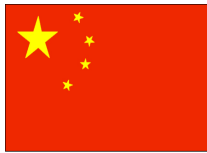


COUNTRY RISK WEEKLY BULLETIN

13 May 2009

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IN THE HEADLINES



CHINA

Home cooking?

Consumer prices fell by 1.5% yr/yr in April, slightly faster than in March. Although prices will probably fall for some months to come, expectations are that deflation will not prove durable. Indeed, at this point, the authorities appear more concerned over potential renewed asset bubbles and, accordingly, credit growth slowed appreciably in April (by about one-third from March), although it remains well up on 2008. Domestic demand continues to be the main driver of growth. Urban fixed asset investment growth accelerated to 33.9% in April and the fall in imports is moderating, while exports fell by 22.6% yr/yr. Expect growth of 6.7% in 2009 and 7.8% in 2010.



MEXICO

Its an ill wind..

The worst fears over swine flu are abating and Mexico City has re-opened after a five-day break. The damage to the economy is difficult to gauge, but overall will probably be fairly limited (around 0.3% of GDP according to the government), although tourism will be hit hard. Nonetheless, the economy—already in deep recession—can be expected to contract by around 4% in 2009. With expected inflation heading back towards the central bank's target, further interest rate cuts are also likely. As congressional elections loom in July, expect the political fallout of the flu epidemic to take centre-stage, with recession already favouring the opposition PRI.



LATVIA

Tranche warfare

Real GDP contracted by 18% yr/yr in Q1 (advance estimate), following a 10.3% decline in Q4 2008. The steep downturn was broadly based. Industrial output fell sharply, by 23.2% yr/yr, with textiles (-56%), vehicle construction (-53%) and machinery and equipment (-46.5%) particularly badly affected. Retail trade fell by 25% yr/yr as private consumption suffered from weak consumer confidence, the unwinding of high levels of credit, falling wages and surging unemployment. Discussions on the second IMF tranche of funding—on hold since end-March—are still ongoing. Expect the economy to remain on track to decline by 12-15% this year as a whole.



SOUTH AFRICA

Gordhan's in

Last weekend, Jacob Zuma was inaugurated as the country's third post-transition president. His new cabinet indicates—at least for now—that economic populism will not replace market-friendly policies and generally sound management. The well-respected Trevor Manuel moves from the Ministry of Finance to a new planning unit within the presidency, reportedly with extensive and wide-ranging powers. Expect this move, together with Pravin Gordhan as the new finance minister, to allay market suspicions of a leftward bias and to encourage investors. Also expect some social protests as GDP and income growth are currently weak.

ALSO IMPORTANT...



UKRAINE

By arrangement

Almost three months after originally scheduled, the IMF disbursed the second tranche of funding of the USD16.5bn loan under the two-year Stand-By Arrangement agreed last November, after reaching a compromise with the government over fiscal targets and banking sector support. The government is required to recapitalise seven large banks, while it can now run a fiscal deficit of 4% of GDP (instead of a balanced budget), based on an 8% GDP contraction assumption for 2009. However, the sharp decline of industrial output (32% yr/yr in Q1) suggests that the economy may contract even more strongly, putting at risk the revised deficit target.

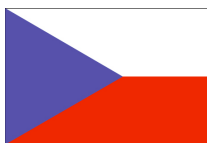


GCC

Gulf between them?

GCC leaders last week selected Riyadh as the location for the monetary council that will set out the framework for the creation of a single currency—and will become the site of a new regional central bank. The choice was not a foregone conclusion, with Dubai, in particular, promoting itself for this role. However, the global recession has altered the regional dynamics, with the highly-leveraged emirate losing ground to the more conservative and resource-rich kingdom. Expect Saudi to promote the nascent King Abdullah Financial District (KAFFD) as a major financial hub. Also expect a partial launch of the monetary union (excluding Oman) in 2010.

COUNTRY REVIEW SUMMARIES



CZECH REPUBLIC

Health Czech

Overall systemic political risk is relatively low, but fragile coalition governments often result in ineffective policymaking. The recent government collapse underscored this and came at a critical time. Although the economy is among the healthiest in Emerging Europe, the global economic crisis has clearly taken its toll, mainly as a result of the country's high export dependency. Expect a recession this year and the number of insolvencies to increase in 2009-10. The koruna/euro exchange rate has been volatile and fallen by about 10% over the past six months, but overall currency risk appears limited.



LIBYA

Colonel mustard?

Colonel Muammar Qadhafi has been in power since 1969—succession is unclear—and policies can appear erratic. However, diplomatic and trading links with the west have now been resumed and basic economic indicators remain positive (large fiscal and current account surpluses and an import cover around 30 months), despite oil prices falling from recent highs of July 2008. The business environment is improving—with pledges to liberalise banking and foster the private sector—but remains weak overall. Expect GDP growth of 2-2.5% this year, following an average 5%+ in 2001-08.

IN BRIEF

Elections
Interest rates

Kuwait: parliamentary 16 May; **Lithuania:** presidential 17 May; **Malawi:** presidential and legislative 19 May.
ECB: cut its key rate by 25bps to 1% (effective 13 May); **Indonesia:** cut its key policy rate by 25 bps to 7.25%.

Edited by Andrew Atkinson

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