

COUNTRY RISK WEEKLY BULLETIN



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IN THE HEADLINES

 <p>INDIA</p> <p>Indian summer?</p>	<p>Q1 GDP data surprised on the upside, with growth of 5.8% yr/yr above general expectations. Moreover, Q4 2008 GDP was revised up from 5.3% to 5.8%, suggesting the economic slowdown may prove less deep and prolonged. However, manufacturing declined 1.4% yr/yr in Q1 and some of the upside results from fiscal stimulus, extending which is now limited by a budget deficit of around 10% of GDP. Moreover, despite recent elections providing a stronger mandate for the Congress-led coalition, economic reforms may still be constrained. Do not expect a quick return to 9% annual growth, but GDP expansion this year may now be 5-5.5%, rather than 4-4.5%.</p>	 <p>CHINA</p> <p>Balanced imbalance?</p>	<p>US Secretary of State Geithner's visit to Beijing this week came amid concerns relating to the dollar if China reduces its holdings of USD assets. While the balance of discussions has swung towards Beijing and China needs reassurance over the medium-term implications of US stabilisation/reflationary policies, concerns appear overdone. The world's largest current account surplus economy (China) has little ST option but to continue to finance the biggest deficit economy (US) unless there is an improbably large increase in domestic consumption. Expect both sides to continue to recognise this reality, even if tensions surface from time to time.</p>
 <p>SOUTH AFRICA</p> <p>Zoom lens</p>	<p>In his first state of the nation address, President Jacob Zuma pledged to create 500,000 jobs this year and a further 4mn by 2014. This follows release of Q1 GDP data, which confirmed that the economy is in recession for the first time since 1992. GDP contracted by 6.4% yr/yr, with manufacturing and mining bearing the brunt, after a fall of 1.8% in Q4 2008. Not surprisingly, the Monetary Policy Committee announced a 100bps cut to 7.5% in its key repo rate. Interest rates have now been cut by 450bps since last December, despite obdurate inflationary pressures. Expect a further quarter of GDP contraction but infrastructure expenditure to assist positive growth going into 2010.</p>	 <p>PHILIPPINES</p> <p>Overnight case</p>	<p>Real GDP grew just 0.4% in Q1, after growth of 2.9% in Q4 2008, which is a marked downward revision from the initial 4.5% estimate. Full-year growth for 2008 was also amended, to 3.8% from 4.6%. Private consumption picked up just 0.8% in Q1 as growth of remittances fell to 2.7% yr/yr after seven years of double-digit increases. Investment declined sharply by 16.5%. Both exports and imports contracted by around 18-19%. As inflation continued to ease to 4.8% yr/yr in April from 6.4% in March, the central bank last week further cut its key overnight lending rate in order to support the economy, by 25bps to 6.25%.</p>

ALSO IMPORTANT...

 <p>PERU</p> <p>Rare commodity</p>	<p>Q1 real GDP growth slipped to 1.8% yr/yr, as domestic demand contracted. With May inflation (4.2% yr/yr) continuing towards the 1-3% target range, expect the central bank to lower interest rates by another 75-100bps this week. A stimulus package focused on public works will help cushion domestic demand, although the fiscal deficit will be close to 2% of GDP in 2009 and 2010 (manageable). Commodity-producing Peru may just be that rarity where 2009 growth is positive—expect 1.3%—albeit in stark contrast to 9.8% in 2008. However, it will do nothing to improve President Garcia's low popularity or the wide income differences sparking the latest indigenous group protests.</p>	 <p>BULGARIA</p> <p>Cover version</p>	<p>Real GDP contracted by 3.5% yr/yr in Q1 (advance estimate), following growth of 3.5% in Q4 2008. Private consumption fell by 5.8% and investment declined sharply, by 15.4%. Exports were down by 16.4% but imports fell more steeply (21%) so that the current account deficit—a key problem at 24% of GDP in 2008—declined by 46% yr/yr in Q1. However, net FDI inflows, which used to cover the external deficit, contracted even more and a financing gap of around EUR1bn emerged that had to be covered by a drawdown in FX reserves. Nevertheless, reserves have stabilised since end-Q1 and still provide 2009 import cover of more than four months.</p>
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COUNTRY REVIEW SUMMARIES

 <p>SLOVENIA</p> <p>Transfer list</p>	<p>Systemic political risk is very low, underpinned by EU and NATO membership, and the business environment is generally strong. However, the export-oriented economy is increasingly affected by the global economic crisis. In Q1, industrial production fell sharply—by 20% yr/yr—and the number of bankruptcies increased by 56%. Expect a recession in 2009, as a whole, and weaker companies to experience debt-servicing problems. However, macro-economic fundamentals are still generally solid and should remain so over the next 12 months. Moreover, adoption of the euro in 2007 had the effect of practically eliminating transfer and currency risk.</p>	 <p>EQUATORIAL GUINEA</p> <p>Equitable?</p>	<p>Executive power remains concentrated in a small elite around President Teodoro Obiang Nguema Mbasogo, one of the world's longest-serving heads of state, despite numerous alleged coup attempts. Presidential health considerations aside, political continuity can be expected in the short- to mid-term. Expect Obiang to win comfortably elections at the end of this year. Hydrocarbons now account for over 90% of exports and overall nominal GDP almost doubled between 2005 and 2008. However, benefits derived from exploitation of energy resources have not been dispersed widely and the private sector remains small.</p>
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IN BRIEF

Indonesia The central bank cut its key overnight lending rate by 25bps to 7%.

Edited by Andrew Atkinson

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