


# COUNTRY RISK WEEKLY BULLETIN

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London: David Atkinson +44 (0)20 7860 2807; Andrew Atkinson +44(0)20 7860 2577 Hamburg: Manfred Stamer +49 (0)40 8834 3607

 <p><b>ARGENTINA</b></p> <p><b>Leaving the nest?</b></p>	<p>President Fernandez de Kirchner suffered heavy defeat in last Sunday's mid-term elections, as the PJ lost its majority and her husband, former president Nestor Kirchner, failed to top the crucial Buenos Aires province poll, subsequently resigning as PJ head. Meanwhile several possible presidential candidates for 2011, including BA mayor Mauricio Macri, former Kirchner PJ ally Carlos Reutemann and vice-president Julio Cobos, emerged stronger. The president's authority seems seriously weakened, but the new congress does not convene until December and it remains to be seen if the Kirchners will respond with a consensual or confrontational approach.</p>	 <p><b>HONDURAS</b></p> <p><b>United front?</b></p>	<p>President Zelaya's attempt to hold a (non-binding) referendum on reform to allow re-election led to his military-backed removal last Sunday—as his opponents feared that he may have been attempting his own a constitutional 'coup'—after the supreme court ruled his action unconstitutional. His removal is opposed by governments across the political spectrum, including, crucially, the US. There may still be room for compromise (perhaps via the OAS) but, if not Honduras will lose official international financing. There is some external liquidity cushion, but getting through to elections and an internationally recognised government could still be difficult.</p>
 <p><b>INDONESIA</b></p> <p><b>Round one?</b></p>	<p>Incumbent president Yudhoyono is the odds-on favourite in presidential elections to be held on 8 July where he is up against Megawati Sukarnoputri, his predecessor, and Jusuf Kalla, his deputy. The biggest question seems to be whether he will win in the first round or need a run-off in September. The economy's apparent resilience to the global economic crisis has certainly helped. Real GDP grew by a surprisingly strong 4.4% yr/yr in Q1, which compares well with other countries, thanks to sound private consumption growth of 5.8% spurred by a large fiscal stimulus package and lower prices for food and fuel.</p>	 <p><b>TURKEY</b></p> <p><b>No delight</b></p>	<p>Real GDP shrank by a more than expected 13.8% yr/yr in Q1, after contracting by 6.2% in Q4 '08, and it would have been worse had public consumption and investment (up 5.7% and 24.6% respectively) not grown strongly. Private consumption fell 9.2% while private investment plunged 35.8%. Exports fell by 11.3%, but imports dropped by a massive 31.9%. The data suggest that 2009 GDP may shrink more than the 4% expected earlier and the fiscal deficit is on course to exceed 5% of GDP, which could further complicate agreement with the IMF on the still pending stand-by programme.</p>
<b>ALSO IMPORTANT...</b>			
 <p><b>URUGUAY</b></p> <p><b>Centre ground</b></p>	<p>A former leftist guerrilla, Jose Mujica, of the ruling Frente Amplio and a former president (1990-95), Luis Lacalle, who was a strong supporter of privatisation, of the National Party have emerged as the presidential candidates for the two main parties after primary elections held last Sunday. Both were long-standing favourites, but both are aligned with the more radical end of their parties and neither has a strong lead in opinion polls at this point. Expect both to move towards the centre if they are to win the election on 25 October. Already Mujica has said he will ask his main rival, respected former economy minister Daniel Astori, to be his running mate.</p>	 <p><b>HUNGARY</b></p> <p><b>Flexi-time</b></p>	<p>Real GDP contracted by 6.7% yr/yr in Q1, after a 2.5% decline in Q4. In view of the worse than expected external environment, which has aggravated domestic recession, the IMF (backed by the EU) have agreed to an upward revision of the 2009 fiscal deficit target to 3.9% of GDP from 2.6%. However, this should not be seen as a softening of the tough austerity measures to which the new government under PM Bajnai—who replaced Gyurcsany in a constructive vote of no confidence in April—remains committed. The IMF last week also completed the second review under a Stand-By programme, enabling the disbursement of EUR1.4bn.</p>
<b>COUNTRY REVIEW SUMMARIES</b>			
 <p><b>MOZAMBIQUE</b></p> <p><b>Mega-Buz</b></p>	<p>Frelimo dominates politics, winning all three multi-party elections since the civil war ended in 1992 and current president, Armando Guebuza is set to be re-elected in elections towards the end of this year. Though poor, aid dependent and hit by health and social problems (notably HIV/AIDS) relatively sound policies and debt relief facilitated annual average growth of 8% in 2001-08. Expect this to slow to 3-5% in 2009-10, however, as demand for the output of "mega-projects" (gas, aluminium and titanium) slackens. External liquidity indicators point to the need for careful management of over the next two years, but expect IMF support if necessary.</p>	 <p><b>RUSSIA</b></p> <p><b>Bleak house?</b></p>	<p>The recent rebound in global oil prices has helped stabilise the exchange rate and FX reserves since February, both of which had shown concerning deterioration until then. Yet the overall outlook remains bleak. Early indicators suggest that real GDP contracted by 10% yr/yr in April-May, after 9.8% in Q1. Expect the economy to shrink by 7% in 2009 as a whole. Strong stimulus measures, though so far limited in effect, will produce a large fiscal deficit of up to 10% of GDP and inflation is likely to remain double-digit. Overall country risk continues to be high, with private external debt remaining the most serious cause of concern.</p>
<b>IN BRIEF</b>			
<p><b>MEXICO</b></p>	<p>Mid-term congressional elections will be held on 5 July.</p>		

Edited by David Atkinson

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