26 May 2010

In the Headlines

FIGURE OF THE WEEK: 13.3% > TAIWAN'S Q1 GDP GROWTH

Taiwan: Rapid Q1 growth, but from low base

In Q1, real GDP growth was even stronger than expected at 13.3% yr/yr, up from 9.1% yr/yr in Q4 2009. The official projection for 2010 was increased to 6.1% from 4.7% previously, although this still looks on the low side as it implies GDP will contract over the next three quarters. Even if growth remains flat, full year growth should exceed 7%. However, the very rapid y/yr pace in Q1 is largely a result of the low base from a year earlier and is likely to moderate quite quickly, as the rapid pick up in investment fades and wages remain under pressure and temper private consumption growth. Nonetheless, industrial production growth in April, although slowing, remained strong in key export sectors such as electronics.

Mexico: Export-led growth

Real GDP increased by 4.3% yr/yr in Q1. Output declined marginally on a seasonally adjusted qtr/qtr basis by 0.35%, but this followed two relatively strong growth quarters (2.42% and 1.93%). Exports appear to be leading a recovery in manufacturing, but domestic demand still remains weak—unemployment continued to rise in April, by more than had been expected. Unsurprisingly, the central bank left policy interest rates unchanged again last week, at 4.5%, probably helped by a decline in inflation in the first half of April. Nonetheless, services continue to show signs of recovery, which may point to some increase in domestic consumption. With US growth expected in 2010, exports should continue to provide momentum and real GDP should grow by around 4% this year.

Kuwait: Fiscal strength based on oil

The budget surplus for FY 2009/2010 (ending 31 March) was USD28.2bn (around 20% of GDP), representing the 11th consecutive year of windfall. Total revenues of USD61.8bn included USD58.1bn (94%) from oil and were over 120% higher than initial projections, which were made on the assumption of an oil price of only USD35/barrel (around one half the actual average for the year). Expect fiscal conservatism to prevail going forward. Also expect the current exchange rate regime of a peg to a basket of currencies to be maintained and GDP to expand by 3-4% this year, after contraction of 1-2% in 2009.

Lebanon: Continuing recovery, but still fragile

Positive economic data in Q1 (remittances and inflows up 65% yr/yr, aggregate number of tourists up 32% and exports up 12%) suggest that GDP growth will be 5-6% this year, after 6-7% in 2009, driven largely by the service sector and inward investment. In turn, this indicates an easing in domestic political tensions and in regional concerns. Nevertheless, the economy remains hampered by a large annual fiscal deficit (8-10% of GDP) and public debt (130-150% of GDP) and by the high cost of credit. Moreover, regional risk factors continue to weigh heavily on medium- to longer-term outlooks.

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Countries in Focus

Mediterranean countries & Africa – *Ethiopia: Clear electoral victory for the ruling EPRDF, but unease at the process*

Final results from the federal and regional elections on 23 May have yet to be released. However, according to electoral officials, the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) already has 499 out of 536 seats so far declared, compared with 372 seats in the previous 544-seat legislature. Although international monitors declared the polls as peaceful—around 200 died in violence related to the 2005 elections—and well organised, allegations of electoral malpractice were widespread. Incumbent PM Meles Zenawi is unlikely to introduce radically-different policies during his next term. Expect western powers to remain supportive, including financial aid, as Ethiopia is a key regional ally in the fight against militant Islamism, particularly in neighbouring Somalia.

Americas – *Trinidad & Tobago: Snap election defeat*

In a snap election—called two years before necessary—PM Patrick Manning and the ruling People's National Movement (PNM) were defeated by a five-party opposition coalition, led by the UNC. Preliminary results give the opposition coalition 29 of 41 seats, a comfortable majority, following a very large swing on what seems to have been a high turnout. The new PM will be UNC leader Kamla Persad-Bissessar, who will also become the first woman to lead the country, and will have a clear mandate to implement policies, although broad continuity can be expected. PM Manning's decision to go to the polls early, seemingly in an attempt to wrong-foot the opposition, has backfired and it remains to be seen if he will remain as party leader.

Asia-Pacific – *Pakistan: Inflationary pressures*

Consumer prices increased by 13.3% yr/yr in April. This suggests that interest rates will not be eased in the ST—the main policy rate was left unaltered at 12.5% at a 24 May meeting—as the central bank previously announced that cuts will not be made until inflation falls below 10%, which now seems unlikely as wholesale prices have been increasing more rapidly than consumer prices and will filter through the system. Additionally, the government is committed under its IMF support programme to reduce the budget deficit after over-running in FY2009/10 (around 5.2% of GDP) and VAT is scheduled to be introduced in mid-year, thereby exacerbating inflationary pressures. Reducing the fiscal deficit is required to maintain IMF support—the Fund recently released a further USD1.1bn tranche.

Europe – *Slovak Republic: Upturn ahead of elections*

The economy returned to yr/yr growth in Q1 as real GDP increased by 4.6%, according to "flash" estimates. Growth was also positive on a qtr/qtr basis for the second consecutive month, although it slowed to 0.8%. Exports (in nominal terms) also continued to rise rapidly in March at 19% yr/yr, a faster pace than imports, which were up 14.5%. These data are consistent with growth forecasts of around 2.5% for 2010. Meanwhile, parliamentary elections scheduled for 12 June are drawing closer and, despite a sharp economic contraction in 2009 of -4.7%, recent opinion polls give incumbent PM Robert Fico and his party, SMER, a strong lead, although he will still most probably need to form a coalition government.

Worth knowing

Other Q1 Real GDP

Japan: +1.2% qtr/qtr (the fourth consecutive quarterly expansion) and +4.2% yr/yr (seasonally adjusted).

Venezuela: -5.8% yr/yr, with the oil sector down 5%. Imports fell sharply as tightened currency controls rationed dollars.

North Korea

Tension escalated following retaliatory action by South Korea against the alleged sinking of a ship by N. Korea, but UN action is more likely than outright bi-lateral military conflict.

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