

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



INDIA

Industrious?

India continues to surprise on the upside. Industrial production grew 16.8% yr/yr in December—the most rapid growth in two decades—compared with 8.3% in June. Manufacturing was strong across the board—consumer durables, intermediate products and capital goods—providing evidence that the upswing is strong and sustainable. Official forecasts are now for 7-7.5% GDP growth in 2009 (FY April-March). However, weak monsoon rains, which reduce agriculture's contribution to overall growth, have increased inflationary pressures, thereby pointing to monetary policy tightening. Overall expect GDP growth of 7-8% in both 2009 and 2010.



GREECE

Grecian earn?

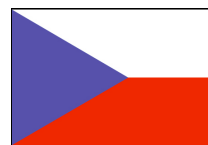
EU leaders have signalled financial support—if necessary—but without detail, as the key issue remains implementation of measures to reduce the fiscal deficit from 12.7% of GDP in 2009 to 8.7% in 2010 and 3% in 2012. The EU council this week gave Greece to 16 March to present a timetable for implementation of the 2010 measures and until mid-May for measures to achieve the 3%. EU leaders seem determined to hold together the Euro-zone, but expect the Greek economy to contract by another 1.7% in 2010 and to underperform any wider recovery beyond, as putting public finances back on track will be a long hard struggle.



VIETNAM

Balancing act

The dong exchange rate (VND) was devalued by 3.4% against the USD last week, the second move in three months and the fourth since June 2008, reflecting continued pressure from the trade balance as domestic demand picks up. Although exports, remittances and FDI should all strengthen, expect the authorities to continue to struggle to maintain an effective balance between domestic demand growth at a sufficient pace to support employment and stabilisation of the external balance. This points to further exchange rate adjustments ahead and interest rates are also set to rise further. Nonetheless, expect the economy to grow by 6-6.5% in 2010, close to target.



CZECH REPUBLIC

Euro Czech

Q4 2009 real GDP contracted by 0.6% qtr/qtr (advance estimate), after two quarters of positive growth (0.2% in Q2, 0.8% in Q3). On a yr/yr basis, GDP contracted by 3.9% in Q4 and by 4.4% in calendar 2009. Details for Q4 are not yet available but the Statistical Office reports that output growth in industry was outweighed by output drops in construction, retail trade and business services. Expect a modest recovery to about 1.5% growth in 2010. Key downside risks are posed by unemployment (9.2% at end-2009), which could forestall a recovery in private consumption, and by weaker-than-expected Euro-zone demand for Czech exports.

ALSO IMPORTANT...



TURKEY

Try on?

Industrial output grew 9% yr/yr in Q4 2009, after five consecutive quarters of decline, indicating that real GDP is likely to have shifted to yr/yr growth as well. The current account deficit narrowed by 67% to an estimated 2.3% of GDP in 2009. However, inflation picked up again to 8.2% yr/yr in January from a low of 5.1% in October 2009, although this is partly the result of tax increases. Consequently, the central bank has kept its key policy interest rate—which it cut by a cumulative 1,025bps in the year to November 2009—unchanged at 6.5% since end-2009. Expect the economy to grow by 2-3% in 2010, restrained by fiscal and probably monetary tightening.



NIGERIA

Losing Yardage?

The National Assembly approved V-P Goodluck Jonathan as acting president in the continued health-related absence of Umaru Yar'Adua. Nevertheless, expect constitutional aspects of Jonathan's elevation to be questioned and further political manoeuvring ahead of elections in early 2011. Official appointment of a leader may, however, allow last year's amnesty for militants in the oil-rich Niger delta to be strengthened. National oil output has at times been reduced by 40% because of criminal and militant activities in that area. However, expect regional and ethnic divides and very strong vested business interests to limit progress.

COUNTRY REVIEW SUMMARIES



KENYA

Rail wai men

The coalition government of President Mwai Kibaki's PNU and PM Raila Odinga's ODM is fractious, with continuing power struggles and differences limiting effective governance. A return to the violence of early 2008 cannot be discounted. The economy is relatively diversified but export earnings rely on primary products—tea, horticulture and coffee account for around 35% of receipts—and periodic drought causes volatility. An IMF Exogenous Shocks Facility of USD200mn in June 2009 helped close financing gaps but donor assistance will remain necessary. Annual average GDP growth was 6% in 2004-07 but below 2% in 2008. Expect only 1-3% in 2009 and 2010.



ROMANIA

Support work

Real GDP fell by 1.5% qtr/qtr in Q4 2009 (advance estimate), the sixth consecutive quarterly fall, leaving the economy in severe recession. On a yr/yr basis, GDP contracted by 6.6% in Q4 and by 7.2% in calendar 2009. While inflation and external liquidity indicators are now gradually improving, new risks have emerged, particularly in relation to deteriorating public finances and high external debt burden. Romania will remain dependent on the IMF- and EU-led EUR20bn financial support package currently in place. While disbursements scheduled until March appear secure, potential government instability puts future flows at risk.

IN BRIEF

Estonia

Q4 real GDP contracted by 9.4% yr/yr (advance estimate), with a calendar year 2009 contraction of 14%.

Edited by Andrew Atkinson

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