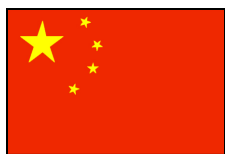


COUNTRY RISK WEEKLY BULLETIN

21 April 2010

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IN THE HEADLINES



CHINA

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Real GDP in Q1 increased by 11.9% yr/yr, driven by domestic demand as the net export contribution was negative. Both investment and consumption were strong. With property prices up 12% in March there are fears that the economy is overheating. However, inflation as measured by the CPI remains relatively low—2.4% yr/yr in March, down slightly on the 2.7% yr/yr in February—Q1 growth was boosted by comparison with a very low base in Q1 2009, credit growth has slowed and some measures have been taken in the property market. Expect the policy focus to remain fairly cautious, given probable residual concerns over sustained growth, but to lean towards tightening.



VENEZUELA

...and away

A USD20bn loan, repayable over ten years, was agreed with China—through the latter's development bank—in return for a long-term oil supply contract. China's state oil company is also to participate in a JV to develop a block of Venezuela's extra-heavy oil in the Orinoco belt. This is a further step in securing long-term commodity supplies for China and for Venezuela it will provide finance for the government and technical capacity in the oil sector, both of which are under strain. However, expect the fiscal deficit to remain under pressure, as spending continues to increase, and the government will struggle to pull the economy out of recession.



TURKEY

Present tense

Tensions between the ruling AKP—a party with roots in political Islam—and the secular establishment—including the army and the judiciary—have again increased. Many high-ranking military officers were temporarily detained in the last three months and questioned about their role in an alleged 2003 coup plot. Moreover, parliament this week began debating some 30 constitutional amendments proposed by the AKP, many of which are directed at curbing powers of the military and the judiciary. Expect the political scene to remain volatile, potentially disrupting policymaking and periodically affecting financial market confidence.



INDIA

Reserve judgement

Yesterday, the Reserve Bank of India (RBI) increased key interest rates by 25bps, with a similar increase in the cash reserve ratio. This is the second month of rate rises but is unlikely to be the last tightening move in H1, partly because the economy appears robust—the RBI increased its GDP forecast for FY2010/11 to 8% with "an upside bias". Moreover, inflationary pressures are strong, with wholesale prices (used for inflation targeting) up 9.9% yr/yr in March, although, with relatively better harvests, food price inflation should now moderate. With the current growth/inflation environment, expect a further 100bps in monetary tightening this year.

ALSO IMPORTANT...



ISRAEL

Rael way

Inflationary pressures have moderated, with consumer prices growing by 3.2% yr/yr in March—a five-month low—but they are still above an official target range of 1-3%. Excluding energy prices, core inflation increased by 2.6% yr/yr, its lowest level in more than two years. Moreover, a combination of a strong shekel and tax and regulatory measures should limit price pressures this year. Accordingly, do not expect the central bank to resort to aggressive monetary tightening, although further interest rate increases are likely—rates have risen 100bps since August 2009 but remain historically low. Against this background, expect GDP growth of 3-3.5% in 2010.



CYPRUS

Met his match

On Sunday, Turkish Cypriots elected as president the nationalist Dervis Eroglu, currently PM, with just over 50% of the vote over the pro-reunification Mehmet Ali Talat (43%), the incumbent. The victory of Eroglu, who favours independence for the self-declared "Turkish Republic of Northern Cyprus" (recognised only by Turkey), reflects voters' loss of faith in Talat's promises to end the north's isolation. A year ago, Talat's then-ruling CTP party had already lost parliamentary elections to Eroglu's UBP party. Don't expect a settlement in the short term and, indeed, reunification talks are likely to become even more difficult.

COUNTRY REVIEW SUMMARIES



EGYPT

**Nil(e)
desperandum**

Despite some uncertainties relating to President Hosni Mubarak's health and therefore to succession, systemic political stability is relatively assured, given the military's continuing strong support. Economic reforms since 2004 have addressed some structural weaknesses—encouraging FDI—and annual growth averaged over 7% in 2006-08. GDP expanded by only 3.5% in 2009, but this largely reflected the global recession and the economy is broad based (oil and gas, tourism, Suez Canal dues and workers' remittances) and well positioned to pick up on recovery in world trade and global growth. Expect GDP growth of 4.5-5% in 2010.



GUINEA-BISSAU

San castle?

Systemic political risk is very high, reflected in the assassination of then-president Vieira in March 2009 and several months of violent political turmoil thereafter. The election of Malam Bacai Sanhá as the new president in July 2009 was relatively peaceful, but he still needs to consolidate his position within the ruling PAIGC party and with the powerful military. Economic risk is also very high, with many years of unsustainably-large fiscal and current account deficits and external debt estimated at around 250% of GDP. However, membership of the CFA franc zone mitigates transfer risk.

IN BRIEF

Kyrgyzstan

Ousted President Bakiyev left the country and is currently reported to be in Belarus.

South Korea

Upgraded by Moody's to A1 from A2, with a stable outlook.

Edited by Andrew Atkinson

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