



Weekly Export Risk Outlook



EULER HERMES

22 February 2012

In the Headlines

FIGURE OF THE WEEK: **USD121.6** >BARREL PRICE OF BRENT CRUDE OIL

▶ Euro-zone: PMI points to slowdown

Purchasing Manager Index (PMI) flash estimates point to a deterioration in the business outlook in Q1. The composite output index for February, at 49.7, returned below the GDP expansion threshold (50) after recording 50.4 in January. This decline was largely due to the index for services as this dropped from 50.4 to 49.4, whereas for manufacturing the index remained at 50.4. It is worth noting that the gap between the two leading economies (Germany and France) and the rest of the zone is now decreasing as their indices—even if they are above the expansion threshold—are signalling a slowdown in economic growth.

▶ Greece: Relief?

On 21 February, Euro-group ministers gave a green light for a second bailout. This involves, firstly, a loan of EUR130bn, secondly, a haircut of 53.5% on public debt held by private sector investors and, thirdly, a reduction in the interest rate of the Greek Loan Facility so that the margin amounts to 150bps. The target of the Troika (EU, IMF and ECB) is to enable the country to restore sustainability in its public finances. Underlying this are assumptions that the country should revive growth from 2014 and that public debt should be back to around 120 % of GDP by 2020 (the maximum level considered sustainable for a market access country). Even if Greece avoids a disorderly default in the short term, uncertainties and risks remain as domestic political pressures are increasing and the outcome of elections in April could negate the efforts already made.

▶ Austria: Large austerity package

Somewhat later than other countries in the EZ, Austria initiated a strong consolidation in its public finances, although it is in a relatively good position in terms of its national debt compared with the rest of the EZ. In February, the governing coalition agreed a package aimed at nearly balancing the national budget—which has recorded sizeable deficits—by 2016. The deficit currently stands at just over 3% of GDP. According to the government, the consolidation process represents the biggest savings package in Austria's history, amounting to nearly EUR27bn in total up to 2016, approximating to around 10% of GDP. The consolidation target is intended to be reached mainly by spending cuts (two-thirds), which will primarily affect the high level of pensions and the public sector. The remaining one-third is planned to come from tax revenues (including capital gains tax on real estate and financial transaction tax). According to these plans, the debt ratio, currently 74% of GDP, should be reduced to 71% by 2016.

▶ Middle East & North Africa: One year on

On the first anniversary of the onset of the Arab Spring there is a continuing fragility in political transitions, uncertainties as to policy direction where leaderships have changed (Tunisia, Egypt, Libya and Yemen) and frailties in economies in countries where the focus is not on economic development but on security and stability, with investment decisions largely on hold and revenues from trade, tourism and workers' remittances severely disrupted. Some countries have been pro-active in their reforms (Morocco and Jordan) and some economies have benefited from high oil prices (including Saudi Arabia, Kuwait, UAE and Algeria)—increasing intra-regional inequalities—but throughout MENA societal mindsets have changed and further reforms will be required, the timing of which will be crucial to ensure stability. Expect the Arab Spring to play out over a long time period.

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► Mediterranean, Africa & Middle East – *Yemen: New president*

Presidential elections on 21 February were somewhat of a formality as Abdurabu Mansour al-Hadi, the vice president, was the sole candidate to replace Ali Abdullah Saleh, who had been in power for 33 years. Al-Hadi was nominated to replace Saleh in an agreement brokered by the GCC, which allows for a period of constitutional reform and open elections within two years. In addition, the agreement means that opposition figures will share half of the cabinet ministerial positions and that an enquiry will investigate the deaths of protestors during recent disturbances. Expect the political transition to be highly fragile, with large areas of the country under tribal control, al-Qaida operatives in the country, a separatist movement in the south and Houthi rebellion in the north, as well as uncertainty as to Saleh's intentions.



► Americas – *Mexico: Opinion polls*

An opinion poll this week indicated that Enrique Peña Nieto of the PRI remains favourite to win the presidential elections, scheduled for 1 July. Peña Nieto polled 48%, compared with his closest challenger, the PAN's Josefina Vázquez Mota, with 32%, and the PRD's Andrés Manuel López Obrador, with 20%. A poll in January gave Peña Nieto 41% support, so his standing has improved, although support for Vázquez Mota increased from 23% over that time, suggesting that the election is not a formality. This is particularly evident from other results from the recent poll, suggesting that 41% of voters remain undecided and that a firm 26% reported that a vote shift is a prospect. The formal campaign for the presidential poll begins at end-March but appears already underway. Expect a keen contest.



► Asia-Pacific – *India: Consumer price inflation*

The Ministry of Statistics released the first ever consumer price annual inflation rate, with the CPI up 7.65% yr/yr in January. Until now, official inflation tracking has used the wholesale price index as a gauge of price pressures. The WPI increased by 6.55% yr/yr in January (a two-year low and following 7.47% in December 2011). The CPI will twin-track alongside the WPI as a measure of inflation but over time it is intended to be the main benchmark indicator used for alerting potential monetary policy shifts. The CPI for January revealed consumer prices increased by 7.38% yr/yr in rural areas and 8.25% in urban centres, which also may suggest policy alternatives. Expect price pressures measured by both the CPI and WPI to ease through 2012 and the central bank to cut policy interest rates in H1.



► Europe – *Bulgaria: Q4 2011 GDP*

According to flash estimates of the Statistical Institute, seasonally- and working-day adjusted Q4 real GDP increased by 0.4% qtr/qtr (after 0.3% in Q3) and 1.5% yr/yr (1.6% in Q3). Full year 2011 growth picked up to 1.6% from 0.2% in 2010. The qtr/qtr expansion in Q4 was evenly balanced. Private consumption increased by 0.6% (0.4% in Q3) and investment rebounded (4% growth) after a sharp 13.5% fall in Q3. Public consumption contracted by 1.1% (-0.5% in Q3) due to continued fiscal restraint. Exports increased by 3.8% in Q4 and imports by 1.3%. In yr/yr terms, however, investment contracted by 6.5% in Q4, after -2.8% in Q3, supporting the forecast that output growth will ease in 2012 amid a weakening Euro-zone. The current account registered a surplus of 1.9% of GDP in 2011 (-1.3% in 2010).

Worth knowing

► China

The central bank announced that it will cut the reserve requirement ratio—the proportion of cash that banks must set aside—by 50bps to 20.5%, from February 24. This is the second cut in three months and is expected to release approximately USD64bn of liquidity into the financial system in a bid to bolster growth.

► Latvia

On 14 February, the government successfully placed USD1bn in five-year bonds at an interest rate of 5.25%. In December 2011, Latvia completed its three-year IMF/EU-led loan programme, after using around EUR4.4bn of the EUR7.5bn available.

► Guinea

The country's first legislative election for a decade—and first under a democratic system—is scheduled for May 2012. If successfully and peacefully concluded, elections could release EU and other aid packages. Guinea possesses an estimated half of the world's readily-exploitable reserves of bauxite.

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