

COUNTRY RISK WEEKLY BULLETIN

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THE WORLD IN 2009



WORLD

What de-coupling?

Expect **world GDP growth** of less than 1% in 2009, with the first outright contraction in the mature economies since WWII. Moreover, this is not a normal business cycle and the impact of fiscal and monetary policies to combat the credit squeeze is uncertain, but the balance of risks is to the downside, both in terms of the depth and the duration of the global recession. **World trade** growth slumped in Q4 2008 and could be negative in 2009. **Emerging economies** have not de-coupled as recession in the mature economies is transmitted to them via a sharp reversal of capital flows and financing, falling demand for exports and a collapse in **commodity prices**, including **oil**. Expect economies with stable effective government—a good starting point for policy adjustment—a strong external liquidity position and low debt ratios to be the most resilient countries in the downturn. Sound policies will also be important to access **IMF-led** financing as the number of support packages increases.



ASIA

Feeling the pinch

Expect **growth** to dip below 5% in 2009 (8.5% annual average 2005-07) as export demand has slumped and will take some time to recover. Growth in **India** will slow to 5% (over 9% 2005-07) and in **China** may not exceed 7% (over 11% 2005-07). The former has been affected more directly by tightening credit, but the latter's exports have been hit severely. **Hong Kong** and **Taiwan** will struggle to avoid outright contraction. The global credit crisis has also hit **South Korea** hard as capital flight caused FX illiquidity, and recession looks likely. Expect growth in **ASEAN** to slow to 3% or less in 2009. **Singapore** and **Indonesia** have felt the impact of the global crisis most so far, while continued political turmoil will aggravate the slowdown in **Thailand**. In late-November, **Pakistan** avoided imminent default with an IMF-led support package, but required policy implementation will be challenging and relations with **India** have deteriorated following the Mumbai terrorism.



LATIN AMERICA

Testing agendas

Both **Mexico** and **Brazil** have been hit by bank illiquidity amid massive capital withdrawals, with sharp falls in financial markets and exchange rates, though strong FX reserves and policy credibility should maintain overall stability. **Mexico** will be hard pressed to avoid GDP contracting in 2009 while **Brazil's** growth will slow to around 2%. Other non-oil commodity producers—notably **Chile**, **Peru** and **Colombia**—will need a period of severe adjustment but are reasonably placed to manage the process, unlike **Argentina**, also exposed via lower commodity prices. Expect sharply lower oil prices to prove the acid test of radical-left agendas in **Venezuela**, **Bolivia** and **Ecuador**, the latter having defaulted already on what it regards as illegitimate debt. **Central America** and the **Caribbean** will suffer from reduced tourism and workers' remittances (US recession) though lower oil prices will help the external balance. Expect **regional growth** of less than 2%.



CENTRAL & EASTERN EUROPE

Hardest hit

The region has been hit harder than any other by the intensification of the global financial crisis since September 2008. Large current account deficits and high levels of short-term external debt have rendered many countries vulnerable to the reversal of capital and financial markets that has been occurring as a result of the global deleveraging under way. Faced with the threat of a domestic financial crisis and recession in 2009, **Hungary**, **Ukraine**, **Latvia**, **Belarus**, **Serbia**, **Lithuania** and **Turkey** have all turned to the IMF for support, with strong IMF-led support packages already agreed for the first four of these. **Bulgaria** and **Romania** are also bracing for a hard landing. Despite strong foreign exchange reserves, **Russia** is also vulnerable owing to the private sector's high level of external debt and the economy's exposure to the sharp fall in oil prices. Expect **regional growth** to slow to below 2% in 2009, with risks remaining to the downside.



MIDDLE EAST

Price...

With oil prices falling by USD100/barrel in H2 2008, the outlook has turned distinctly negative. Expect **regional GDP growth** of around 4%, at best, in 2009 (5.8% annual average 2002-07). Even the **Gulf States** (including **Saudi Arabia** and the **UAE**) have to make policy adjustments when oil reaches USD40/b. Other oil producers, such as **Iran**, require much higher prices merely to balance fiscal and external accounts and social and political pressures will increase in these states. The non-oil countries, including **Jordan** and **Lebanon**, depend on other commodities and/or the recycling of petrodollars, so their outlook also has deteriorated. **Iran**, **Iraq** and **Palestine** (particularly Gaza) remain key pressure points in a new year that will see parliamentary elections and a change in leadership in **Israel**, presidential elections in **Iran** and potential changes in US policy in the Middle East under the Obama administration. The region will remain tense through 2009.



AFRICA

...effects

The region was sheltered from the first round effects of the global financial crisis, with even **South Africa's** relatively open banking system largely unscathed. However, the accompanying global economic slowdown will affect the area negatively, through reduced demand for and lower prices of commodities. Expect 2009-10 to be very challenging and **regional GDP growth** to be less than 5% in 2009 (7.6% annual average 2002-07), with the risks remaining on the downside. Potentially, oil producers (including **Nigeria**, **Algeria**, **Angola**, **Sudan**, **Egypt**, **Gabon**, **Cameroon** and **Chad**) will be hit hardest but other internationally-determined prices will also remain depressed, affecting both soft and hard commodity producers. External debts are likely to increase and economies with weak external accounts are likely to seek assistance from the IMF and other agencies. The downturn will also test fragile political regimes, with associated social pressures.