

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



ARGENTINA

Swap shop

The debt swap proposals to hold-outs from the 2001 sovereign default were approved by the US regulatory authorities (SEC) at the end of last week and, according to the FM, the swap will be launched within 2-3 weeks. It remains to be seen what the take up will be, but resolution of this issue would help the restoration of international market access. Recent releases show that Q4 2009 GDP grew by 2.6% yr/yr—modest expansion of 0.9% in 2009 overall—and monthly indicators suggest that growth has been maintained in the early part of 2010. However, the central bank reserves remain an issue and the government shows little inclination to slow the growth of public spending.



LATVIA

Five fold

The five-party coalition government—that took office in March 2009 following the collapse of its predecessor after large-scale popular protests against an IMF-backed austerity programme—fell apart last week after the withdrawal of the People's Party. However, the IMF recently approved the 2010 budget and the third tranche of funding, and legislation is largely in place to ensure further disbursements until October, when an election is due. Until then, it is feasible that PM Dombrovskis will be able to run a minority government. In any event, expect any new government to be a multi-party coalition.



EL SALVADOR

Unremitting?

A 3-year stand-by arrangement was approved by the IMF, following on from the programme arranged by the previous government. A key target will be to reduce the budget deficit to 4.7% of GDP from 5.4% in 2009. A problem for El Salvador remains remittances (around 17% of GDP), which continued to fall in early 2010, having dropped in 2009 to levels last seen in 2007 and recovery of which depends heavily on the US upturn. Nonetheless, the IMF programme should underpin the dollarised economy and shows the pragmatic side of President Funes in the face of more radical FMLN elements—alongside his decision not to join ALBA, the Venezuelan-led regional grouping.

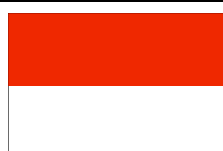


EGYPT

Mub sub?

The recent TV appearance of President Hosni Mubarak, who is recuperating after surgery in Germany, appeased some of the pressing ST political concerns, while again raising LT issues. Mubarak has not named a successor. Under the constitution, his temporary absence has been filled by the PM but in the event of the death of the head of state the parliamentary speaker holds executive powers until elections can be held. Health permitting, expect Hosni Mubarak to stand in elections next year and to win. If he is not able, expect the ruling NDP to nominate a candidate—perhaps his son, Gamal—who will ensure policy continuity.

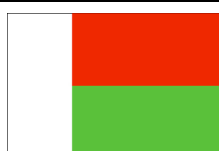
ALSO IMPORTANT...



INDONESIA

BB see

This month, S&P upgraded its long-term sovereign rating from BB- to BB with a positive outlook, just two notches below investment grade, citing growing FX reserves, a steadily improving public debt ratio and cautious fiscal policy. S&P also raised the FX debt ratings of three major domestic banks to BB, reflecting further signs of investor confidence in the economy, which has shown a remarkable resilience to the global economic crisis. Expect further rating upgrades in 2010-11 if the current political bickering over the controversial Bank Century bailout in late 2008 subsides and the economic reform agenda remains in place.



MADAGASCAR

Hey Joe!

The African Union (AU) last week imposed sanctions—largely travel restrictions and foreign asset freezes—on some political leaders, including Interim President Andry Rajoelina. The latter failed to meet a deadline to establish a unity government, reneged on some terms of a power-sharing agreement and has refused AU mediation. Do not expect a swift resolution of political and social tensions, even if Rajoelina instigates further piece-meal reforms. The AU sanctions in themselves may be of limited impact but expect the international donor and investor community to be reticent, resulting in an unfavourable business and trading outlook.

COUNTRY REVIEW SUMMARIES



UNITED ARAB EMIRATES

United states

Dubai World's debt restructuring has yet to be concluded and will represent only one step towards rebuilding confidence in the emirate and country as a whole. More corporate and economic transparency will be required and, probably, further intervention by Abu Dhabi. With the world's 6th and 7th largest oil and gas reserves, respectively, current and fiscal account surpluses and foreign assets of an estimated USD400bn, the economic outlook remains positive and provides a platform for improving Dubai's corporate governance. Expect GDP growth of the UAE to be around 3% this year, after contraction of around 2.5% in 2009 and an average of nearly 9% in 2003-08.



GABON

Ali way

President Ali Bongo, who succeeded his late father, Omar Bongo, in October 2009, appears to have control of the political elite for now, but the leadership change creates some political uncertainty. Macro-economic fundamentals, bolstered by high oil revenues in 2004-08, have remained solid, despite a modest recession in 2009 in the wake of the global economic crisis and the accompanying collapse in oil prices. Membership of the CFA franc zone provides for low transfer risk. However, the lack of economic diversification and a weak business environment pose major downside risks to sustainable, long-term growth.

IN BRIEF

India Policy interest rates were increased by 25bps on 19 March. Expect further monetary tightening this year.

Edited by Andrew Atkinson

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