshenko has not conceded defeat and could contest the result in the courts. Her chances of success, however, seem limited as international monitors did not find evidence of significant electoral irregularities—unlike 2004 when the Supreme Court eventually overturned Yanukovich's victory. Nonetheless, prolonged political uncertainty could delay much needed efforts to solve the economic crisis.



JAMAICA

Making a break?

The IMF Board has approved a 27-month USD1.27bn SBA of which USD640mn is available immediately. The deal is also expected to unlock USD1.1bn of other IFI funding. This followed a successful local currency debt exchange, which is expected to reduce interest payments by around 3% of GDP and maturing debt in the next three years by 65%. A tax package that will raise revenues by around 2% of GDP was also implemented and an improvement in the fiscal deficit by 5% of GDP in FY2010 is expected. Nonetheless, although this is a major step forward, debt dynamics remain daunting and GDP may contract again in 2010 (after -3.6% in 2009).

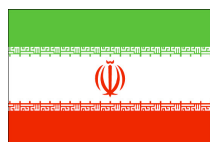


INDONESIA

Fitness test

Last month Fitch upgraded its LT sovereign rating from BB to BB+ (stable outlook), just one notch below investment grade, citing relative resilience to the global financial crisis, continued improvement in public finances and easing of external financing risk. Meanwhile, Q4 2009 real GDP growth accelerated to 5.4% yr/yr (4.2% Q3) taking full-year growth to 4.5%, driven by private consumption (+4.9%), investment (+3.3%) and government spending (+15.7%). Despite the latter, public debt fell below 30% of GDP in 2009. FX reserves rose to USD67bn in January, providing more than five months of import cover.

ALSO IMPORTANT...



IRAN

Continuing to run

Apparently conflicting messages continue to emanate from the leadership in Tehran. President Mahmoud Ahmadi-Nejad appeared willing to explore an offer for the west to enrich some Iranian uranium but Tehran has also test-fired a satellite-carrying rocket and Ahmadi-Nejad recently ordered production to begin of higher-grade fuel at the Natanz atomic plant. Expect further sanctions against Iran and more difficult trading conditions—some German firms recently announced a staged withdrawal of business dealings. Also expect some further domestic demonstrations as 11 February is the anniversary of the 1979 revolution that brought Ayatollah Khomeini to power.



BOTSWANA

Re-sparkle?

Minister of Finance Kenneth Mathambo's 2010/11 budget presentation projected a deficit equivalent to 12.2% of GDP. This reflects a very weak diamond market in 2009—De Beers recently reported that worldwide sales fell by around 50% last year—and that around 65% of Botswana's export receipts are from sales of gemstones. Nevertheless, expect continuation of sound economic policies, with budget financing coming from a drawdown of reserves and additional borrowing (largely domestic). Even with a current recovery in global demand for diamonds, expect GDP growth to be minimal in 2009/10 before a rebound to around 5% in 2010/11.

COUNTRY REVIEW SUMMARIES



BRUNEI

Relatively well behaved

The economy is heavily dependent on oil and gas production, which together account for approximately 67% of GDP and for more than 90% of government revenues and export earnings. The latter have created a favourable fiscal balance, large current account surpluses, a net position as an external creditor, a large well-funded public sector and an extensive welfare system. This has served to limit systemic political and economic risk, despite a range of structural problems. The global economic crisis, particularly the sharp fall in oil prices in mid-2008, pushed the economy into a modest recession, but a domestic crisis was avoided.



ZIMBABWE

Land locked?

The power-sharing government established in February 2009 between Robert Mugabe's ZANU-PF and Morgan Tsvangirai's MDC appears fractious, with an absence of coherent, effective and transparent policies. The country remains estranged from IFIs and the wider international community. Land redistribution remains a core policy and many tobacco growers have been forced, often with violence, to leave their farms and agricultural output has fallen. Also, production of gold and platinum has been seriously disrupted because of power cuts and lack of inputs. Real GDP has contracted every year since 1999 and private sector business is weak.

IN BRIEF

Costa Rica Latvia

Ruling PLN candidate Laura Chinchilla won outright the presidential election held on 7 February. Q4 real GDP contracted by 17.7% yr/yr (advance estimate), calendar 2009 GDP contracted by 18.4%.

Edited by Andrew Atkinson

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