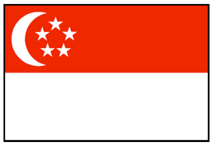
COUNTRY RISK WEEKLY BULLETIN

6 January 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



SINGAPORE

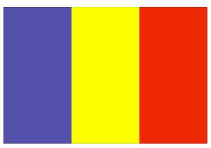
Seasonal greetings

Real GDP expanded by 3.5% yr/yr in Q4 (advance estimate), partly as a result of a base effect as economic activity collapsed at the end of 2008. However, on a qtr/qtr, seasonally-adjusted annualised basis, real GDP contracted by 6.8% in Q4, which appears to be also subject to base effects as it can be seen as a correction of unsustainably rapid growth in Q2 (21.6%) and Q3 (14.9%). The main culprit was manufacturing, which contracted by 38% qtr/qtr after a 30% surge in Q3—largely because of volatile output of bio-medical products. All other major sectors continued to grow. Expect GDP growth of around 4% in 2010 after a 2.1% decline in calendar 2009.

VIETNAM

Twin pressures

Official estimates put 2009 real GDP growth at 5.2%, implying a strong Q4 yr/yr (almost 7%) continuing the recovery. The government target for 2010 is 6.5%. However, the authorities face a delicate policy balancing act, steering between overheating from fiscal and monetary stimulus—with a consequent threat to the balance of payments, particularly if export growth is less than expected, as Vietnam has a substantial trade deficit—while avoiding too rapid tightening. There is some risk that growth will exceed target and inflation will accelerate, followed by another lurch to rapid tightening to alleviate exchange rate pressure.



ROMANIA

First Base

After his narrow re-election was confirmed by the Constitutional Court in mid-December, President Basescu nominated the incumbent PM Boc to form a new government. Boc had led a caretaker administration from October, when his previous coalition government collapsed. Boc's new government was confirmed on 23 December with the support of his DLP, the ethnic Hungarian UDMR and, crucially, independents whose number increased after several opposition MPs deserted their parties. Expect the new government's priority to be to pass a credible 2010 budget and thereby unlock IMF funding, suspended in October.

YEMEN

Menace?

The Christmas Day Detroit airliner plot brought the activities of al-Qaida in the Arabian Peninsula (AQAP) to a wider audience and raised concerns relating to Yemeni statehood. However, the country's problems—a lawless hinterland, Houthi insurgency in the north, succession demands in the south, declining oil output and dwindling water supplies—are long standing. Expect additional international support for the Sanaa-based government but AQAP to remain a potent threat to regional stability (the Yemen-Saudi Arabia border is lengthy and porous) and to international terrorism.

ALSO IMPORTANT…

INDIA

Tel tale

Plans to divide Andhra Pradesh to create an additional state, Telangana, have caused some concerns and refocused risks to political rather than economic factors. Firstly, formation of Telangana was not supported by all in the state legislature and the future of Hyderabad—capital and an IT hub—remains uncertain. Secondly, other ethnic and regional groups are likely to seek state status. Thirdly, other groups—principally Maoists in central regions—are likely to be more vocal and, perhaps, militant in their demands. Additionally, long-running border disputes exist with Pakistan and China. Expect a stronger economy in 2010 but mounting political/social pressures.

CROATIA

Inter Milan and…

The candidate of the main opposition SDP, Ivo Josipovic, won the first round of presidential elections on 27 December (32.4% of votes) and faces a run-off against Milan Bandic (14.8%), a former SDP member turned populist. The relatively poor showing of Andrija Hebrang (12%), the ruling HDZ's nominee, has added to party uncertainties. Former PM Sanader was expelled from the centre-right HDZ after challenging the leadership of PM Kosor, who succeeded him just six months ago. HDZ infighting continues to threaten to bring down the coalition government, which holds 82 out of 153 seats and relies on minority parties.

COUNTRY REVIEW SUMMARIES

UNITED ARAB EMIRATES

New World?

The surprise announcement at end-2009 that Dubai World was seeking a six-month debt standstill and restructuring raised uncertainties and re-emphasised a lack of corporate transparency. Although intervention by Abu Dhabi appears to have avoided outright default, the effectiveness of economic management in a country seeking to be a major financial player, as well as a regional commercial/ trading hub, was called into question. Expect some adverse impact on private capital inflows but GDP of the UAE still to expand by around 3-4% this year, after contraction of around 2.5% in 2009. However, Dubai itself may remain in recession and further corporate stress is expected.

BELIZE

Totally tropical

The economy depends on tourism, shrimp and lobster farming, agriculture and limited oil production and is vulnerable to tropical storms. Real GDP, after contracting in 2009, should grow, but only modestly (1.5%) in 2010, with a low inflationary environment. The fiscal deficit and the public debt-GDP ratios have been reduced but remain high and have increased in the downturn. Monetary policy is geared to the pegged exchange rate. The current account deficit is a large 6.5-7% of GDP. FX reserves are adequate and external debt ratios have improved. The next elections are scheduled for 2013 and the government has a parliamentary majority.

IN BRIEF

Oil prices Benchmark Brent USD80/barrel (USD62.7/b year average in 2009, USD98.5/b year average in 2008).

Edited by Andrew Atkinson

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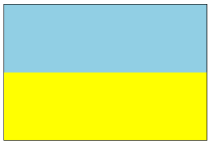
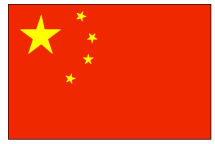


UKRAINE

Only be one Viktor?

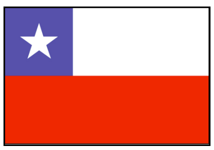
Viktor Yanukovych, whose contested victory five years ago was overturned by the Orange Revolution, has made a remarkable comeback, winning the first round of presidential polls (35%). Former leaders of the Orange revolution (but now bitter opponents) PM Yulia Tymoshenko (25% and due to face Yanukovych in a 7 February run-off) came second and incumbent President Viktor Yushchenko fifth (5%). The result probably largely reflects disenchantment with fractious government and the perceived failure to deliver by the Orange politicians. Against the backdrop of recession, Tymoshenko faces an uphill struggle to win over defeated candidates' supporters.



CHINA

Tightening up?

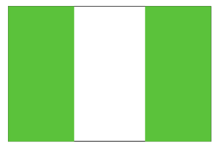
Lat week, the central bank signalled its intent to curb the ultra-loose monetary policy in place for most of 2009 by raising bank reserve requirements by 50bps. The bank also allowed yields on 12-month bonds to rise. This move, which came earlier than expected, probably also presages interest rate increases in the coming months, although serious tightening will be reflected in loan demand targets and possibly the reintroduction of credit quotas at some point. However, expect the authorities to remain fairly cautious until sustained export growth is firmly entrenched. Also, expect strong Q4 GDP growth figures this week.



CHILE

Pinning their hopes?

Sebastian Pinera of the centre-right Coalicion por el Cambio won the presidential election run-off last Sunday against Eduardo Frei of the ruling Concertacion Coalicion, with 52% of the vote. This ends 20-years of centre-left coalition rule and came about despite outgoing President Bachelet's own high popularity ratings, which failed to rub off on Frei. The switch to a centre right executive is unlikely to herald a major shift in economic policies and, in any event, the Coalicion does not have a majority in either house of congress and will need to negotiate with the opposition. One area of change could be to allow private sector involvement in state copper producer Codelco.



NIGERIA

Good luck

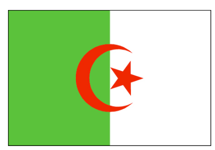
A federal court ruled that Vice-President Goodluck Jonathan can exercise executive powers in the health-related absence of President Umaru Yar'Adua. However, no formal transfer of power is envisaged and this raises uncertainties. It is an unwritten rule that the presidency rotates every two terms between the north and south and incumbent Yar'Adua is from the former and Jonathan the latter. Expect elements within the ruling PDP to continue strategic manoeuvres ahead of a potential handover but, with recent violent ethnic clashes in Jos and continuing security problems in the oil-rich delta region, expect a politically challenging 2010.

ALSO IMPORTANT…

VENEZUELA

Multi-faceted

The bolivar was devalued and a two-tier official exchange rate created earlier this month. The move was not unexpected, although it is the first devaluation in four years. Importantly, it will ease fiscal pressures by raising oil revenues in local currency. Lowering the real exchange rate will have little impact on exports, as non-oil exports are only 10% of the total (10%) but inflation will accelerate (already 25%). With legislative elections in September this year, it looks like the government may be hoping that maintaining public spending on basics will outweigh the impact of inflation on the result—one foreign-owned supermarket chain was nationalised this week allegedly for price speculation.

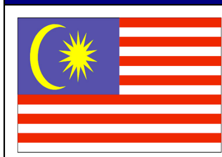


ALGERIA

Son-in-law?

The chief executive and other senior officials of Sonatrach, the state oil company, are being investigated following allegations of corruption. Do not expect this to interrupt the company's daily operations—Sonatrach accounts for around 95% of export receipts—but management disruption could delay some policy initiatives. Moreover, there may be a political dimension to this issue and it could lead to changes in government personnel. While all this raises uncertainties and weak oil prices from Q4 2008 to Q3 2009 reduced FX earning capacity, the economic fundamentals remain relatively strong. Expect GDP growth of around 4% in 2010.

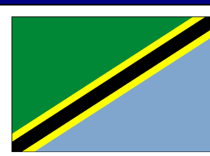
COUNTRY REVIEW SUMMARIES



MALAYSIA

Raz(or) edge?

Rising ethnic-religious tensions and growing public resentment with the long-ruling BN coalition have been disturbing the political status quo for some time. The opposition has strengthened, but expect the BN under Najib Razak, PM since April 2009, to retain power for now. The global financial crisis affected adversely the export-dependent economy—real GDP contracted by around 4% yr/yr in Q1-Q3 2009 and public finances have deteriorated—but macro-economic fundamentals have remained sound overall and monetary policy has been appropriate, allowing an early recovery. Expect real GDP growth of around 3% in 2010 after -2.2% in 2009.



TANZANIA

On the map

The semi-autonomous Zanzibar islands remain a focus of political and security uncertainty and perceptions of corruption remain high. Nevertheless, expect Jakaya Kikwete and the ruling Chama Cha Mapinduzi party to triumph in presidential and parliamentary elections by end-2010 and policy continuity to prevail. Annual average GDP growth of 7% (2002-08) reflects sound economic management and sustained support from the wider donor community. Current high gold prices have increased revenues from the key export sector and the economy should get a boost through the regional common market. Expect GDP growth of around 5.5% in 2010.

IN BRIEF

Croatia	Ivo Josipovic was elected president in a run-off on 10 January.

Edited by Andrew Atkinson