

# COUNTRY RISK WEEKLY BULLETIN

7 April 2010

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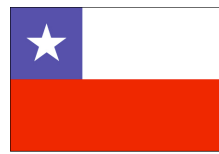
## IN THE HEADLINES



### THAILAND

#### Red alert

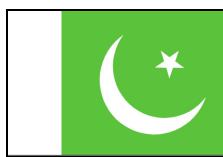
The month-long anti-government protests have intensified again after discussions between the two sides broke up without resolution last week. The red-shirt protesters of the UDD have defied a government ban to march through certain districts and disrupted a parliamentary session today, trying to increase pressure on the government to resign and hold fresh elections. Violence has been marginal, so far, but tensions are rising. Expect the partial political instability that has gripped the country since the coup in 2006 to continue. Moreover, persistence or escalation of the now deep-seated political struggle could risk the economic recovery.



### CHILE

#### Reconstruction

Real GDP will be hit in Q1 by the recent earthquake and tsunami, which affected transport, productive infrastructure, power and exports of key commodities (forestry, cellulose and fish products). Nonetheless, GDP should still expand by at least 4% in 2010 as a whole, with reconstruction supporting growth later in the year. A strong fiscal position is underpinned by savings from copper earnings—the Economic and Social Stabilisation fund amounts to USD11bn+, more than 7% of GDP—and there is a sound policy framework. The external balance remains strong, with adequate FX reserves and a floating exchange rate.



### PAKISTAN

#### Power steering

A constitutional bill could lead to a significant transfer of the levers of power away from the presidency and in favour of the premier and his government. President Asif Ali Zardari's role as head of state may become largely ceremonial—a far cry from the powers vested in former President Musharraf. Zardari may yet face corruption charges after an amnesty law was repealed last December. Current PM Yusuf Raza Gilani and the military head, General Ashfaq Pervez Kiyani, now appear to wield increasing influence, with the army seemingly content to remain outside government, at least for now. Expect political and security uncertainties to hamper trade and economic growth.



### ESTONIA

#### Strict limit?

The government took credit for a remarkably low 1.7% of GDP fiscal deficit in 2009, even though the economy contracted by 14.1%. The outturn increases the possibility of euro adoption in 2011 as it meets the required 3% Maastricht limit. Estonia also clearly meets the 60% of GDP public debt limit (7.2% in 2009) and exchange rate stability criterion. However, the two other criteria (inflation and LT interest rates) are open to interpretation as it is not clear how to handle countries with deflation. Moreover, expect the ECB and the final decision makers, the EMU finance ministers, to be cautious towards new entrants amid the current wider euro uncertainties.

## ALSO IMPORTANT...



### SUDAN

#### North-south divide

Two leading opposition parties will not contest 11 April presidential elections and may also boycott the same-day parliamentary and governorship polls. There have already been allegations of widespread electoral fraud. Expect Omar al-Bashir to retain the presidency—but perhaps not easily. However, the southern part of Africa's largest country is more focused on the January 2011 referendum and possible independence. Oil reserves are mainly in the south but existing pipelines and refineries are in the north, so a revenue-sharing deal could be brokered. Assuming Bashir is re-elected, expect attempts to delay the referendum and heightened uncertainties through 2010.

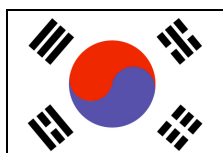


### IRAQ

#### Nouri shed?

Iyad Allawi's secular Iraqiya coalition narrowly won most parliamentary seats (91), with incumbent PM Nouri al-Maliki's State of Law bloc controlling 89. Such a close result—and allegations of electoral irregularities—suggest that a political handover will not be smooth. Expect continuing high tensions and violent disturbances. Indeed, the poll results are being contested in the courts and bomb attacks have not dissipated. Moreover, without a parliamentary majority—there are 325 seats in total—expect formation of a new government to entail much political bargaining. Against this background, the business/trading outlook remains fragile.

## COUNTRY REVIEW SUMMARIES



### SOUTH KOREA

#### Recovery mode

The economy has shown serious vulnerabilities in the wake of the global financial crisis, which initially hit the country harder than most regional peers. However, a relatively strong macro-economic position going into the global crisis allowed sufficient fiscal and monetary policy relaxation to support the economy, which has recovered fairly quickly since Q2 2009. Markets have also rebounded substantially. The KRW/USD exchange rate is back to September 2008 levels and FX reserves are up to new record highs (USD272bn at end-March). On the political front, North Korea continues to raise uncertainties in an otherwise stable environment.



### DOMINICA

#### Mini economy?

Politically stable since two failed coup attempts in 1981, this small island economy is highly vulnerable to natural disasters and external shocks. In 2009, tourism, workers' remittances and FDI were also affected adversely by global recession and GDP contracted by around 0.3% (IMF). In 2010/11, the primary fiscal surplus is likely to drop below the 3% of GDP target and care will be needed as the public debt-GDP ratio is a constraint. Monetary policy operates via a long-standing regional currency board (ECCU), which has a pooled FX reserve arrangement and the vulnerability of the peg depends on the ECCU as a whole.

## IN BRIEF

### Bolivia

President Morales' ruling Movement Towards Socialism (MAS) appears likely to have consolidated its position, following last week-end's regional and municipal elections.

Edited by Andrew Atkinson

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