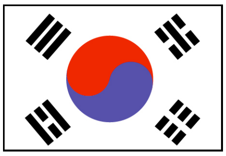
COUNTRY RISK WEEKLY BULLETIN

29 April 2010

London: David Atkinson +44 (0)20 7860 2807; Andrew Atkinson +44(0)20 7860 2577 **Hamburg:** Manfred Stamer +49 (0)40 8834 3607

IN THE HEADLINES



SOUTH KOREA

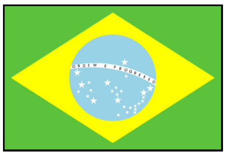
South bound?

Real GDP grew 7.8% yr/yr in Q1 (advance estimate), partly as a result of base effects as economic activity was still very weak in early 2009 in the wake of the global crisis. On a qtr/qtr basis, growth accelerated to 1.8% from 0.2% in Q4 2009, driven by strong government spending (up to +5.7% from -2.4% in Q4). Private consumption grew 0.6% qtr/qtr (0.4% in Q4) and investment 0.9% (1.6% in Q4). Exports also expanded, by 2.5%, but a stronger increase in imports (4.4%) resulted in a negative contribution to growth of net trade. Expect fiscal stimulus to moderate in the course of the year and growth of 4.5%+ in calendar 2010.

RUSSIA

Oil RUB?

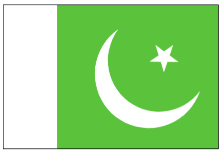
The government resumed foreign borrowing last week for the first time since the 1998 financial crisis and sovereign default, placing USD5.5bn in five-year and ten-year bonds at yields just 125-135 bps above equivalent US Treasuries. The successful return to international debt markets is supported by low public debt and the rebound in oil prices, but it also reflects a recovery from the impact of the global financial crisis, which spilled over to Russia and caused deep falls in the RUB and in FX reserves. Also expect the issue to help Russian companies, as it should reduce state crowding out on the RUB bond market.



BRAZIL

Sel up

The central bank's monetary policy committee, meeting this week, raised the policy rate (SELIC) by 0.75pps to 9.5%, the first rate increase since October 2008. The move comes after what is likely to have been very strong qtr/qtr growth of real GDP in Q1 and consensus expectations of 6% growth for the whole of 2010, allied to rising inflation (5.2% yr/yr in March and consensus expectations of 5.4% yr/yr at end-2010, above the mid-point of the central bank's target range). With presidential elections due later this year, fiscal policy is likely to remain supportive, so expect further rate rises in the coming months to prevent strong growth turning into overheating.

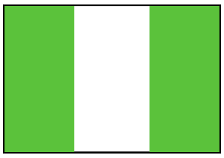


PAKISTAN

VAT ever?

The fourth tranche of IMF funds under a SBA was released in late December 2009, but the disbursement of the fifth tranche (USD1.2bn) is currently stalled because of the government's delay in complying with a Fund requirement to introduce VAT. Meanwhile, the World Bank will administer a new multi-donor fund for development in border regions of federally-administered tribal areas, Khyber Pakhtunkhwa and Baluchistan. Expect the IMF programme to regain momentum, following a Fund review in mid-May. However, also expect continuing domestic objections to a flat-rate VAT, which has inflationary implications, and domestic political uncertainties.

ALSO IMPORTANT…



NIGERIA

Wealth effect

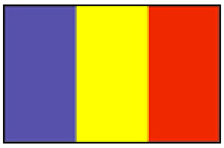
The 2010 federal budget projects a deficit of 4.5% of GDP to be financed by borrowing from the domestic economy (59% of the total), international bonds, privatisation proceeds and oil revenues—sales of crude provide over 90% of fiscal revenues. In addition, it was announced that a Sovereign Wealth Fund (SWF) will be set up, replacing the current Excess Crude Account (ECA) into which revenues from oil sales are placed when prices exceed a benchmark (set at USD67/b for 2010). With oil prices over USD80/b, the fiscal outturn may be better than projected, so expect net inflows into the SWF in 2010. However, as with the ECA, also expect any Fund allocations among respective tiers of government to be problematic.

SUDAN

Salva nation?

Official results gave incumbent President Omar al-Bashir a first win in a contested election since his 1989 coup (68% of the vote). However, the EU does not see this as providing Bashir with immunity—in 2009, he became the first sitting head of state to be indicted by the International Criminal Court for alleged war crimes and crimes against humanity. The electoral commission also declared Salva Kiir, who leads the former rebel SPLM, as head of the semi-autonomous government in the south (93% of that vote), which is scheduled to hold a referendum in January 2011 on secession. Expect the latter vote to be in favour of a split but do not expect a smooth transition.

COUNTRY REVIEW SUMMARIES



CHAD

Neighbourhood watch

Systemic political risk is very high. An insurgency in the east continues to pose a threat to security, even though a major rebel group was defeated in May 2009. Moreover, relations with neighbouring Sudan have been very poor since 2003. The Darfur crisis has had an increasingly destabilising impact on Chad as refugees from that region in Sudan's west have been migrating into eastern Chad. Political instability, combined with the suspension of World Bank funding as a result of alleged misuse of oil revenues, caused a sharp economic downturn. Annual average growth declined from 13.1% in 2001-05 to -0.6% in 2006-09.

SYRIA

Ba'ath room

President Bashar al-Assad and the Ba'athist party appear firmly in control, so do not expect significant domestic political reforms in the ST. Moreover, despite some recent thawing in relations with the west, do not expect rapid diplomatic and trade integration. Iran remains a key ally. Agriculture and industry account for around 15% and 30% of overall GDP, with the oil sector (output appears to have stabilised at around 398,000bpd) generating 40% of export receipts. Tourism provides further FX-generating potential. Expect GDP growth of around 3% this year (relatively good harvests) and 4% in 2011.

IN BRIEF

Hungary	As expected, the opposition Fidesz party secured a two-thirds majority in parliament after second-round elections.
Lithuania	Q1 real GDP contracted by 2.9% yr/yr and 4.1% qtr/qtr.

Edited by Andrew Atkinson