

# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES



### ARGENTINA

#### Nest egg?

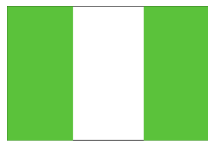
Mid-term congressional elections will be held on 28 June. The elections—brought forward from October in a damage limitation effort—are crucial to the authority and possibly direction of President Fernandez de Kirchner's government, with her own popularity under severe pressure and the economy heading towards recession. Latest polls suggest that the president may lose her majority in the lower house (where half the seats are up for election) despite the presence of her influential husband, former president Nestor Kirchner, as a candidate in Buenos Aires province—where he is barely ahead of the main opposition candidate. Expect a negative result for the government.



### INDIA

#### Wholesale changes?

The central bank's inflation target is based on wholesale prices and the relevant index fell 1.6% in the week to 6 June, the first decline in three decades. Do not, however, expect the adverse economic effects associated with deflation. Firstly, the decline should be seen as largely statistical, reflecting sharply lower oil prices. Secondly, demand is not contracting. Thirdly, consumer prices continue to increase—currently around 8% yr/yr—so inflationary pressures still exist. Indeed, these, together with Q1 GDP and April industrial output that surprised on the upside (5.8% and 1.4% yr/yr), suggest that monetary easing may be close to an end.



### NIGERIA

#### San's crit?

New central bank governor Lamido Sanusi has been critical of financial regulations and may be preparing to lift a ban on foreign ownership of banks. Uncertainties under previous military leaderships, partial bank nationalisation and perceptions of corruption have limited involvement in the financial sector to date, despite some recent liberalisation. While it remains to be seen what conditions may be applied, expect interest from international banks, as a population of around 140mn, a wider West African market and potentially large oil revenues suggest good prospects. Also expect demands for improvements in financial disclosure, banking supervision and regulation.



### PERU

#### Rueing the day?

President Garcia's popularity ratings have dropped sharply to just above 20% in the wake of unrest and protests by indigenous groups over land reforms aimed at opening up mining and petroleum areas. As the government is seen to have mishandled legislation approving the reforms—now repealed by congress—the PM Yehude Simon is to step down shortly. Moreover, the worst crisis faced by this administration has come as the economy contracted in April (by 0.2% yr/yr) for the first time since 2001. Expect the president to survive but to be faced with an uphill struggle to remain effective in the final 21 months of his term.

## ALSO IMPORTANT...



### ESTONIA

#### Repel boarders?

The currency board faces several risks. Although macroeconomic devaluation pressures are moderate—the kroon is currently estimated to be just 7% overvalued and FX reserves have been roughly stable since early 2008, backing the board—contagion from potential sharp currency devaluation in neighbouring Latvia has become a serious concern. Moreover, necessary fiscal tightening is at risk following the reduction of the ruling coalition to a minority government after the departure of the SDP in late May. Furthermore, a deep recession will reduce fiscal revenues. Real GDP contracted by 15.1% yr/yr in Q1, after a 9.7% decline in Q4.

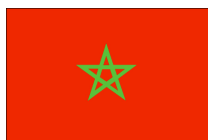


### VIETNAM

#### Assembling recovery

Early reports indicate that H1 real GDP was up 3.9% yr/yr, implying a pick-up in Q2 as Q1 growth was 3.1% yr/yr. Recovery would be in line also with the National Assembly's approval last week of a revised 2009 growth target of 5%—down from the earlier 6.5%, but pointing to continued expected recovery. The trend is probably right. However, expect actual growth of less than 5%. The Assembly also limited the state budget deficit to 7% of GDP, but expansionary policies underway, including increased public investment and a new ceiling on credit growth of 30%, helped by the rapid fall in inflation and a narrower trade deficit, are having a positive effect.

## COUNTRY REVIEW SUMMARIES



### MOROCCO

#### Roc solid?

Systemic political stability is likely in the short term, with King Mohammed VI remaining generally popular. Good relations—including FTA status—are maintained with the EU and US. The economy now appears more robust and resilient to oscillations in agricultural output. However, markedly weaker demand in key export markets since Q4 2008 will result in GDP growth slowing to around 2% in 2009 from 5% last year and expect the budget deficit, a perennial challenge for the authorities, to deteriorate to around 3% of GDP. However, also expect lower oil prices to reduce the import bill and improve the 2009 current account deficit (2% of GDP).



### TURKEY

#### Trying times

Easing inflation (down to 5.2% yr/yr in May), a narrowing current account deficit (down 85% yr/yr in the four months to April) as well as the stabilisation of the TRY/EUR exchange rate and FX reserves in recent months offer some positive signs, but the economy remains at risk. Industrial output contracted by 21% yr/yr in Jan-April and unemployment reached 15.8% in March (11% in March 2008). Expect the economy to shrink by at least 4% in 2009. Difficulty in refinancing large amounts of maturing private-sector external debt remain a key risk, particularly as agreement on an IMF standby loan is still pending.

## IN BRIEF

### Mexico

Policy interest rate was lowered another 50bps to 4.75%, a total cut of 300bps since easing began in Jan '09.

Edited by David Atkinson

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