



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: €750BN > EURO-ZONE SUPPORT PACKAGE

▶ Euro-zone: Support package unveiled

The EU has unveiled a huge EUR750bn financial package to stabilise the euro-zone and prevent seizure of financial markets. The package includes EUR440bn through a three-year emergency funding facility backed by loan guarantees from Euro-zone countries plus Sweden and Poland, EUR60bn through an EU-wide balance of payments facility and up to EUR250bn of IMF resources, available under existing facilities on a case-by-case basis. In co-ordination, the ECB has begun to purchase bonds and provide liquidity, while the US Fed has also provided support by re-opening swap lines with various central banks. The initial market response was very positive and the package should be sufficiently large to provide breathing space, though governments will still need to implement stringent deficit reduction measures where necessary.

▶ US: Jobs report confirms strengthening recovery


In perhaps the most significant sign of strength in the economy to date, the April jobs report contained plenty to demonstrate an accelerating recovery. Payrolls grew by 290,000 jobs, above expectations of 200,000. Revisions for the previous two months added another 121,000 jobs. This was the fourth consecutive month of job growth, and the fifth in six months. Although unemployment rose to 9.9% from 9.7%, there was good news here as well, as the improvement in hiring conditions was so strong that it encouraged 805,000 unemployed workers to start looking for jobs. The report provided further evidence that the economy is recovering quicker and with more certainty than expected. Friday, look for retail sales and industrial production data.

▶ China: Return of trade surplus

The trade balance returned to surplus in April, though it was much smaller at USD1.6bn than a year earlier. Exports were up 31% yr/yr and imports by 50% yr/yr. Inflation moved higher in April to 2.8% yr/yr, broadly in line with expectations, and can be expected to move higher in the next few months, but it is not taking off rapidly as yet. Bank lending rebounded after the sharp fall in March. The trade balance could strengthen arguments against exchange rate appreciation, but some form of slow upward movement still seems likely, partly for international reasons but also as part of what is likely to remain a cautious approach to policy tightening, with the emphasis for the time being on property prices.

▶ Nigeria: Death of President Yar' Adua

Following the death of Umaru Yar' Adua—largely absent from November 2009—acting president Goodluck Jonathan was sworn in as head of state, resolving some leadership concerns. However, though Jonathan has pledged to focus on electoral reform, limiting corruption and restoring stability in the oil-producing Niger Delta region, he is unlikely to be able to implement substantial reforms, given strong vested interests, particularly within the ruling PDP. Expect a Moslem northerner to be appointed deputy president—there is a power-sharing convention—in the government that will serve until May 2011 at the latest, when the unexpired presidential term ends. As yet, Jonathan has not expressed his intentions to run next year, but expect him to do so.

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► **Mediterranean countries & Africa – *Morocco: Continued growth***

Q1 2010 real GDP growth was 4.6% yr/yr, with the non-agricultural sector providing the main stimulus (5.1%). Last year, the economy exceeded expectations by growing by a revised upwards 5.2%. Partly because of such evidence of resilience to adverse external effects, rating agency S&P this March upgraded its sovereign assessment to investment status. However, agriculture (16% of GDP and around 40% of the workforce) is largely rain-fed and output volatility feeds through to household incomes and private consumption. We expect a weak agricultural contribution to overall growth in 2010, but, nevertheless, even with relatively low growth in Europe—around 50% of Moroccan exports and source of important workers' remittances—GDP should grow by around 3.5-4% this year.



► **Americas – *Colombia: FCL and presidential elections***

The government has renewed its one-year USD3.5bn flexible credit line (FCL) with the IMF. The FCL is precautionary but provides a useful bulwark against further global financial stress and underscores the relatively sound policy framework (the FCL does not carry policy conditionality). The presidential election—first round 30 May—is very tight, as Antanas Mockus of the Green Party, a political outsider and former mayor of Bogota, has emerged as a leading contender. In contrast to expectations a few weeks ago that Juan Manuel Santos, the chosen successor of popular incumbent, President Uribe, who cannot run in this election, would win comfortably, recent polls show little between them. It remains to be seen if Mockus can maintain momentum, but a run-off in June looks likely.



► **Asia-Pacific – *Indonesia: Strong Q1***

Q1 real GDP growth was 5.7% yr/yr (5.4% Q4 2009) led by a strong 7.9% increase in investment and a solid 3.9% expansion of private consumption. Government spending dropped by 8.8%, as the fiscal stimulus in early 2009 provided a strong base. There was a small negative net foreign trade as soaring imports (22.6%) outstripped the surge in exports (19.6%). Inflation picked up to 3.9% yr/yr in April from 2.8% at end-2009 but the central bank kept its key policy interest rate on hold at 6.5% last week. The resignation of finance minister Sri Mulyani Indrawati, a credible fiscal reformer who will take up a senior position at the World Bank, could slow reform implementation, but do not expect a major policy shift.



► **Europe – *Estonia: Rate of contraction easing***

Real GDP contracted by 2.3% yr/yr in Q1 (advance estimate), an improvement from the 9.5% fall in Q4 2009 but still the ninth consecutive quarter of decline. Output increased in agriculture and most industrial sectors except construction, the sharp decline of which still caused the industrial sector as a whole to shrink by 1%. Value added contracted in all major service sectors other than real estate, renting and business-related services. Meanwhile, seasonally and working-day adjusted GDP shrank by 2.3% qtr/qtr in Q1, after growing at the same rate in Q4 2009. Following 10 months of deflation, consumer prices increased significantly by 1.7% yr/yr in March and 2.9% in April, partly due to higher energy costs.

Worth knowing

► **UK**

After the general election on 6 May left none of the major parties with an outright majority, a formal coalition-government—the first in peacetime for 70 years—of Conservatives and Liberal Democrats has taken office.

► **Philippines**

Benigno "Noynoy" Aquino, the favourite, leads by a wide margin in Monday's presidential election with about 80% of votes counted.

► **Latvia**

Q1 real GDP shrank 6% yr/yr (advance estimate), but grew by 0.3% qtr/qtr (seasonally adjusted) after eight quarters of decline.

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