# COUNTRY RISK WEEKLY BULLETIN

## 21 May 2009

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## IN THE HEADLINES

### INDIA

**Congressional hearings?**

The electorate provided a surprise as the ruling Congress-led UPA coalition unexpectedly won a decisive renewed mandate, with 260 out of 543 parliamentary seats. A new coalition will not have to rely as much as before on left-wing or small caste-based parties for a parliamentary majority and, in theory, policy implementation should be easier going forward. Certainly the stock exchange and currency markets took the news positively, with strong ST gains on the expectation of quicker economic reforms. The prospects are now better, but do not expect a quick return to annual GDP growth of 9% and privatisation and infrastructure expenditure may be slower than expected.

### SRI LANKA

**Hinda land?**

With the apparent defeat of the Liberation Tigers of Tamil Eelam (Tamil Tigers), President Mahinda Rajapaksa has consolidated his domestic political base, although humanitarian issues currently cloud international relations. Tamil resistance in the north is unlikely to be quelled fully without a gesture of magnanimity in victory from the Sinhalese majority, including some rights of autonomy. The latter and overall security may remain elusive. Despite the prolonged military confrontation, annual average GDP growth was 5%+ in 2000-08. Expect only 2.5% growth this year but higher rates beyond if reconstruction makes headway and peace holds.

### HONG KONG

**Sharp jolt**

GDP in Q1 contracted by 7.8% yr/yr and a seasonally adjusted 4.3% qtr/qtr, a marked deepening on the contraction in Q4 2008 and a quarterly fall in output worse than in either the 1997-98 Asian crisis or during the SARS epidemic in 2003. The fall in export demand (goods down 22.7% yr/yr in Q1) in this highly export-oriented economy has spread into declines in investment and consumption, although imports have also declined. Inflation in April, however, was below expectations (0.6% mo/mo). A further fiscal stimulus is possible. Nonetheless, the timing and strength of recovery remains heavily dependent on world trade. Expect GDP to contract by around 5% in 2009.

### COLOMBIA

**Step by step**

The senate approved a bill allowing a referendum on a constitutional amendment to permit President Uribe to run for a third consecutive term in 2010. The bill will now go to a bi-cameral reconciliation committee—as the lower house of congress had earlier approved a third term, but not consecutively—and the final version will need constitutional court approval, all of which needs to be done by 30 November, the date by which President Uribe—who has not clarified his intentions—must declare himself a candidate. Expect Uribe to represent a formidable candidate and, while there is much outstanding, a third term is becoming more likely.

## ALSO IMPORTANT...

### SERBIA

**Funding arrangements**

The IMF Stand-by Arrangement (SBA)—first agreed in late 2008—has been extended to April 2011 and increased substantially to EUR2.9bn (around 10% of Serbia's GDP) from EUR394mn. This reflects the sharp deterioration in the external and financial environment, which, among other things, is likely to lead to a financing gap of 11.5% of GDP in 2010-11, despite a narrowing of the current account deficit. The SBA also underscores the authorities' commitment to necessary policy adjustments, including reduced fiscal spending—a revised budget was passed last month. Expect additional financing from other IFIs and the EU, but GDP will contract in 2009.

### GCC

**Uncommon front**

The United Arab Emirates intends to keep its own currency, the dirham, and maintain its peg to the USD. This suggests that the GCC monetary union—scheduled for 2010 but already proceeding without Oman—may not now go ahead. The UAE had indicated its objections to the GCC's recent decision to house its central bank in Riyadh. Saudi Arabia and UAE rivalry may therefore foil plans for greater economic integration—at least for now. The remaining GCC members may continue discussions but without the UAE—the second largest economy—expect monetary unification to be postponed unless negotiations can settle political rivalries.

## COUNTRY REVIEW SUMMARIES

### ISRAEL

**Net effect**

Although the centrist Kadima party won more parliamentary seats in elections in February, the right-wing Likud under the premiership of Binyamin Netanyahu now leads the current coalition government. Netanyahu has long-opposed a two-state outcome to the Israeli-Palestinian stand-off and relations with the new Obama administration in Washington are therefore uncertain. Do not expect a comprehensive Middle East peace initiative to succeed in the ST. Do expect the economy (annual average GDP growth of almost 5% in 2004-08) to reflect a weak global environment and contract by 1-2% this year—exports and imports are both equivalent to around 40% of GDP.

### SUDAN

**All of a Sudan**

An uneasy relationship exists between Khartoum and southern (SPLM) officials, particularly in relation to autonomy for the south, and return to civil war cannot be discounted. Moreover, events in Darfur in the west—labelled by the UN as the world's worst humanitarian crisis—led to President al-Bashir becoming the first sitting head of state to be indicted by the International Criminal Court. With the third largest oil reserves in Sub-Saharan Africa, real GDP increased by an annual average 8% in 2004-08. However, with weaker oil markets, expect growth of only around 2-3% in 2009 and a continuing difficult business and trading environment.

## IN BRIEF

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| **Singapore** | Final data for Q1 real GDP revised up but still show contraction of 10.1% yr/yr (-4.2% Q4 2008). |

**Edited by Andrew Atkinson**