



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **8.8%** > INDIA'S Q2 REAL GDP YR/YR GROWTH

▶ US: Chairman's speech sets firmer tone

Chairman Ben Bernanke's widely-anticipated speech at the Fed's gathering of financial leaders in Wyoming sent an unambiguous message that the Fed still had several weapons left and was prepared to use them. The stock market leapt and Treasury bond prices tumbled as reassured investors reduced their risk aversion. It struck a distinctly firmer tone than in recent testimony to Congress where he characterised the economy as "unusually uncertain". The relief happened to coincide with a break in the relentless drumbeat of bad economic news. Recent reports on jobless claims, personal income and spending, housing prices, and consumer confidence all showed unexpected strength. If the trend were to continue, perhaps this Friday's employment report might show unemployment dropping below 9.5%, along with stronger job creation.

▶ Euro-zone: Easing of recovery?

A raft of EC surveys this week confirmed both the ongoing positive trend, mainly influenced by Germany, and the expected H2 easing of economic growth. The Euro-zone Economic Sentiment Indicator—normally a reasonable leading indicator—rose for the fifth consecutive month in August and stands above its long-term average. Positive monthly changes were reported in all countries—except Italy, Portugal and Netherlands—with global Euro-zone confidence indicators generally improving—mainly for the consumer, though construction remained flat at its lowest since 1997. Yet, for many sub indicators the pace of improvement moderated or even declined underscoring other surveys (e.g. PMI, IFO) that are pointing to an easing of the recovery.

▶ India: Strong GDP growth

Q2 (calendar year) GDP expanded 8.8% yr/yr, the fastest since early 2008, driven by good manufacturing (12.4%), services and an improved contribution from agriculture (increased production after good monsoon rains). The official FY2010/11 growth projection is now 8.5-8.75% (7.4% in 2009/10), which may prove conservative. However, government stimulus programmes are being withdrawn, inventories have been rebuilt and export growth should ease, so household spending and business investment need to take up the momentum. Even so, expect the RBI to increase its policy interest rates in mid-September as inflationary pressures, though abating, remain high—wholesale prices increased 10% yr/yr in July and the RBI's target is 6% by March 2011.

▶ IMF: New lending facility

The IMF has further extended its range of facilities. The existing Flexible Credit Line's (FCL) duration (to 1-2 years) and credit available (removal of the implicit 1000% of quota) will be increased and there will be a new Precautionary Credit Line (PCL) for countries that may not meet the full criteria of the FCL, which is available only to countries with "very strong fundamentals, policies and track records of policy implementation". The PCL will be assessed in five areas—external position and market access, financial sector soundness, data adequacy, fiscal and monetary policies—and will be available to countries with moderate vulnerabilities in one or two areas. This is an important additional step in efforts to mitigate unwarranted contagion.

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► Mediterranean countries & Africa – *Angola: Oil based growth*

The ruling MPLA and President dos Santos are likely to remain in power in the near term, thereby providing a period of policy continuity. Significant economic improvement in recent years results partly from relative stability following a debilitating civil war but also from large inflows of oil earnings. Nevertheless, poverty remains pervasive and reconstruction of physical infrastructure, institutions (political and civil) and the overall economy will take a long time. Development of the oil industry enabled overall GDP growth rates to register double figures in 2002-08 but mining (particularly diamonds) and agriculture also provides significant potential. Expect GDP growth of 7.5% this year and around 6-6.5% in 2011, although private sector enterprises may find the trading environment challenging.



► Americas – *Guatemala: Improving, despite tropical storm*

Real GDP growth has picked up—the monthly activity indicator registered 3.3% yr/yr average growth in H1—after the sharp slowdown in 2009 (0.9%) and inflation, though higher, should remain within the 4-6% target range. There could be slippage on fiscal objectives, in part the result of spending associated with tropical storm Agatha earlier this year, but the deficit is unlikely to be wildly off-track and the authorities remain committed to withdrawing the earlier stimulus. An IMF programme, adopted at the height of the global crisis has remained precautionary (undrawn). Debt ratios are moderate. External liquidity indicators have improved considerably, though the current account deficit is set to widen in 2010 and 2011 as imports recover. Presidential and legislative elections are due in September 2011.



► Asia-Pacific – *Kuwait: Fiscal surplus remains strong*

In FY 2009/10 (April-March), Kuwait registered its 11th consecutive budget surplus—equivalent to USD22.4bn—and the third largest on record. Official fiscal projections are traditionally very conservative and those for 2009/10 were based on an oil price of USD35/barrel. With average oil prices for the year around double that target, oil earnings were USD57.6bn, compared with a projected USD24.1bn. Oil revenues (accounting for 85% of state receipts), a small population and deliberate policy of investing for future generations have enabled accumulation of a net foreign asset base estimated to be around USD350bn. Expect continuing annual fiscal surpluses of at least 10-20% of GDP and economic growth, after contracting by 2% in 2009, to turn positive at 3.5% this year and 5% in 2011.



► Europe – *Euro-zone: Private sector credit growth, but uneven*

According to ECB estimates, credit to the private sector increased for a fourth consecutive month in July (+0.9% yr/yr after +0.5% in June), confirming the trend reversal begun in April after seven consecutive months of yr/yr decline. Nevertheless, the underlying data was mixed. Loans to households confirmed their uptrend (+2.8% yr/yr), but this was largely due to lending for house purchase (+3.5% yr/yr)—72% of the total to households—as consumer credit remained negative for the 16th consecutive month (-0.6% yr/yr). Loans to non financial corporations also decreased once again (-1.3% yr/yr after -1.6% in June), though the divergent trend between long term credit (+3.2% yr/yr for over 5-year loans) and short-term credit (-8.2% yr/yr for up to 1-year credit), with the latter at Q4 2006 levels, was still evident.

Worth knowing

► UAE

As part of its debt restructuring, Dubai World announced it could generate up to USD19.4bn over an eight-year period by selling assets. The latter include stakes in US luxury retailer Barney's, MGM Resorts and Dubai-based Atlantis Hotel, but also "strategic assets", including port operator DP World and Jebel Ali Free Zone

► Other Q2 GDP

Poland: up 1.1% qtr/qtr and 3.5% yr/yr. **Slovenia:** up 1.1% qtr/qtr and 2.2% yr/yr. **Canada:** up 0.5% qtr/qtr and 3.2% yr/yr. **Australia:** up 1.2% qtr/qtr and 3.3% yr/yr.

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