COUNTRY RISK WEEKLY BULLETIN

2 December 2009

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IN THE HEADLINES

UAE

Uncertain world

The announcement that two flagship companies (Dubai World and its real estate subsidiary Nakheel) are seeking a six-month standstill on debt as a first step towards restructuring was a shock. This action sent the cost of insuring Dubai's debt against default soaring. Estimates of Dubai World's liabilities range from USD22-59bn, with the element to be restructured believed to be towards the bottom of this range. A perceived lack of transparency and uncertainties as to the status of the debt and level, if any, of government support sent adverse ripples across the global economy. Expect a restructuring agreement to be forged but investor confidence in the Gulf to be dented.

INDIA

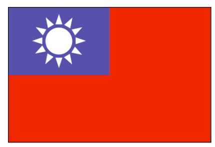
On the up...and up?

Q3 GDP data surprised on the up side, with overall economic growth of 7.9% yr/yr, after 6.1% in Q2. Significantly, a key driver of expansion was manufacturing (9.2% yr/yr). Services, boosted by counter-cyclical public spending boosts, also grew strongly and even agriculture recorded a positive contribution, despite weak monsoon rains. Expect the latter to have a negative impact on agricultural output in Q4 figures and final quarter growth to be below that of Q3. Nevertheless, expect overall growth this year to be around 6%, aided by a large domestic market and effective policy reaction, with 7-8% possible in 2010, but also monetary tightening.

HONDURAS

Lobo lobby

The presidential elections were won comfortably by opposition candidate Porfirio Lobo (52% to 36% for his nearest rival) and, importantly, on a turnout of around 62% (above 2005). Crucially, the US has recognised the elections, though with the caveat that it is only a step towards normalisation. This will require the formation of a national unity government, a congressional decision on the return of ousted president Zelaya (the debate starts today and is likely to decide against) and the establishment of a Truth Commission. Expect Lobo to pursue all of these as he tries to broaden approval of his election to moderate Latin American governments and the EU, among others.



TAIWAN

Not wanting?

Q3 real GDP data released last week suggest that the economy has turned the corner with growth of 2% qtr/qtr and a slowdown in the yr/yr pace of decline to 1.3%, better than expected. Net exports made a positive contribution to growth and, importantly, this reflected continued growth of exports. Household consumption picked up more momentum and gross investment was positive for the second successive quarter. Expect growth of 4.5% in 2010 (-3.5% 2009) as global demand continues to recover, but high unemployment levels and limited scope for further fiscal spending may leave domestic demand growth fragile.

ALSO IMPORTANT...

VIETNAM

Ding dong

Last week the dong exchange rate (VND) was devalued again, by just over 5%, and the policy interest rate was raised from 7 to 8%. The government has also announced that it will end early a key economic stimulus programme of subsidised loans. The problem is that, unlike other Asian economies, it is running both a fiscal and current account deficit and a return to strong growth, not led by exports, leads to deterioration in the trade balance (evidenced in recent months). FDI disbursements are in line with expectations, but this is not enough to avoid pressure on FX reserves. Whether or not this devaluation holds will depend a lot on the pace and sustainability of the global recovery.

NAMIBIA

Amba light?

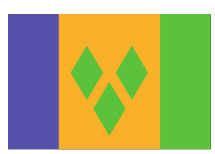
Parliamentary and presidential elections were held at end-November. Previous polls in 1994, 1999 and 2004 indicated an effective (if not fully developed) democracy. Official results are not yet through but expect the ruling SWAPO to retain a majority, with ease, and President Hifikepunye Pohamba to be re-elected for a second and constitutionally final term. Nevertheless, expect social issues (high income inequalities, unemployment and poverty) and current economic woes (Q1 GDP contracted by 12.4%) to provide challenges going forward. With tentative signs of economic recovery in South Africa, expect GDP growth of around 2% in 2010.

COUNTRY REVIEW SUMMARIES

SOUTH AFRICA

Jacob's ladder

ANC leader Jacob Zuma was sworn in as state president in May 2009. Initial concerns relating to a fundamental change in policy direction have so far been largely unfounded. Indeed, Zuma emphasises that the recent sound—perhaps conservative—market economics will remain the basis for policy. Economic data have been generally good, although current account—and now fiscal—deficits require careful management. Q3 GDP data indicated that economic recovery is underway, with positive growth after three consecutive quarters of contraction. Expect GDP growth of 3% in 2010, following outright contraction of 1.6% this year.



ST VINCENT & GRENADINES

Unremitting vulnerability?

Heavy dependence on tourism and remittances make the economy highly vulnerable to recession in the US and other major economies. High public debt ratios are a serious concern and the fiscal deficit will widen in 2009-10. The current account is large and less than half covered by net FDI. As a member of ECCU, the exchange rate depends on trends among all the eight member states. The peg has been in place for 28 years but is not without risk owing to chronically large current account deficits and very high public debt ratios. Systemic political risk is moderate.

IN BRIEF

URUGUAY As expected, Jose Mujica (ruling Broad Front coalition) won the second round run-off in the presidential elections.

Edited by David Atkinson

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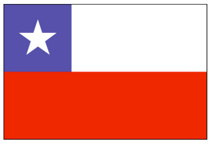
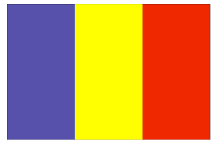
IN THE HEADLINES



CHILE

Right on the night?

Presidential elections will be held on Sunday. Right-wing opposition candidate (Coalicion por el Cambio) Sebastian Pinera is the front-runner, ahead of former president Eduardo Frei of the ruling Concertacion, despite incumbent president Bachelet's popularity. A third candidate, independent Marco Enriquez-Ominami, has been gaining ground so a run-off—between Pinera and Frei—is likely on 17 January, which Pinera should be well placed to win, ending two decades of centre-left rule. It remains to be seen if a judge's ruling that Frei's father (a former president) was poisoned by individuals associated with the Pinochet regime will have a significant impact.



ROMANIA

Base case?

Incumbent President Basescu was declared winner in Sunday's run-off presidential election, with 50.3% of the vote. His challenger, Geoana (49.7%), has formally contested the outcome at the Constitutional Court because of alleged polling irregularities. Expect the close result to prolong the political deadlock that began in October, when the government collapsed. A key task of the next president will be to appoint a new PM. Basescu has so far refused to nominate a candidate outside his former DLP party, although the latter now faces a determined opposition in parliament. The paralysis has caused the IMF to suspend aid funding for now.

BOLIVIA

Evo-lasting?

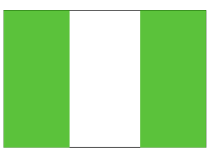
Preliminary results of the presidential election last Sunday show that President Evo Morales has won another term by an overwhelming margin—63% of the vote and 36pps ahead of his nearest rival. His MAS also won majorities in both houses of congress. Whether or not this will be used for further constitutional reform to end term limits or if he will interpret the constitution as permitting him another term anyway, as has occurred elsewhere with radical-left leaders, remains to be seen. Regardless, expect such a clear mandate to reinforce the development of the president's radical-left agenda, although the country's deep social and regional divisions remain unresolved.

TURKEY

Seasonal fare

Fitch upgraded its LT sovereign rating by two notches to BB+ from BB-, citing relative resilience to the global financial crisis, as well as easing inflation and external financing risks. Although facing a deep recession—expect real GDP to contract by 6% in 2009—a BOP or domestic financial crisis has so far been avoided. Inflation fell to a record low 5.1% yr/yr in October, although it picked up again to 5.5% in November. More negatively, public finances have deteriorated. Expect policy stimulus to push the fiscal deficit to 7.5% of GDP in 2009 and 6% in 2010. Moreover, the gross external financing requirement remains high at around USD120bn in 2010.

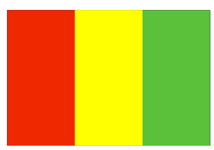
ALSO IMPORTANT…



NIGERIA

Tale of two…

President Umaru Yar'Adua was flown to Saudi Arabia for medical treatment, said to be related to an acute inflammation around the heart. His health has been under scrutiny for some time but Yar'Adua's current absence has led to calls for his resignation by opposition forces and even some from within the ruling party. Nigeria has the continent's largest population and is Sub-Saharan Africa's principal energy producer, so political uncertainties have a wider significance. Expect some political manoeuvring as candidates attempt to gain a competitive edge for a potential challenge and for this to interrupt the flow of policy implementation. Expect a politically-challenging 2010.



GUINEA

…(missing) presidents

The head of state, Moussa Dadis Camara, was flown to Morocco for urgent medical treatment after allegedly being shot by the head of his presidential guard, Abubakar Toumba Diakite. The latter has been accused of leading the forces that opened fire on demonstrators in September, an action that brought international rebuke and may yet lead to a trial at the International Criminal Court. Guinea is already subject to AU and ECOWAS sanctions as it reneged on promises for elections following a coup last December. Expect a strained political environment and uncertain trading conditions in the world's second largest bauxite producer.

COUNTRY REVIEW SUMMARIES

PHILIPPINES

Phoon bill

Real GDP growth fell to 1% qtr/qtr in Q3 from 1.7% in Q2 (revised down from 2.4%), but this was partly as a result of the impact of strong typhoons in September. On a yr/yr basis, the economy expanded by 0.8% in Q3, the same as in Q2 (revised down from 1.5%). Inflation picked up to a six-month high of 2.8% yr/yr in November as the storms affected agricultural production and pushed up food prices. Overall, however, the economy has shown notable resilience to the global economic crisis and it has avoided recession. Solid remittances have maintained a current account surplus and the PHP/USD exchange rate has remained remarkably stable.

MALAWI

O Kay?

President Bingu wa Mutharika and the ruling DPP won clear renewed mandates to govern in May 2009 elections, which should enable policy implementation to gather pace, although expect some political uncertainties to remain evident. South Africa is the largest trading partner but China is becoming an increasingly important source of funding. Despite external debt relief, the economy is aid dependent but the IMF and wider donor community remain supportive. With good rainfall and a record tobacco harvest, GDP growth was 10% in 2008. Expect 7-8% in 2009 and, with uranium exports on-stream from the Kayelekra mine, 5-7% in 2010.

IN BRIEF

Sovereign ratings	**Greece**: Fitch downgraded to BBB+ (negative outlook).

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IN THE HEADLINES

UNITED ARAB EMIRATES

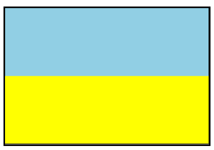
Dhab hand?

This week's USD10bn facility from Abu Dhabi is designed to assist Dubai—a fellow emirate within the federal UAE—to undertake an orderly restructuring of its debts. In effect, Abu Dhabi is attempting to ensure that a corporate crisis in Dubai does not become a sovereign one for the UAE through collateral damage. It will probably expect a political return, as well as a financial one. Dubai has already pledged reforms, including a legislative insolvency framework. As a result, expect the business environment to improve in the LT but corporate losses and continuing uncertainties to persist in the ST. Regional markets recovered on the announcement but investors will remain wary.

MEXICO

On reform

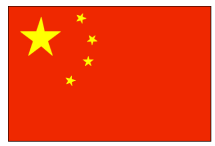
President Felipe Calderon proposed a series of political reforms to congress. The key elements of the bill are the introduction of a second-round run-off vote for the presidential elections, the re-election of members of congress and local officials (currently limited to a single term) and a reduction in the number of seats in both houses of congress. Significantly, the proposals do not include a second term for the president. The proposals should improve the functioning of the system, but they require constitutional amendments before implementation and must be approved by the opposition-dominated congress. Expect a long, drawn-out debate.



UKRAINE

(Not laughing) gas

In November, the IMF suspended the fourth tranche of funding (USD3.8bn) under the USD16.5bn two-year Stand-By Arrangement agreed a year ago, following the adoption of a bill to raise public sector wages and pensions, which it strongly opposed. The government, which has not yet implemented the law, is now seeking a USD2bn emergency loan in order to pay salaries, pensions and imported gas from Russia. However, the IMF is unlikely to give in without withdrawal of the bill. There is now a serious risk that the government will soon run out of money and another European gas-supply crisis could also emerge in early 2010.

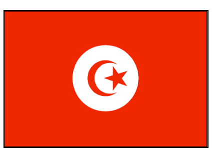


CHINA

Mixed bag

Economic data released last week were mixed. Imports rose sharply, but exports fell 1.2%. Retail sales eased slightly but were still the second strongest in some months, although consumption is still underpinned by government support for key sectors (autos and electronic appliances). Investment growth appears to have slowed sharply—although it remains strong. November consumer prices increased yr/yr, after falling for much of 2009. Property prices are becoming a concern for policymakers and the State Council has announced plans to increase the supply of low-cost housing.

ALSO IMPORTANT...



TUNISIA

Ben edict?

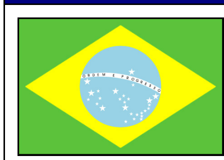
Reports suggest that President Zine al-Abidine Ben Ali was recently prescribed bed rest. Ben Ali has been head of state since 1987 and health concerns have implications for succession and policy continuity. The president has not nominated a successor and cabinet reshuffles have meant that alternatives have not emerged from this area. A potential leader may now be groomed, although it is also quite possible that Ben Ali himself will seek to contest elections in 2014. Expect the strength of the ruling RCD, with military support, to ensure stability in the event that Ben Ali could not proceed. As with Egypt and Algeria, however, ageing leaderships bring some uncertainties.

ANGOLA

Sant a clause

Presidential elections scheduled for this year were postponed last week, probably until 2012 to run concurrently with parliamentary polls. Incumbent José Eduardo dos Santos announced that this would allow constitutional reforms to be completed. Expect the reforms to reflect (and entrench) the will of the ruling MPLA, which holds a parliamentary majority in excess of the two-thirds needed to push through amendments. With the opposition UNITA unlikely to mount a serious challenge, also expect dos Santos and the MPLA to win the elections comfortably and therefore policy continuity to prevail in the region's second largest energy producer.

COUNTRY REVIEW SUMMARIES



BRAZIL

Resilient

The economy is remarkably resilient. Q3 growth, released last week, was slightly below market expectations, but overall GDP in 2009 will contract only marginally. The current account deficit will narrow slightly in 2009 and FX reserves have continued to increase. Expect a relatively strong performance in 2010 with growth of 4.5%. Policies are likely to remain supportive next year, although the monetary stance will tighten modestly. However, there are downside risks, principally commodity prices, the impact of possible further BRL appreciation on trade and the potential for over-expansionary policies ahead of presidential elections due at the end of 2010.

RUSSIA

Rub along

The economy is experiencing a deep recession (real GDP contracted by 10% yr/yr in Q1-Q3) but there are tentative signs that it has bottomed out, as the pace of annual decline in GDP has moderated. Expect GDP to contract by about 8.5% in calendar 2009 and a return to modest growth of around 2% in 2010. The banking sector is still fragile and the economy remains highly vulnerable to external shocks, particularly sharp oil price corrections. The rebound in oil prices since Q2 2009 has helped stabilise the RUB and FX reserves, but exchange rate risk and the refinancing of maturing non-sovereign external debt remain key concerns.

THIS IS THE FINAL BULLETIN IN 2009. THE NEXT ISSUE IS 6 JANUARY 2010.

Chile	Presidential elections: Sebastian Pinera leads after the 1st round but faces a run-off with Eduardo Frei on 17 January.
Romania	The constitutional court confirmed President Basescu's narrow re-election, turning down his rival's appeal.

Edited by Andrew Atkinson