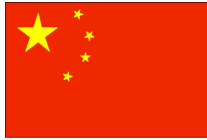


COUNTRY RISK WEEKLY BULLETIN

10 March 2010

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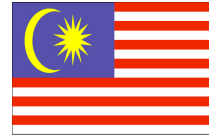
IN THE HEADLINES



CHINA

Due process?

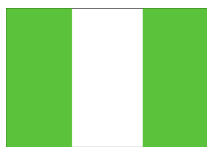
Exports were up 45.7% yr/yr (value) in February, above expectations and confirming the trend in place since December. Imports increased by 44.7%, above expectations but a slower pace than Dec-Jan. Import growth in recent months has also been accompanied by a shift towards goods for processing and re-export, in line with improving global demand. The trade surplus also narrowed in February, but this may be largely seasonal. The data comes as recent comments by the central bank governor renewed speculation over exchange rate policy. Expect any change, whenever it comes, to be very cautious, not least because the trade outlook remains fragile.



MALAYSIA

Broad way

Real GDP increased by 4.5% yr/yr in Q4 2009, after three consecutive quarters of contraction. The improvement was broadly based. Even so, calendar GDP declined by 1.7% in 2009. Following a deflationary period in H2 2009, consumer prices have picked up again, rising by 1.3% yr/yr in January 2010. Last week, the central bank switched to a cycle of cautious monetary tightening, raising its key policy interest rate by 25 bps to 2.25%. Expect solid growth of 4%+ in 2010, with H1 stronger than H2 because of significant base effects. Also expect further gradual interest rate hikes to accommodate improving economic conditions.



NIGERIA

Jus gentium?

A bout of ethnic violence in the central city of Jos raises further stability concerns—the north is largely Moslem and the south Christian—at a time of uncertainty over central governance. The latter appears split between followers of the ailing President Umaru Yar'Adua, who has not made a public appearance on his return after three months of medical treatment, and Acting-President Goodluck Jonathan. There is a risk of a power vacuum, thereby restricting policy implementation (especially in the oil and gas sector) and resolution of the ethnic fissures. Expect an intensification of political intrigues, especially as elections loom in 2011.



BULGARIA

Still on board

In contrast to most countries, the yr/yr decline in real GDP continued to deteriorate in Q4 2009, to an advance estimate of 6.2% from 5.4% in Q3. Growth of private consumption (-7.5%), government spending (-20%) and investment (-29%) were particularly weak, although export growth (-0.3%) improved. So far, the recession has been less extreme than other regional countries using a currency board. However, fiscal prudence—a board requirement—combined with stagnating credit growth may prevent an early recovery. Expect economic growth to be negligible in 2010 after -5.1% in calendar 2009.

ALSO IMPORTANT...



HONDURAS

Back to the fold?

Following President Lobo's election in November, international relations are normalising. The US, which recognised the new government immediately, more recently announced that it is to re-start suspended aid flows. The World Bank resumed financing last month and the IMF has also unfrozen USD160mn that will go to Honduras as part of the general increase in FX reserves implemented last year. FX reserves fell during the crisis but not precipitously and should be adequate with the full resumption of international finance. However, as a number of countries have yet to recognise the government, Honduras remains suspended from the OAS.



HUNGARY

HUF print

Q4 2009 real GDP contraction moderated to 4% yr/yr from 7.1% in Q3. However, GDP still contracted by 0.4% qtr/qtr, the seventh consecutive quarterly decline, and 2009 calendar GDP fell 6.3%. Inflation accelerated to 6.4% yr/yr in January 2010, spurred by higher taxes and administered prices. Nonetheless, the central bank cut its key policy interest rate by 25bps to 5.75% in February as it expects inflation to fall sharply in H2 and the HUF/EUR exchange rate has been fairly stable since mid-2009. An IMF staff mission in February reached a fairly positive assessment so expect IMF funding to continue and a small GDP contraction in 2010.

COUNTRY REVIEW SUMMARIES



SAUDI ARABIA

Oil well?

King Abdullah bin Abdel-Aziz al-Saud remains firmly in control and a tentative reform agenda is discernible, although political/social changes will only be implemented slowly. Regional stability provides a downside risk, with uncertainties relating to bordering Iraq and neighbouring Iran. The economy remains highly dependent on markets for hydrocarbons but robust external accounts in 2003-08 provided a cushion to withstand the latest global recession. Expect continuing large current account surpluses to boost net foreign assets (estimated at over USD400bn) and GDP to expand by 3-3.5% in 2010 and 2011, after contraction of around 1% in 2009.



CONGO, DR

Third World

In Africa's third largest country there are periodic outbreaks of violence in the east, large portions of the population are displaced and/or subject to ethnic violence, infrastructure is poorly developed and per capita incomes are among the lowest in the world. Export receipts derive principally from base metals (45%, including copper and cobalt), diamonds (25%) and crude oil (20%). The IMF—an Extended Credit Facility runs through to end-2012—and the wider donor community are supportive of attempts to rebuild the economy but this is from a very low base. Expect annual GDP growth of 5-6% in 2010-11, after around 1% in 2009.

IN BRIEF

GDP growth 2009 Togo

Poland: +1.7% (+3.1% yr/yr in Q4); **Slovenia:** -7.8% (-5.5% yr/yr in Q4); **Ukraine:** -15% (-7% yr/yr in Q4). Provisional results from the polls on 4 March suggest that President Faure Gnassingbé was re-elected.

Edited by Andrew Atkinson

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