

COUNTRY RISK WEEKLY BULLETIN

3 September 2008

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IN THE HEADLINES



THAILAND

Thai break?

Anti-government protests escalated over the course of last week. The activists' siege of government buildings since 26 August was followed by blockades of airports, strikes, attacks on police and a violent clash with government supporters, all of which contributed to the decision of PM Samak to declare a state of emergency on 2 September. The security forces remain reluctant to use force to restore law and order. It appears increasingly unlikely that the elected government and Samak, in particular, will survive the deepening political crisis. Do not expect any short-term political stabilisation as the underlying deep divisions in society will persist.



ANGOLA

Go go gola

Legislative elections on Friday will be the first since 1992. Although, to date, violence has been limited and campaigning relatively free, the poll is unlikely to be fair by western standards as the ruling MPLA has used its incumbency to position itself strongly. Nevertheless, expect the opposition UNITA to do well. Diamonds, fertile soil and, most importantly, oil—Sub-Saharan Africa's largest producer, given constraints in Nigeria—provide strong economic prospects. Annual average real GDP growth has been almost 15% since 2002. If, as appears likely, elections pass peacefully, expect the economy to continue to boom and business prospects to expand.



BOLIVIA

Moral(es) authority?

After his success in the recall referendum, President Morales last Friday issued a decree calling the referendum on the new draft constitution—the next critical stage in the nation's power struggle—for 7 December. However, at the start of this week, the National Electoral Court (NCE) ruled the decree illegal, as the referendum requires a new law passed by congress, an interpretation rejected by the government. The problem for the president is that the opposition controls congress and may not approve such a law, so expect him to rely on the weight of his personal mandate (68% support in the recall referendum) to gain support for his proposal.

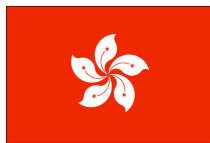


ROMANIA

Hot-air balloon?

Real GDP growth surged to 9.3% yr/yr in Q2, up from 8.2% in Q1, boosted by strong domestic demand, which continued to be driven by a largely foreign-funded credit boom, double-digit wage growth and loose fiscal policy. Inflation accelerated to 9% yr/yr in July and the ballooning current account deficit is set to exceed 15% of GDP in 2008. Monetary tightening has failed to curb what appears to be an overheating economy and, with legislative elections scheduled for end-November, expect the government not to cut public spending in the interim period. Therefore the risk of a hard landing in 2009 has increased significantly.

ALSO IMPORTANT...



HONG KONG

Legging it

Legislative Council (Legco) elections will be held on 7 September. Half of the 60 seats will be elected directly and half by "functional constituencies" (representing business and social groups). "Pro-democracy" reform politicians, who currently hold 25 seats, may struggle on Sunday. Pro-Beijing groups could benefit from Olympics "feel good" factors and Beijing has now announced a date when reform could be considered (2020 for the Legco). Therefore reform itself may have become less important than the economy—Chief Executive Tsang's popularity ratings have dropped as economic concerns have risen—where politicians have few differences. Expect little economic impact.



LIBYA

Capital idea!

Mercurial policy formulation under Colonel Muammar Qadhafi—including distancing Libya from international terrorism and abandonment of weapons of mass destruction—continues to be evident. Qadhafi is now promoting a form of capitalism, with free-market, private sector policies from next year, particularly in the areas of health, education, telephone and electricity supply. Despite lingering political concerns—including succession as Qadhafi's son Sayf al-Islam claims to have left politics—oil and gas revenues permit scope for reform. Accordingly, expect greater business opportunities, even outside the oil and gas sector.

COUNTRY REVIEW SUMMARIES



TURKEY

Out of court

Potential political instability has increased in 2008 as a result of a lawsuit demanding the dissolution of the ruling AKP. The Constitutional Court's ruling at end-July that gave a lesser punishment than a ban of the AKP has removed the immediate threat of a political crisis. Nevertheless, expect the underlying tensions between the religious conservative government and the secular establishment (including the military) to persist. This is a serious cause of concern against a background of deep macroeconomic imbalances, which have exposed the economy to increased risk aversion in global financial markets.



GUINEA

Limited progrès

President Lansana Conté—who may not complete his term in office (expires 2010) because of poor health—and the ruling Parti de l'unité et du progrès are losing support as a result of deteriorating living standards, poor provision of utilities and failure to address pay claims of the military. Despite a wealth of natural resources—including the world's largest reserves of bauxite—the economy does not fulfil its potential. Completion point under the HIPC initiative is required to lessen the burden of external debt servicing outflows, although this is some way off, given political and policy uncertainties.

IN BRIEF

Argentina Philippines

President Cristina Fernandez announced repayment from FX reserves of all USD6.7bn outstanding Paris Club debt.
The central bank raised its overnight lending rate by 25bps to 8% on 28 August.

Edited by Andrew Atkinson

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COUNTRY RISK WEEKLY BULLETIN

10 September 2008

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IN THE HEADLINES



UKRAINE

Raine cloud

Last week, Kiev added to its reputation for chronic political instability when the ruling coalition of the two major "Orange Revolution" parties, Yulia Tymoshenko Bloc (YTB) and President Yushchenko's Our Ukraine, collapsed after the YTB sided with the opposition to curtail presidential powers. Yushchenko had earlier attacked PM Tymoshenko for her allegedly weak support for Georgia during its conflict with Russia. Snap elections are looming unless a new coalition government is formed. The timing of this crisis is particularly bad as it has frustrated relations with the EU, which yesterday declined to offer Ukraine a long-term prospect of Union membership.



SOUTH KOREA

Won way

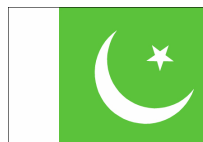
A sharp depreciation of the won against the USD—16% so far this year and 7.6% alone in August—has raised concerns about a looming currency crisis. Heavy foreign selling of local equities, fears of a property bubble, rising household debt, accelerating inflation and a slowing economy have added to the worries. These concerns appear exaggerated, even though sub-prime consumer loans may challenge some banks amid the ongoing global credit crisis. Expect ample foreign exchange reserves—USD243bn at end-August—and strong macroeconomic fundamentals to continue to provide for low systemic economic risk.



PARAGUAY

Losing the plot?

President Lugo, in office since mid-August, is embroiled in institutional crisis. The problem surrounds the constitutionality of his predecessor, Duarte, taking a Senate voting seat, but is also part of what looks likely to be an ongoing power struggle, as Duarte was opposed by Lugo's core supporters, but supported by Oviedo, another rival, though ostensibly an ally. The president may have faced down the two after his public denunciation of them as coup plotters was followed by Senate approval of an alternative to Duarte. However, as Lugo lacks a natural congressional majority, without Oviedo's support expect the legislative programme to be difficult and politics rancorous.



PAKISTAN

Zar has risen

Asif Ali Zardari, co-leader of the PPP, was elected state president, vowing to continue the Bhutto legacy. His immediate focus will be political consolidation, dealing with insurgency in tribal and border areas and restoring economic stability. Although the PPP now heads the presidency and premiership, as well as being the largest single party in parliament, expect all three areas to prove challenging. However, the faltering economy (25% inflation, stock market down 35% since April and rupee weakness) is likely to receive support from bilateral (e.g. Saudi Arabia) and multilateral (IMF, in need) sources. Nonetheless, expect further political turbulence.

ALSO IMPORTANT...



HONG KONG

Lively

"Pro-democracy" reform politicians fared better than expected in last weekend's Legislative Council (Legco) elections, despite the "feel good" lift from the Olympics that was thought likely to have worked against them and the retirement of some key pro-reform candidates. Pro-democracy candidates took 23 of the seats, less than in the previous elections, but won more of the directly elected seats this time and, overall, have enough to retain a blocking vote on legislation. Turnout was lower than in the previous election. Expect the economy to move to the forefront in the short term as those candidates who focused on livelihood issues seem to have done well.



GCC

Bridging the gulf

Indications from the Gulf suggest that in November the GCC is likely to endorse plans for a monetary union by 2010, including creation of a regional central bank to oversee a common currency. There are uncertainties relating to location of the central bank, name for the currency and whether the unit should be pegged to the USD or a basket of major currencies. Expect a currently stronger USD and weaker oil price to take pressure away from calls for currency realignment in the ST. This—and significant oil revenue inflows—should allow positive progress towards regional integration. However, also expect the 2010 timetable to prove testing.

COUNTRY REVIEW SUMMARIES



CROATIA

Cro bar?

The political environment has remained broadly stable after parliamentary elections in 2007, although policymaking is weak. The EU criticises the slow pace of structural reform and the inefficient judiciary, which impairs the otherwise adequate business environment and risks delaying EU accession past 2011. The macroeconomic environment has been generally robust, supported by fiscal consolidation and solid GDP growth. However, growth has come at the expense of persistent current account deficits, which have led to significant external debt accumulation and raised some concerns about external liquidity.



MAURITIUS

Maur of the same?

The political landscape is stable, with peaceful transfers of power. The economy is now based on four "pillars"—sugar, textiles and clothing, tourism and financial services—but further diversification is actively promoted, reflecting continuation of the country's good economic management under governments across its political spectrum. Annual GDP growth has averaged around 5% since 1990. However, fiscal and current account deficits (4% and 6.5% of GDP in 2007, respectively) will not be sustainable for a lengthy period. Expect continuation of sound management and GDP growth of 5-6% in 2008-09.

IN BRIEF

China
Thailand

August inflation fell to 4.9% yr/yr (6.3% July). August trade surplus increased to USD28.7bn.

The Constitutional Court has ordered PM Samak to resign because he accepted money for appearing in a TV show.

Edited by Andrew Atkinson

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17 September 2008

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IN THE HEADLINES



CHINA

Focal point

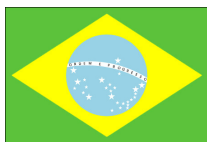
Interest rates (benchmark lending rate) were cut unexpectedly on Monday by 27bps, the first reduction in six years and reserve requirements were relaxed for small and medium-sized banks. The motivation may be mixed. The move coincides with the latest intensification of the global financial crisis, so at one level it could be an attempt to shore up local markets. Yet it also underscores the switch in the balance of concerns of the authorities—already signalled—from inflation, which eased to 4.9% yr/yr in August (6.3% July) to the potential for an unexpectedly sharp growth slowdown and indicates their willingness to move decisively if necessary. Nonetheless, expect policymaking to remain relatively cautious.



RUSSIA

Signs...

The military conflict with Georgia is taking its toll on the economy, not helped by turmoil in the global financial markets. Capital outflows since early August are estimated at USD15bn or more and the rouble has dropped 9% against the USD despite heavy central bank intervention, while FX reserves fell by USD13.5bn in August. Markets have tumbled. Russian companies, which are reported to hold a backlog of USD45bn that needs to be refinanced by end-2008, could now face serious liquidity risks as domestic borrowing costs soar and foreign investors re-price the risk of doing business in Russia amid the global credit crisis that seems likely to continue for some time yet.



BRAZIL

...of the...

The benchmark interest rate was raised again last week by 75bps to 13.75%. Expectations of inflation remain at the top end of the central bank's target range, credit expansion, though slowing, remains rapid and Q2 real GDP was an unexpectedly strong 6.1% yr/yr. However, there are signs that inflation is starting to ease, so the end of this tightening cycle may be in sight (though another smaller increase is probable in October). Expect higher interest rates to contribute to slower growth of around 3.5% in 2009 (4.8% 2008), particularly as emerging economies are starting to feel the effect of the global slowdown (markets/commodity prices).



TURKEY

...times?

Growth of real GDP dropped to a six-year low of 1.9% yr/yr in Q2 from 6.7% in Q1 as domestic demand slumped and export growth also slowed. Private consumption has been hit by high inflation (11.8% yr/yr in August) and rising interest rates. Meanwhile, the current account deficit looks set to exceed 7% of GDP in 2008 after widening by 42% yr/yr in Jan-July, while coverage of the deficit by net FDI inflows has fallen to 24% (58% in Jan-July 2007). This increases the economy's dependence on ST capital inflows and consequently its vulnerability to global de-leveraging.

ALSO IMPORTANT...



SOUTH AFRICA

Jacob's well

Corruption charges against Jacob Zuma, leader of the ruling ANC, were dismissed as inadmissible in a High Court ruling. This almost guarantees that Zuma will be elected state president in April 2009, when Thabo Mbeki steps down after two terms. However, the legal and political systems are now under closer scrutiny by the investor community. Moreover, Tito Mboweni, the central bank governor, will also leave office. Yet these developments do not necessarily indicate that sound economic management is at risk. Zuma is a populist but the ANC leadership is aware of the need for economic strength. So, expect some uncertainty, but no significant policy shifts in the ST.

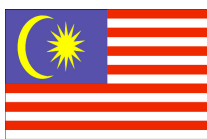


ZIMBABWE

Zimmering

A power-sharing deal is in place whereby President Robert Mugabe (ruling ZANU-PF) remains head of state with Morgan Tsvangirai (MDC) as executive prime minister. The MDC will hold most cabinet posts, but the party is divided into two factions, so expect ZANU-PF to continue to influence main policy formulation. At the official signing of the deal, Mugabe—who will continue to control the army—re-affirmed that foreign influence (other than aid) will not be welcome, suggesting that nationalisation of farms and industry will be hard to reverse. It will be difficult for the political parties to forge a working relationship, so expect further turmoil.

COUNTRY REVIEW SUMMARIES



MALAYSIA

Not too bad

Rising ethnic-religious tensions and growing public resentment with the current government have disturbed political stability. The ruling BN coalition survived the snap elections in March 2008, but a strong opposition has emerged and calls for the retirement of PM Badawi have not ended. Expect political uncertainty to continue for some time and to impact policymaking. However, strong macro-economic fundamentals provide sufficient cushion to weather political uncertainties in the near-term and, importantly, minimise any concern of an external liquidity or debt crisis. The business environment is fairly sound.



SEYCHELLES

Sea sells?

James Michel won a five-year term in end-July 2006 presidential elections and, in May 2007, the ruling SPPF retained its majority in legislative elections. International relations have improved since the government increased its co-operation with the donor community, including the IMF. This follows years of FX shortages and increasing debts. However, reforms (including currency realignment and boosting tourism) have coincided with high energy and food prices, so expect average inflation of 20% this year and a current account deficit of 40% of GDP. Expect GDP growth of 3.5-4% in 2008-09.

IN BRIEF

THAILAND UKRAINE

Parliament elected Somchai Wongsawat, a brother-in-law of ousted former PM Thaksin, as the new PM.
Parliament's speaker confirmed that the coalition government has formally collapsed.

Edited by David Atkinson

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COUNTRY RISK WEEKLY BULLETIN

24 September 2008

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IN THE HEADLINES



EMERGING ECONOMIES

Rolling outwards

The intensification of the credit crisis has hit emerging economies with sharp market declines and, in a few cases, banking system illiquidity. Moreover, bond issuance has stalled. Q2 GDP growth also shows the slowdown spreading prior to the latest events, which should finally dispel crude de-coupling notions. At least some economies will be helped by the commodity price retreat, but that raises risks for commodity exporters. Almost all economies face a marked slowdown—of uncertain duration and scope given current uncharted waters—but expect those with large external financing gaps, weak policies and unstable politics to be under most pressure.



SOUTH AFRICA

Manuel worker

Thabo Mbeki will step down tomorrow as state president, following de-selection by the ruling ANC after he was allegedly implicated in plans to influence negatively court proceedings against Jacob Zuma, party president. Some cabinet ministers will also resign, indicating the Mbeki/Zuma split within government and the ANC. Importantly for investor sentiment, FM Trevor Manuel is likely to remain in government. ANC deputy leader Kgalema Motlanthe will become acting state president but expect Zuma, who currently is not an MP, to become head of state in 2009, if not before. Also expect currency and equity markets to remain nervous into 2009.



THAILAND

Sam-Som?

Somchai Wongsawat replaced Samak Sundaravej as PM last week, but this did not end the month-old siege of government buildings by protesters who want a government without any link to ousted former PM Thaksin, Somchai's brother-in-law. Nevertheless, the more-conciliatory Somchai has been able to start talks with the protesters, although a way out of the political stalemate still appears difficult to achieve. Moreover, the underlying deep divisions in society will persist. The economy so far seems to be resilient to the political woes—the baht/USD exchange rate has remained broadly stable—although a longer-term impact cannot be ruled out.



ECUADOR

Defining moment?

The referendum on the draft constitution will be held on 28 September. Opinion polls suggest that President Correa will win the necessary 50%+1 vote for approval. The constitution extends the president's powers and allows him to stand for two more terms. Meanwhile, Correa has appointed a new FM, the fourth in two years, vowing to curb the ministry's power and has re-asserted his intention to prioritise social spending over external debt servicing should oil prices fall to critical levels. Expect the probable referendum result to reinforce the radical-left agenda, but it may do little to remove deep-rooted political divisions.

ALSO IMPORTANT...



ISRAEL

Zip fastener?

Following last week's leadership elections for the Kadima party, Foreign Minister Tzipi Livni was invited to form a new government. She has 42 days to create a coalition administration. Expect this to be no easy task as the Knesset (parliament) is deeply fractured, with small religious parties (including Shas) often acting as power brokers. Meanwhile, Ehud Olmert—embroiled in corruption charges—remains as caretaker PM. Expect a coalition of Kadima, Labour and smaller parties but only after prolonged negotiations. If alliances cannot be forged early elections may be called but opinion polls currently indicate that Likud would win. Expect uncertainty but overall stability.



SLOVENIA

Pension rights

The ruling centre-right coalition was defeated in Sunday's general election, gaining just 40 out of 90 parliamentary seats. A centre-left three-party alliance, which won a combined 43 seats, is likely to form the next government, probably including the Pensioners' Party (7 seats), which is part of the incumbent administration. However, do not expect a significant shift in the country's political and economic course. Slovenia has a tradition of consensus-based policymaking and a slow pace of structural reforms, which the outgoing government, elected in 2004, was unable to break as managing the coalition required a good deal of compromise.

COUNTRY REVIEW SUMMARIES



PARAGUAY

Change management?

President Lugo's election this year ended 61 years of Colorado Party rule but he will encounter strong opposition—having already faced down an alleged coup attempt—and governance will be difficult, increasing political instability risk. His election also injects greater uncertainty into policymaking as he is a left-wing populist. However, he appears to be more of a pragmatic- than radical-leftist, although proposed land reform will be contentious. Inflation has accelerated sharply, but fiscal, debt and external liquidity indicators remain adequate. Expect growth to slow in 2009 and the external balance remains vulnerable to a fall in soya prices.



COMOROS

Morose?

The largest three islands (Grande Comore, Anjouan and Mohéli) maintain a degree of autonomy and power struggles between them are common. There have been a large number of coup attempts and calls for secession so that stability is far from assured. The economy is based on agriculture (over 50% of GDP—with a dependency on exports of vanilla, cloves and ylang-ylang) and on tourism. Membership of the Franc Zone limits transfer risk but political instability has contributed to low growth, wide fiscal imbalances and domestic and external public sector arrears. Expect current account deficits of 4-5% of GDP in 2008 and 2009.

IN BRIEF

Oil prices

Benchmark Brent USD103/b (average year to date USD112.7/b, year high USD146/b, year low USD86.6/b).

Edited by Andrew Atkinson

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1 October 2008

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IN THE HEADLINES



WORLD ECONOMY

Tarp all in?

If there was ever doubt over the importance of politics in country risk, events in the US this week should dispel them, as a fractured legislature undermined economic necessity. Congress may still pass the rescue plan (TARP) but failure to stabilise the financial system will test even the most resilient of economies, including oil producers. Some are already feeling the squeeze via the banking system and refinancing needs. Slowing global demand and higher domestic inflation—the spread into core rates has been stronger than in the major economies—are also being felt, even in Asia, where Singapore's bell-wether economy could contract for a second successive quarter.



LATVIA

Lat down

Real GDP growth has slowed sharply from 10.2% in 2007 as a whole to 3.3% yr/yr in Q1 2008 and only 0.1% in Q2. Private consumption and investment have contracted markedly this year as credit has been drying up. Preliminary data suggest that industrial output and retail trade will continue to fall in Q3. Altogether this confirms earlier expectations that the once-overheated economy is heading for a hard landing. Although inflationary pressures and the current account deficit are now beginning to ease, both will remain at worrisome levels until 2009. Expect growth to be negative in 2008 and economic risk to remain high for some time.



BELARUS

Luky dip

Opposition parties failed to win a single seat in Sunday's parliamentary election, which fell short of international standards according to OSCE monitors. The result undermines President Lukashenko's recent attempts at rapprochement with the West following a cooling of relations with Russia, the traditional ally, which has exerted increasing economic pressure since 2007. Do not expect an early easing of EU and US sanctions that were imposed after the flawed presidential election in 2006. Indeed, there is a risk that Belarus' deep international isolation will be further entrenched, thereby retarding economic development.



ECUADOR

Correa-ring ahead

President Correa received a huge boost in last week-end's referendum on the constitution, with a strong yes vote (64% with most votes counted). One negative, however, was a no vote in the key city of Guayaquil, which may cause tensions. The new constitution is effective immediately, with an interim body serving until a National Assembly is elected next February. The constitution, which increases presidential powers, also increases social spending and transfers monetary policy to the president. Expect problems with debt servicing and maybe even dollarisation if oil prices continue to fall sharply.

ALSO IMPORTANT...



LEBANON

Cazual labour

On Monday, parliament approved a new electoral law, which alters the boundaries of voting districts (possibly favouring Hezbollah) and will be used in parliamentary elections next year. Under the new law, polling will be in smaller districts (cazas) and elections will now be held on only one day. Meanwhile, another bombing in Tripoli in the north, the second since mid-August, and Syrian troop movements north of the border indicate that the reconciliation process will not be easy. However, the Qatari-mediated peace settlement in May is holding, as is the unity cabinet in which Hezbollah commands a veto on decisions. However, expect only slow political/social progress.



ICELAND

Glitch?

Yesterday, a leading rating agency downgraded its outlook on four banks as a result of concern relating to the country's financial system against a background of a global liquidity crisis. The previous day, the government announced that it was taking a 75% stake in one of the banks, Glitnir, Iceland's third biggest by market capitalisation. The government will inject EUR600mn into Glitnir to provide additional liquidity into the system. Iceland is particularly vulnerable as it requires access to external financing to manage a current account deficit (around 15% of GDP in 2008). Expect further bad news from Iceland's financial and corporate sectors.

COUNTRY REVIEW SUMMARIES



BAHRAIN

Al(legiance)

Politically and socially, Bahrain is more progressive than its large neighbour, Saudi Arabia, to which it is linked physically and economically. Unlike the other GCC states, Bahrain is not a significant producer of crude oil or gas but it possesses a vibrant refining sector for other regional producers and, additionally, it has a strong industrial base (particularly aluminium) and is a financial sector of international repute. With a sustained period of high international oil prices, revenues have been boosted and fiscal and current account surpluses are likely to be equivalent to 4.5% and 18.8% of GDP, respectively, this year. Expect GDP growth of 7% in 2008 and 5% in 2009.



PHILIPPINES

Peso doble?

Systemic political risk remains substantial and stability is threatened by recurrent political turmoil and ongoing security issues. Fiscal and external debt indicators have improved in recent years as a result of strong growth, but the economic performance has reversed in 2008, largely because of a deteriorating global environment. Soaring food and fuel prices caused record levels of inflation (12.5% in August), reduced overall growth to 4.6% in H1, led to a fall in the current account surplus and weakened the peso by 13% against the USD. However, FX reserves are still solid, providing some cushion against ST economic risk.

IN BRIEF

Kuwait & UAE Morocco

Central banks injected liquidity into the financial systems to provide reassurance against a credit crunch. Expect the new pro-monarchist Authenticity and Modernity Party to become the largest single parliamentary group.

Edited by Andrew Atkinson

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9 October 2008

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ICELAND

Permafrost?

With the takeover of Kaupthing, the government has effectively nationalised most of the banking sector. The Financial Supervisory Authority had, in any event, been given extensive powers of intervention. All domestic deposits carry a full guarantee. A high concentration and interlocking shareholding structure in the corporate sector will take time to unravel but expect company failures, as action to remedy large macro-economic imbalances, combined with lack of liquidity, will sharply reduce output. Iceland requires quick disbursements of international assistance (probably from Russia and perhaps from the IMF). Expect a severe and probably prolonged recession.



EMERGING EUROPE

Submerging?

The region—particularly high risk and leveraged economies—has been hit markedly by the intensification of the global credit crisis. Above-average falls in equity markets and the sharp weakening of several currencies reflect a strong reversal of investor sentiment and attendant flight to “safety”. Since early September, the Romanian leu is down 10.3%, the Hungarian forint 6%, the Turkish lira 10.4% (all against the EUR), the Ukrainian hryvnia 16.9% and the Russian rouble 5.5% (both against the USD). The currency boards of Bulgaria, Estonia and Lithuania have held so far. Expect continuing regional vulnerability to financial contagion.



CHINA

A switch in time?

Interest rates were cut again yesterday, by 27bps (as in several other Asian economies) alongside the co-ordinated 50bps cut, led by the US Fed and ECB—underscoring the policy shift towards maintaining growth, as banking system liquidity stress is being felt wherever banks are integrated into global financial markets, hitting overall output. China's growth prospects remain better than most, but the authorities are likely to be increasingly concerned about the social implications of a sharp slowdown, as business confidence deteriorates. Expect further interest rate cuts and probably a fiscal boost.



PAKISTAN

Rue P

Economic deterioration has been magnified by domestic political uncertainties and associated market jitters. Inflationary pressures (largely from high costs of imported energy), relatively large fiscal and current account deficits (around 6% of GDP) and rapid fall in FX reserves do not instil confidence. So far this year, the KSE100 is down 35% in local currency terms and the rupee has fallen 22% against the dollar. S&P downgraded its sovereign debt rating to CCC-, approaching default level. Much depends on Pakistan's strategic importance as it seeks international support to bridge ST financing gaps.

ALSO IMPORTANT...



INDONESIA

Six hit

In contrast to most of the region, the central bank has raised its key policy interest rate for the sixth time this year, by 25bps to 9.5%, prioritising price and exchange rate stability over economic growth. Inflation accelerated further in September—again in contrast to most of the region—to 12.1% yr/yr. The rupiah has weakened by some 5.6% against the USD since early September on capital outflows amid the intensifying global credit crisis. Markets have tumbled this week. Growth of real GDP was strong at 6.3% in H1, but expect it to slow to around 5% in H2 and further in 2009 amid the global economic slowdown.



SOUTH AFRICA

Defence force?

Mosiuoa Lekota, who resigned as defence minister when Thabo Mbeki stepped down as state president, is at the centre of calls for a breakaway party from the ANC. Do not expect a potential new party—if formed—to be able to provide a serious challenge in elections next year. Moreover, creation of a viable opposition should be seen as a positive LT development. Of more concern are market worries relating to potential populist measures and a deteriorating economy. Yesterday, the rand fell to a 7-year low against the USD and the JSE was down 3%. Do not expect the banking sector to be immune.

COUNTRY REVIEW SUMMARIES



COSTA RICA

Bandwidth

Systemic political stability is good. The priority for the government is passage of the DR-CAFTA (free trade agreement with the US), which is almost concluded but will require another extension of the deadline by the US. Fiscal reform, another priority, has been delayed and policy has been increasingly focused on control of inflation and curbing the wide current account deficit that is putting downward pressure on the exchange rate and FX reserves, as the former is managed within a band. External and public debt ratios are moderate. Expect growth to slow sharply in 2009 to 2-2.5% (from 6.8% in 2007).



BURKINA FASO

Primary colour

Soaring food prices provoked public upheaval in early 2008, but emergency measures introduced by the government have brought some stability to the political environment. The economy is dependent on the primary sector but membership of the CFA franc zone provides adequate monetary policy and low transfer and exchange rate risk. Although public and external debt ratios are comfortable at around 20% of GDP after substantial debt relief in 2004-06, the country will remain highly dependent on foreign aid because of large structural deficits in the fiscal and current accounts.

IN BRIEF

Interest Rates Latin America Malaysia Ukraine

Yesterday's co-ordinated action by leading central banks (including the Fed, ECB and BOE) cut rates by 50bps. Currencies have depreciated sharply, notably in Brazil and Mexico.
Prime Minister Badawi will step down from office in March 2009.
President Yushchenko dissolved parliament and called snap elections to be held on 7 December.

Edited by Andrew Atkinson

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COUNTRY RISK WEEKLY BULLETIN

15 October 2008

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IN THE HEADLINES



EMERGING ECONOMIES

No panacea

Coordinated bank interventions in the major economies may bring some relief to otherwise increasingly illiquid emerging economies, as risk aversion intensified alarmingly last week. Fundamentals may begin to re-assert themselves in risk assessment, but the external environment will remain daunting, possibly for a prolonged period. Pressures will be felt in sharp output losses almost everywhere, but most at risk are those economies with large external financing requirements, weak debt and FX positions and unstable governments. Commodity producers will also come more into focus. Expect an increasing number of countries to return to IMF-led multilateral funding.



HUNGARY

Line of fire

Against the backdrop of the global financial crisis, markets tumbled over the past week and the forint lost 7.5% against the EUR in the first 10 days of October, reflecting investor concern over large (albeit improving) macroeconomic imbalances. The IMF announced on Monday that it was ready to provide financial support if needed, which resulted in a 4.2% recovery of the forint since then. While the authorities have said that they do not need IMF support (for now), this option should help contain investor fears for the time being. Still, expect Hungary to remain among those economies more vulnerable to the crisis.



SOUTH KOREA

Won more time

The recent intensification of the global financial crisis has hit South Korea harder than most regional peers. Accelerating capital flight—as risk aversion to emerging economies has increased sharply—and concerns about a FX liquidity shortage in the banking sector pushed the won to a decade-low against the USD on 8 October and caused markets to tumble. The won has recovered by 15% since, partly thanks to this week's coordinated bank interventions. Moreover, ample FX reserves of USD240bn should prevent a 1997-style BOP crisis in the near-term. Nonetheless, expect rising NPLs and insolvencies and sharply lower growth.



UNITED ARAB EMIRATES

Rates down?

The central bank injected USD13.6bn into the banking system and the government has guaranteed all deposits, savings and inter-bank lending. Dubai's financial centre provides lines of contagion from the banking and credit squeeze elsewhere, project finance is now limited and a real estate correction is considered long overdue. However, it is probably premature to expect a wide default crisis. Although debt refinancing costs have increased strongly and a weakening oil price is reducing prospective FX earnings, expect Abu Dhabi's sovereign wealth funds to provide finance, in need, but also expect much tighter business conditions.

ALSO IMPORTANT...



INDIA

With reserve

Last week's surprise 150bps cut to 7.5% in the cash reserve ratio—the first in five years—confirms that India is not immune to the global crisis and also suggests that policy may have shifted away from monetary tightening. However, don't expect quick action on interest rates cuts until inflationary expectations clearly point to easing price pressures (wholesale price inflation remains around 12% yr/yr). Indeed, with a depreciating rupee (down 18% against the USD January to mid-October), import costs will not benefit markedly from declining commodity prices, so imported inflation remains a key risk to the current account deficit (expect around 3% of GDP in 2009).



MEXICO

Down, not out

As global risk aversion intensified last week the peso and local financial markets fell sharply, the former by 14% requiring official intervention that used almost 10% of FX reserves. Nonetheless, provided that this week's co-ordinated bank interventions work, with lower public debt, a better fiscal position, adequate FX reserves (even after last week) stronger banking system and a floating exchange rate, Mexico is well placed to avoid a mid-90s Tequila crisis collapse. Nonetheless, expect a sharp slowdown—growth may be barely positive in 2009—despite the government's announcement of an emergency public spending boost of around 1% of GDP.

COUNTRY REVIEW SUMMARIES



ROMANIA

Familiar story?

Macroeconomic imbalances have increased, intensifying concerns over external liquidity risk and a hard landing of the economy. Rapid domestic credit growth (54% of which is foreign-currency-denominated), sharply rising ST external debt, the unsustainably large current account deficit and considerable downward pressure on the leu/euro exchange rate are the most pressing concerns, exposing lenders to considerable credit and exchange rate risk, particularly in the context of the intensification of the global financial crisis. Moreover, the banking sector seems increasingly vulnerable to the latter.



JAMAICA

Jammed in?

The two-party parliamentary system has proved durable, though snap elections are possible over an electoral legal wrangle. Growth is low (1.7% av. 2003-07) and inflation hit 26.5% yr/yr in Aug. The main threat is the large current account deficit (18% of GDP) with low FDI coverage and a large external financing gap, alongside high public debt (127% of GDP). This leaves little room for policy manoeuvre (or error) and a high vulnerability to a more malign external environment (risk aversion, commodities, tourism). Unsustainable unregulated investment schemes also pose a problem.

IN BRIEF

Peru

Cabinet resigned over a scandal. PM replaced by left-wing former provincial governor.

Edited by David Atkinson

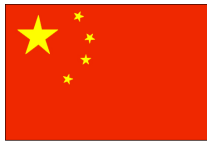
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COUNTRY RISK WEEKLY BULLETIN

22 October 2008

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IN THE HEADLINES



CHINA

Stimulating?

GDP growth slowed to 9% yr/yr in Q3, well below expectations and the lowest quarterly rate in 5 years. Industrial output continued to slow through September, even after the Olympics, which disrupted production. However, domestic demand indicators remain relatively robust—September retail sales and fixed asset investment were strong. Indeed, export growth also picked up. Nonetheless, expect net exports to erode growth into 2009, reinforcing the switch in policy focus to expansion, underscored by the drop in inflation to 4.6% yr/yr in Sept. Expect a fiscal stimulus as well as monetary easing. More controversially, pressure to hold down the exchange rate will also increase.



OPEC

Lacking a cutting edge?

The group's mid-November meeting has been re-arranged for 24 October. Production cuts are widely anticipated. This follows sharp falls in oil prices, with benchmark Brent falling from a peak of USD146/b in early July to below USD70/b. OPEC is a disparate grouping and a natural consensus is difficult to achieve. Saudi Arabia is likely to see USD80/b as a new equilibrium target but is still able to balance its budget at USD50/b. Iran and Venezuela, with strong political agendas, are likely to want nearer to USD100/b. Expect UAE and Kuwait to follow the Saudi line. Further, expect the output cut (0.5-2 mbpd) to have only a limited impact.



ARGENTINA

Going for broke?

The government announced the re-nationalisation of the pension system, privatised since 1994. Ostensibly, the move is aimed at protecting investors (future pensioners) against the global financial crisis. However, it also increases the pool of "captive" funds available to the government as it seeks to address the 2009-10 financing gap for public debt (domestic and external), which remains extremely tight. The key risk, though, is how far soya and grain prices will fall? Price falls have a negative impact on the fiscal and current account balances and increase the financing gap. Expect interventionism to increase as the corporatist state defends the local market.



SOUTH KOREA

Package deal

The government announced a financial stabilisation package of USD130bn on Sunday—a combination of guarantees on new external debt (ED) by Korean banks and FX liquidity in the banking system—as fears over the impact of the foreign exchange (FX) shortage on domestic banks' ability to refinance their ST ED persisted. The move should calm markets for now, although it will not prevent a broad-based slowdown of the economy, which will also affect the still-solid macroeconomic fundamentals. FX reserves of USD240bn still cover all ED maturing within one year, but this ratio is declining and the overall ED/GDP ratio is set to rise.

ALSO IMPORTANT...



INDIA

Repo-sitioned?

This week, the RBI unexpectedly lowered its benchmark repo rate by 100bps to 8%, following moves to boost liquidity in credit markets through lowering the cash reserve ratio (down 250bps in October). The authorities want banks to maintain adequate credit lines to industry and trade but this concerted loosening in monetary policy also reflects a shift in concern towards potential slowdown in overall growth and away from inflationary pressures. Price pressures are easing, although wholesale price inflation at 11.4% yr/yr remains significantly above target. Expect overall GDP growth to ease to 7-7.5% this year and 6.5-7% in 2009, reflecting the global slowdown.



RUSSIA

Stand bail

The global credit crunch has hit Russia harder than many anticipated as banks and firms face problems to roll over large amounts of foreign debt. Even the oligarchs (hit by the plunge in stocks) and large energy companies, such as Gazprom (additionally hit by sharply falling oil and gas prices) are feeling pain, seeking government loans to roll over ST debt. A run on deposits of small- and medium-sized banks has forced the state to bail out several of them. USD520bn in FX reserves and a USD200bn state rescue package have so far failed to restore confidence as recent events raise doubts that these resources are spent efficiently.

COUNTRY REVIEW SUMMARIES



UKRAINE

Raine wear

Recent high real GDP growth (7.1% yr/yr Jan-Aug) results almost solely from a strong recovery in agriculture. Indeed, declining output in construction (down 5.3% yr/yr Jan-Aug) and industry (down 0.5% yr/yr in Aug) indicate that the hitherto overheating economy is set to slow sharply. The export-oriented metallurgy (-8.6% in Aug) and chemicals (-9.1%) sectors have been hit hardest. Moreover, the impact of the intensified global liquidity crisis will exacerbate economic problems. Expect continued downward pressures on the hryvnia and FX reserves, as well as rising insolvencies.



SAO TOME & PRINCIPE

Stream line

The fluidity of political party alliances does not augur well for government stability and therefore for policy continuity. Annual real GDP growth averaged only 1.2% in 1990-99 but over 5.6% in 2000-07 as oil sector activity heightened expansion in a previously cocoa-dominated economy. In the short term until oil comes on stream, the current account balance will deteriorate (deficits equivalent to 30-40% of GDP this year and in 2009). Despite weakening oil prices, expect hydrocarbon-related investment to enable GDP growth of 5-6% both this year and in 2009.

IN BRIEF

Azerbaijan	President Aliyev won a second term in office with 89% of the vote on 15 October.
Bolivia	Congress approved a new constitution and set the date for a referendum on its approval (25 Jan 2009).

Edited by Andrew Atkinson

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COUNTRY RISK WEEKLY BULLETIN

29 October 2008

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IN THE HEADLINES



HUNGARY

A stitch..

Support pledges by the IMF and the ECB in mid-October did not contain investor fears long and markets continued to tumble last week as capital flight intensified. By 23 October, the forint had fallen by 17% against the euro since the start of the month and FX reserves were down by over 20% on three months earlier. The central bank raised interest rates by 300 bps on 22 October, but only with the announcement of a USD25bn rescue package by the IMF, EU and World Bank have markets shown any sign of calming. Even with Fund support, expect a recession in 2009 and insolvencies to rise sharply.



TURKEY

...in...

A heavy external financing requirement leaves the economy highly vulnerable to the spreading global financial crisis. The central bank has stepped up measures to boost FX liquidity to ease difficulties facing banks and firms in rolling over maturing external debt, even though the banking sector appears generally solid. Moreover, the sell-off in Turkish assets has been accompanied by a 33% depreciation of the lira against the USD since 1 October, increasing the cost of servicing external debt. A sharp economic slowdown is on the way and, eventually, new IMF funding may be needed.



BRAZIL

Horns of a dilemma?

The central bank faces a dilemma as it decides today on interest rates. The spread of the global financial crisis has brought an acute reversal of capital flows—reflected, among other things, in a collapse of equity prices and a 48% weaker exchange rate (Jul to 24 Oct)—and banking illiquidity, compounded by corporate stress from bad currency hedges. While the central bank and government are intervening in several areas to offset systemic strains, utilising the strong FX reserves and credibility gained from several years of sound policies, growth is still set to slow sharply. Against that sharp exchange rate falls typically boost inflation. Expect downturn fears to prevail.



UKRAINE

....time?

The authorities and the IMF have reached a tentative agreement on a USD16.5bn, 2-year Stand-By Arrangement. Final approval of the loan by the IMF Board, however, is dependent on adoption of comprehensive budgetary and financial sector reforms. But, this is a problem—parliament has been deadlocked for months and MPs, preoccupied with the prospects of snap elections, have so far failed to reach consensus on the crucial legislation. Even if they do in the next few days, expect political feuding to continue and complicate the focused policymaking that will be needed throughout the forthcoming period of economic strain.

ALSO IMPORTANT...



ISRAEL

Net not closing?

Tzipi Livni, leader of the Kadima party that leads the coalition government, appears to have failed to forge a new administration and, constitutionally, a fresh mandate is now required through general elections. Livni became party leader in September when Ehud Olmert (currently still PM) announced he would stand down to contest corruption charges. Expect elections within 90 days, but the outcome is uncertain as recent opinion polls show that Livni has edged ahead of previous frontrunner Binyamin Netanyahu (Likud) to head a new coalition. Expect a period of political uncertainty, slow policy implementation and weaker prospects for the regional peace process.



ICELAND

Hard frost?

Yesterday's 600bps increase in the benchmark interest rate, to 18%, more than reversing the recent cut, reflects strict conditionality attached to the recently announced IMF support, as policy seeks to stabilise the currency. In addition to a two-year USD2.1bn facility from the IMF, Iceland is seeking a further USD4bn from other sources, including the ECB, the Fed and Nordic countries. Additional external funding is necessary, but will also be subject to government implementation of the IMF programme. While this should begin a turnaround, expect a severe contraction of output in 2009, a sharp, if brief, upturn in inflation and near-term payments delays

COUNTRY REVIEW SUMMARIES



VENEZUELA

What goes up...?

As oil accounts for 50% of government revenues and 90%+ of export receipts, the recent sharp decline in oil prices will test the government's radical agenda. The 2009 budget is based on USD60p/b, but prices are moving within striking range of that and balance on the external current account—after several years of large surpluses—and look set to fall further, though the outlook is highly uncertain. High FX reserves should provide a cushion, but currency devaluation is becoming more likely and if prices continue to fall the government may have to prioritise spending plans and, perhaps, imports, behind FX controls already in place. Expect growth to slow sharply.



ANGOLA

Oil painting

The ruling MPLA won legislative elections in September 2008 and is likely to further consolidate its power base in presidential polls next year. Although significant oil wealth is now generated, poverty remains pervasive and reconstruction of physical infrastructure, institutions (political and civil) and the overall economy will take a long time. Overall GDP growth rates have registered double figures in most years since 2002, spurred by mining (particularly diamonds) and agriculture, as well as oil production. However, with weakening oil prices, expect the current account surplus (30% of GDP 2008) to fall, potentially sharply and GDP growth to slow (20% 2008).

IN BRIEF

China
South Korea

Concerned about slowing growth, the central bank cut Interest rates by another 27bps today
Concerned about looming recession, the central bank cut its key policy interest rate by 75 bps to 4.25%.

Edited by David Atkinson

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COUNTRY RISK WEEKLY BULLETIN

5 November 2008

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IN THE HEADLINES



WORLD ECONOMY

Crisis...

Three international developments are providing crucial support for emerging economies. Firstly, strong IMF-led packages for Hungary and Ukraine. Secondly, the IMF's new, no conditionality and fast disbursing facility for countries with good track records. Thirdly, the Fed's swap line (USD30bn each) for Brazil, Mexico, South Korea and Singapore. Equally important will be efforts to include resources from GCC and China. Countries that qualify for the Fund's new facility have not been identified but several key economies can still expect the more rigorous conditionality of a stand-by, which some will struggle to meet. Moreover, none of this will avert a sharp growth slowdown.



CHINA

...management

A sign that the authorities are increasingly concerned over slowing growth—and perhaps an indication that it is more rapid than consensus forecasts have suggested—is the decision this week to lift the caps on bank lending (enforced rigorously so far this year). This comes shortly after a third reduction in interest rates since mid-September. While removing quantitative restrictions should have more impact than lowering interest rates, it will probably not be enough on its own to offset what is becoming a sharp slowdown in export growth. Expect a strong fiscal boost to supplement monetary policy, but growth may still dip below 8% in 2009.



INDONESIA

Welfare state

The collapse of a commercial bank wholly owned by the central bank and the solvency crisis in the business empire of Aburizal Bakrie, the welfare minister, exacerbated negative investor sentiment towards end-October. Stock and bond markets tumbled. The rupiah lost 16% against the USD last month and reached a temporary seven-year low on 28 October. It is assumed that the central bank has used up over 10% of FX reserves in defending the currency to date. Sovereign default risk may not be a significant problem yet, but there remains concern that rupiah depreciation could cause more distress in the corporate and banking sectors.



LITHUANIA

Home base

The conservative Homeland Union has emerged as the strongest party after parliamentary elections in October and is likely to form a four-party centre-right coalition. The outgoing centre-left government bore the brunt of voters' concerns over slowing growth, high inflation and rising unemployment. The economy, after overheating, is now heading for a hard landing. Moreover, recent intensification of the global financial crisis has increased country risk as the economy is highly dependent on external financing. FX reserves have fallen by over 20% over the last year, reflecting concerns relating to banking system illiquidity.

ALSO IMPORTANT...



GCC

Gulf squeam?

Bahrain, Kuwait and Saudi Arabia last week lowered interest rates to ease banking sector liquidity and improve confidence. The UAE kept rates unchanged. The GCC states have also guaranteed bank deposits and interbank lending, as well as injected cash into the banking systems. The Central Bank of Kuwait had to bail out Gulf Bank—the country's second largest commercial bank—after losses in derivatives trading but, in general, GCC banks are well capitalised. However, expect falls in regional asset prices (the Dubai property market remains a key risk) to erode confidence at a time when weaker oil prices are reducing (the still substantial) overall financial strength.

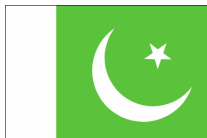


ZAMBIA

Band wagon

Rupiah Banda, leader of the Movement for Multiparty Democracy (MMD), won presidential elections last week, with 40.1% of the vote. Opposition leader Michael Sata (38.1%) claims the polls were rigged, although independent monitors were broadly satisfied. Banda's term runs only to 2011 as he is taking over from Levy Mwanawasa, who died in office in August. Expect policy continuity and a pro-business stance that has enabled FDI to increase from USD0.3bn in 2003 to USD4bn this year. However, with the global slowdown and associated weaker copper prices, expect GDP growth to ease and governance to face a stern test.

COUNTRY REVIEW SUMMARIES



PAKISTAN

Stan(d) by

Newly-appointed President Asif Ali Zardari is presiding over a country in crisis. Divergent views within the coalition government make policy formation slow and border conflicts drain public finances and confidence. Additionally, the economy is so weak that external financial support appears inevitable—and needed soon. Inflation is at a 30-year high, the budget and current account deficits equivalent to around 8% and 9% of GDP, respectively, and FX reserves have fallen and now provide import cover of only a few weeks. The IMF has been negotiating a stand-by programme and, while Pakistan may go that route, expect associated conditionality to pose serious challenges.



BENIN

Less beni(g)n

Systemic political risk is moderate but policymaking is perceived as inefficient as parliamentary support for President Yayi is waning. High global food prices boosted annual inflation to a record 8% yr/yr in May and fiscal measures to mute price pressures will push the fiscal deficit to around 5% of GDP in 2008-2009. While large debt relief under HIPC and MDRI considerably improved the external debt burden, unsustainable current account deficits have already led to a re-accumulation of debt. Expect Benin to remain dependent on donor aid in the longer term. Also expect real GDP growth of around 5% in 2008-2009.

IN BRIEF

US

Democratic candidate, Barack Obama, becomes president-elect, with a clear margin in a high poll turnout.

Edited by Andrew Atkinson

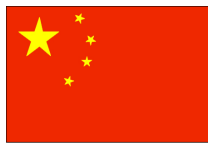
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IN THE HEADLINES



CHINA

Package deal

A potentially huge stimulus package has been announced, as fiscal policy becomes formally "active" and monetary policy moderately looser. The ten point plan focuses mainly on infrastructure investment, but also includes VAT reform and support for rural and low incomes. The investment part is worth RMB4trn by the end of 2010 (6% of GDP a year) but probably not all of this is new additional spending, some having been announced before or included in other budgets. Nonetheless, this shows strong resolve to boost domestic demand to offset the probable sharp slowdown of export growth and prevent GDP growth from slipping below 8% for a prolonged period.



LATVIA

Sub-par, ex-growth

The government was forced to take a 51% stake in the second largest bank, Parex, over the weekend, as it suffered large withdrawals of deposits. Parex was the only large domestically owned bank (the others have Scandinavian parents) so a systemic widening should be avoidable, especially as one problem seems to have been depositors feeling safer in foreign owned banks with state guarantees. The bank was also reportedly having problems rolling over foreign debt. More generally, Latvia's external financing vulnerability remains a material concern, despite an ongoing austerity programme, in the context of the ongoing global financial crisis.



SAUDI ARABIA

Oil...

The world's largest oil producing company, Saudi Aramco, is reviewing some LT projects against a background of declining prices. Benchmark Brent is now USD56/b, compared with USD146/b at the beginning of July. Price volatility makes it very difficult for oil companies to assess LT investments. Aramco appears on track to increase production capacity to 12.5mn barrels per day by year-end but a planned additional 2.5mn capacity is unlikely to materialise, with development of some oilfields (such as Manifa's 900,000bpd) on hold. Moreover, expect OPEC to seek further output cuts and price volatility to continue.



MEXICO

...platform?

Interior Minister Mourino's untimely death in a plane crash has robbed the president of a key cabinet member and close adviser. This comes at a critical time, as the government continues its campaign against drug trafficking and tries to stave off recession. The economy is being hit by contracting US demand, banking sector illiquidity and sharply declining oil prices, though the latter's impact may be mitigated by the news that almost all of next year's exports have been hedged at USD70-100p/b. Overall, Mexico should be resilient to systemic collapse, but expect barely positive growth at best in 2009.

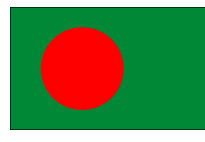
ALSO IMPORTANT...



EGYPT

Private enterprise?

Legislation is being prepared to give all Egyptians above the age of 21 a stake in some public sector companies. The value of this form of privatisation and the list of companies involved have yet to be revealed. This partial reallocation of some state assets appears a sound policy move by Cairo. Recent public opposition to privatisation stems from perceptions that state companies are being sold to a small elite or to foreigners. Accordingly, expect the legislation to assuage some resistance to privatisation. While Egypt will not escape the global slowdown, it is evident that sound economic management is still in place so expect further measures to minimise social discontent



BANGLADESH

Gum boil?

General elections are scheduled for 18 December and the state of emergency has been relaxed (but not yet rescinded). Earlier this month the army went back to barracks and restrictions on political campaigning were lifted. However, the two frontrunners for political leadership are Sheikh Hasina Wajed of the Awami League and Khaleda Zia of the Bangladesh National Party (the two begums) who have a record of personal animosity. Political rivalries in recent years have resulted in street violence and inefficient policymaking. Expect the polls to take place, but politics will remain tense before and afterwards and the military may yet intervene.

COUNTRY REVIEW SUMMARIES



SOUTH AFRICA

Break Lining?

Political uncertainties have increased. ANC leader Jacob Zuma appears set to become head of state next year, raising perceptions of a potential weakening of market-friendly and generally-sound economic policies. Additionally, an ANC breakaway faction is forming a new political party, which is positive LT, but could cause ST stability concerns. Meanwhile, expect GDP growth to ease from an average 5%+ in 2005-07 to only 2-2.5% in 2009, reflecting the global downturn, weaker domestic demand and power shortages. Moreover, global financial turmoil has exerted downward pressures on currency/equity markets. Expect 2009 to be a difficult year of transition



BULGARIA

Board Report

Overheated domestic demand has widened the current account deficit to over 20% of GDP, increased gross external debt to over 100% of GDP and reduced FX reserves cover to just 60% of external debt payments due in 2009. Private sector credit growth is easing but is still more than 50% and much is in foreign currency, which has helped fuelled a housing boom. So far, banking system deposits have not come under pressure, though liquidity has tightened, and the currency board has remained secure. However, contagion remains a threat and the inevitable policy adjustment will lower growth sharply, possibly for a prolonged period.

IN BRIEF

Pakistan

Islamabad appears to be closing in on an IMF facility, other avenues (bilateral) appearing to be unavailable.

Edited by David Atkinson

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COUNTRY RISK WEEKLY BULLETIN

19 November 2008

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IN THE HEADLINES



ECUADOR

Crunch time?

An interest payment due on Nov 14 on 2012 external bonds was missed, as the authorities decided to utilise the 30-day grace period (before the bond is in default) to consider their options. These bonds were deemed illegitimate by the government audit commission, but what is ratcheting up the pressure is the slump in oil prices. FX reserves are currently sufficient but lower oil prices reduce fiscal revenues and constrain public expenditure and President Correa has repeatedly said that he will prioritise infrastructure and social welfare over debt service if fiscal revenues fall. Expect a complication to be that Venezuelan institutions are large holders of Ecuador's debt interests.



PAKISTAN

Not so Shau

After an apparently unsuccessful search for bilateral sources of funds, Pakistan appears on the brink of an IMF-sponsored USD7.6bn multilateral support package. This should prevent an immediate external debt default and provide import funding but it will involve IMF conditions that will test a weak government's resolve. According to the PM's economic adviser, Shaukat Tarin, an agreement could be signed this week, with USD4bn available in the first year of a 23-month stand-by arrangement and repayments commencing in 2011. Expect some ST relief and further finance from bilateral donors but economic confidence will not be rebuilt quickly.



INDONESIA

Control freak?

Real GDP growth was still strong at 6.1% yr/yr in Q3, but expect it to slow to about 3.5% in Q4 and in 2009, reflecting a marked weakening of external demand amid the global economic downturn. The rupiah continued to weaken last week as markets construed a new central bank regulation restricting some FX purchases as a precursor to currency controls, despite denials from the authorities that this is intended. In October, the central bank used USD6.5bn defending the rupiah—which nevertheless fell by 16% against the USD—reducing FX reserves to USD48.5bn. Expect continued downward pressures on the currency and reserves.



ICELAND

Ice save?

Last weekend's preliminary deal with European countries on dealing with foreign depositors in a collapsed Icelandic bank should partly clear the way for a stalled IMF support package agreed on 24 October. The government will cover the insured deposits in Icesave accounts in accordance with EEA law. In addition to a two-year USD2.1bn facility from the Fund, Iceland is seeking a further USD4bn from other sources, including Nordic countries and the ECB. Expect these now to be forthcoming. However, also expect a difficult economic and business environment, with tighter fiscal and monetary reforms in a recession year in 2009.

ALSO IMPORTANT...



LATVIA

Below Par

Last week, both S&P and Fitch downgraded LT foreign currency sovereign ratings to BBB- from BBB, with a negative outlook. This reflects a larger than expected downturn in the economy (real GDP dropped 4.2% yr/yr in Q3) and the bailout of Parex bank, which increased concerns about a looming financial/economic crisis. Approaches have been made to the EU for potential financial help, if needed. FX reserves of USD5.4bn at end-October were still sufficient to cover the monetary base and thus to defend the pegged exchange rate regime but they have fallen already by 15% from a peak in May.



KAZAKHSTAN

Negative feedback

Fitch downgraded its LT foreign currency sovereign rating to BBB- from BBB, with the outlook remaining negative, and also downgraded seven financial institutions, citing deterioration in the banking system and a decline in commodity prices. While a sharp decline in growth to 3-4% in 2008-09 and a rise in insolvencies will be inevitable, a systemic banking collapse appears unlikely in the near term. With over USD50bn in FX reserves, including USD30bn in the National Fund, expect the government to honour a pledge to use up to USD10bn to stabilise the banking system and the economy.

COUNTRY REVIEW SUMMARIES



ARGENTINA

Pricing power

The intensification of the global financial crisis has increased risk significantly, despite relatively high FX reserves—the result of relatively large amounts of public debt to be refinanced (domestic and external) with little prospect of international support and sharp falls in commodity prices, which adversely impacts the fiscal and current account balances. While debt default may be avoided for some time—helped by the pending re-nationalisation of the pension system—much depends on soybean prices and the government action to adjust policies, both of which are highly uncertain. Expect growth to slow sharply in 2009.



JORDAN

Unclear remit

Despite a pro-West official stance, the constitutional monarchy has wide domestic and regional support, with King Abdullah II generally popular. Annual average GDP growth has been strong (6% 2000-07), spurred by investment in real estate and tourism but large fiscal and current account deficits require careful management in a more severe global environment. Workers' remittances are likely to decline, reflecting a regional slowdown, although GCC financial support should be forthcoming, in need, but weaker oil prices will curb the import bill. Expect overall growth to slow to 5.5% this year (6% 2007) and to around 3.5%-4% in 2009.

IN BRIEF

Sovereign ratings Fitch also downgraded Hungary to BBB (stable outlook), Bulgaria to BBB- (stable) and Romania to BB+ (negative); S&P downgraded Hungary to BBB (negative).

Edited by Andrew Atkinson

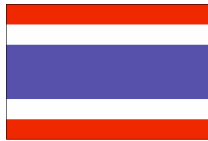
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COUNTRY RISK WEEKLY BULLETIN

26 November 2008

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IN THE HEADLINES



THAILAND

Launch PAD?

Real GDP growth slowed to a still robust 4% yr/yr in Q3 from 5.3% in Q2. Expect a sharper slowdown in Q4 and annual growth of just 2-3% in 2009 as Thailand will face the same pressures arising from the global economic downturn as other export-driven Asian countries. Moreover, the impact of the global crisis will be compounded by deepening political unrest. Anti-government protests of the opposition PAD, which began in August, have led to violent clashes with pro-government groups and a class struggle may be emerging. PAD's latest move, which was to shut-down Bangkok's main airport, is also threatening tourism.



TURKEY

Hot or cold?

To avoid fiscal supervision, the government decided in May not to pursue a new stand-by arrangement with the IMF. However, rising economic pressures from the global credit crisis and downturn have now reversed this stance. Nevertheless, despite two weeks of talks on a new IMF arrangement, no agreement has yet been reached as a result of continuing differences over the structure, conditions and amount of funding. A new deal appears essential to secure the minimum of external finance the economy needs in 2009, whereas no deal may result in an exchange rate crisis and sharp recession.



VENEZUELA

Bar association?

In last weekend's regional elections President Hugo Chavez' party won most positions (including 17 state governorships) but lost some key states and municipalities, including municipal Caracas (mayor) and the second-most populous state, Miranda, although it held on to Chavez' home state of Barinas. On a high turnout, opposition gains indicate that government support is not as overwhelming as it once was, but neither is it crumbling—opinion polls still show a majority in favour of Chavez. Moreover, the opposition remains relatively weak against government dominance of political institutions. Nevertheless, expect plunging oil prices to prove a severe test of government durability.



UNITED ARAB EMIRATES

United we stand

Despite its large financial asset base, as well as oil and gas reserves, the UAE has not been immune to the global credit squeeze. It already has in place a facility for improving bank liquidity. Now, Dubai is seeking federal sources of support for state-owned companies to withstand a period when international capital is scarce and real estate and equity markets are declining. With an estimated USD20bn in debt due for refinancing in the next two years, expect Dubai to turn increasingly to Abu Dhabi for support. Also expect further consolidation in the mortgage/finance sector, following this week's creation through merger of Emirates Development Bank.

ALSO IMPORTANT...



ALGERIA

Aziz way...again!

Parliament recently endorsed constitutional changes proposed by President Abdelaziz Bouteflika. Among these are removal of the existing presidential two-term limit, abolition of the post of head of government and creation of that of prime minister and appointment of two vice-premiers. Expect the new measures to strengthen Bouteflika's hold on power and also expect him to seek and win re-election for another five-year term in polls scheduled for next April. However, this concentration of power involves pitfalls, partly because Bouteflika's health is a concern. Nevertheless, Algeria is a major supplier to the west of oil and gas so do not expect overt international disapproval.



MADAGASCAR

Food chain

A South Korean company is negotiating with local authorities on a LT lease of Madagascar land. The proposal aims to provide Korea with food security by turning an area of 1.3mn hectares of existing forestry into farmland for production of maize and palm oil. Madagascar will benefit from infrastructure investment in roads, irrigation and storage facilities, with accompanying job prospects. Although there are social and political risks attached to farm produce being shipped from relatively poor countries (Madagascar receives international food aid), expect further examples of Asian/Middle East countries seeking to provision food supplies offshore.

COUNTRY REVIEW SUMMARIES



CHINA

The fourth cut is the deepest

The authorities continue to react vigorously to heightened concern over a sharp growth slowdown, as export expansion is being hit harder than expected, adding to the effect of earlier policy tightening on investment growth (notably construction). Today, interest rates were cut by 108 bps—the fourth and by far the largest reduction since mid-Sept—and further eased reserve requirements, which, along with the earlier ending of lending quotas, will help support fiscal spending boosts already announced. The latest World Bank quarterly report has revised down 2009 GDP growth projections to 7.5%, with real export growth of just 3.5%, below 1998 and 2001. Expect further stimulus.



LITHUANIA

On board...or not?

Overheated domestic demand, fuelled by rapid FX-linked credit growth, has pushed inflation to double digits, widened the current account deficit to 14.4% of GDP, increased gross external debt to around 100% of GDP and reduced FX reserves, which now cover less than 20% of external debt payments falling due in 2009. So far, the banking sector, dominated by Scandinavian institutions, appears solid and the currency board looks secure. But private-sector credit growth—still unsustainably high at 35% yr/yr in mid-2008—will have to decline sharply amid the intensified global financial crisis. Expect a recession in 2009.

IN BRIEF

Latvia The authorities have entered into talks with the IMF and EU, which are likely to provide help if needed.
Pakistan This week, the IMF approved a USD7.6bn 23-month stand-by facility, with immediate access to USD3.1bn.

Edited by Andrew Atkinson

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COUNTRY RISK WEEKLY BULLETIN

3 December 2008

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IN THE HEADLINES



INDIA

Bai election?

The recent terrorist attacks in Mumbai have heightened security risks in South Asia. Expect a measured response from Pakistan (from where the perpetrators allegedly came) to prevent a cross-border conflict. Indeed, regional relations may yet improve if common security issues come to the fore. However, governments in both countries are fragile and Indian elections (by May 2009) could see the Congress-led coalition fall. Expect the economic impact of the attacks to be limited but India's Q3 GDP data (7.6% yr/yr growth) already indicate a slowing economy. Expect India's 2009 growth to be 5-6% and political uncertainties.



THAILAND

Air strike?

Tuesday's Constitutional Court order dissolved the ruling PPP and two coalition partners (because of electoral fraud) and banned from politics for 5 years the parties' leaders, including PM Somchai. Soon thereafter, the PAD anti-government protesters, which regard the PPP as a proxy for ousted ex-PM Thaksin, ended their siege of Bangkok's major airports. However, do not expect an end to political turmoil. Other coalition MPs have vowed to attempt to form a government under a new name, while PAD has pledged to return if another Thaksin-proxy government is installed.



VENEZUELA

Term time

Despite mixed, though overall favourable, results in the recent state and municipal elections, President Chavez is to have another attempt at constitutional reform to permit him to stand for at least another term. Unlike the previous referendum, which the president lost, it is likely that this time a change to term limits will be the only item in the vote. This should help Chavez as he still retains majority support, judging by the latest election results. The reform bid will be pushed by the president's party. Expect an early referendum date as President Chavez will try to capitalise on his popularity before the full effects of plunging oil prices impact on the economy.



OPEC

Cut price?

Oil production quotas were left unchanged in weekend talks in Cairo but expect cuts at the full OPEC meeting in Algeria on the 17th. OPEC accounts for 40% of global oil production and will probably co-ordinate strategy with Russia (the second largest global producer). Some doubts relate to compliance with October's output cut of 1.5mbpd so expect a further 1-2mbpd cut later this month. Meanwhile, the Saudi Arabian king indicated that a price of USD75/b may be targeted. However, with weakening global demand, oil prices have fallen below USD50/b after peaking at USD146/b in July. Expect output cuts to have a limited impact on prices in the ST.

ALSO IMPORTANT...



MEXICO

Holding on?

Q3 GDP growth hit a 5-year low of 1.6% yr/yr and latest local consensus forecasts for 2009 have been revised sharply downwards to just 0.4%. Recent sharp falls in the peso exchange rate are keeping inflation expectations above the target range, however, prompting the central bank to leave interest rates on hold at the end of November for the third successive month. With little help for consumer spending from interest rates, tight credit conditions and weak exports (90% go to the US), expect achieving even barely positive growth in 2009 to depend heavily on government investment spending plans (financed partly by reserves accumulated when oil prices were high).



ROMANIA

Liberal values

Sunday's legislative polls ended in a tie between the Social Democrats (33.1% of the vote) and the Democratic Liberals (32.4%). PM Tariceanu's ruling National Liberals (18.6%) came in only third but will nevertheless be the kingmaker in the new parliament. Expect tough coalition talks. Swift formation of a stable government is desirable, given that the lax fiscal policy of the outgoing minority administration impeded timely measures to counter the impact of the global financial crisis on the economy. Currency risk remains a concern. Since end-August, the leu/euro exchange rate has been very volatile, falling by 7%.

COUNTRY REVIEW SUMMARIES



RUSSIA

RUB down?

The economy has been affected severely by the intensification of the global financial crisis and the rapid fall in oil prices since September. As many companies have problems in refinancing large amounts of ST external debt, investor sentiment has deteriorated sharply. Capital flight and central bank intervention to defend the RUB exchange rate have reduced FX reserves by 25% to USD450bn since August. Russia still has the resource base to counter the impact of the global crisis on its economy so that a 1998-style currency crash can be avoided. However, expect GDP growth to slow sharply and the number of insolvencies to rise in 2009.



KUWAIT

Waiting game

This week's resignation of the government and suspension of parliament reflect several years of political deadlock. Under the constitution, parliament has notional powers in excess of those elsewhere in the GCC but these are rarely evident. Expect a new government to be formed in January but also expect continuing partial political paralysis to limit policy implementation. Meanwhile, the global liquidity crisis and economic slowdown, combined with weakening oil prices, have impacted negatively, with the sovereign wealth fund instructed to buy 10% of local equities to support the stock market. Expect GDP growth to slow to 2-4% in 2009.

IN BRIEF

Interest rates Ghana

Malaysia cut its key policy rate by 25bps to 3.25%; **Thailand** cut its benchmark rate by 100bps to 2.75%. Presidential (incumbent John Kufour stands down) and legislative elections 7 December. Expect close polls.

Edited by Andrew Atkinson

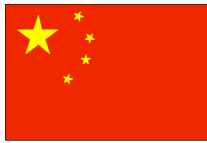
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COUNTRY RISK WEEKLY BULLETIN

10 December 2008

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IN THE HEADLINES



CHINA

Whatever...

Exports fell 2.2% yr/yr in November, according to today's unexpectedly bad trade data. This is much worse than the +15% consensus projections, but reinforces experience emerging elsewhere in Asia that global demand has fallen dramatically. Imports slumped even more, however, falling 17.9%, partly reflecting exports (processing) but also weakening domestic demand, although commodity prices have fallen sharply. Data on producer prices, also released today, show growth of only 2% yr/yr, heightening deflationary concerns. Expect sharply lower Q1 and Q2 GDP growth, maybe less than 7%, and a further fiscal stimulus, probably focusing on consumer spending.



UKRAINE

Hard rain

Parliament yesterday announced that the pro-west coalition government that collapsed in September is set to be re-established, this time joined by the smaller Lytvyn bloc. The surprise move could help meet the tough economic policy conditions required for access to a USD16bn IMF loan. However, it could also irritate Russia, which opposes Ukraine's western integration. The recurrent dispute over gas supplies and payments between Moscow and Kiev has again flared up as the collapse of the hryvnia—which has lost around 60% against the USD since end-August—has sharply complicated Kiev's payment obligations.



INDONESIA

...happened...

Although inflation remained high at 11.7% yr/yr in November, the central bank ended a cycle of monetary tightening and last week lowered its key policy interest rate by 25bps to 9.25%, indicating increased concern over the domestic impact of the global economic crisis. However, expect lower interest rates to add further downward pressure on the rupiah, which lost around 30% against the USD in October-November. Meanwhile, the government has reportedly secured stand-by loans totalling USD5bn from Japan, Australia, the ADB and the World Bank, thereby potentially covering the forecast 2009 fiscal deficit.



GHANA

Ad enough?

Today, the Electoral Commission will provide the results of last weekend's legislative and presidential elections and, as expected, the polls were keenly contested. Expect the presidential election to require a second round as the NPP's Nana Akufo-Addo and the NDC's John Atta Mills appear close, with neither closing on the 50% threshold. With most counting now completed, the NPP and NDC candidates have over 49% and almost 48% of the votes, respectively. While there may be some dispute when the final tally is announced, do not expect a repeat of recent electoral malfunctioning elsewhere in Africa.

ALSO IMPORTANT...



VIETNAM

...to...

At a meeting last week of the country's donor group it was announced that USD5.1bn is available in support for 2009, which should help shore up the external balance, a cause of major concern for much of 2008. Latest trade data show the deficit is becoming more manageable—although export growth as well as that of imports is plunging—and another widening of the exchange rate band in November suggests that progress towards greater flexibility will be maintained, although the implication is of ST depreciation. GDP growth has slowed sharply and may drop to 5% in 2009, prompting a reversal of policies towards expansion. However, a careful balance will be needed, as the external accounts remain fragile.



INDIA

State aid?

Against a background of an electoral history of unseating incumbent administrations and an economic downturn and increased terrorist threats, it appeared likely that the ruling Indian National Congress (INC) party would fare badly in recent state polls. However, the INC won three out of five states, including Delhi and Rajasthan. Nevertheless, expect the main opposition Hindu-nationalist BJP to mount a serious challenge in legislative elections in April/May. Meanwhile, this week's announcement of a USD4bn fiscal stimulus, following monetary easing of 250bps since September, indicates government concern with the economy. Expect GDP growth of only 5% in 2009, down from 9%+ in 2005-07.

COUNTRY REVIEW SUMMARIES



GUATEMALA

...decoupling?

A left-of-centre government took office in 2008, the first time since the 36-year civil war ended in 1996, although it lacks a majority in congress. Sharp falls in exports, tourism and workers' remittances—all hit by US recession—and tighter domestic credit will reduce growth to 2.5% at best in 2009 (annual average 4.2% 2004-08). Inflation, however, has passed its peak. Fiscal policy is conservative and public debt is just under 20% of GDP. Nonetheless, expect the large current account deficit and associated external financing requirement to put pressure on the exchange rate and FX reserves, although external debt remains low.



KENYA

Kenya do it?

The violence and economic damage caused by tribal and regional divides in Q1 (following disputed presidential elections at end-2007) indicate an underlying fragility. Much still needs to be done in terms of division of power between the president and prime minister and in relation to distribution of land ownership. Tourism and foreign investment flows were severely disrupted and did not begin to recover until H2, although the agricultural sector rebounded and donor flows were made available. Solvency and external liquidity ratios have both deteriorated. Expect a protracted recovery, with downside risks.

IN BRIEF

Interest rates ECB cut its key refinancing rate by 75bps to 2.5% and the UK cut its key policy rate by 100bps to 2% (both on 4 Dec).
Sovereign ratings S&P downgraded **Russia** to BBB (negative); Moody's downgraded **Iceland** to Baa1 (negative).

Edited by Andrew Atkinson

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COUNTRY RISK WEEKLY BULLETIN

17 December 2008

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IN THE HEADLINES



ECUADOR

Default line

President Correa decided to default on the USD3.8bn of external debt (international bonds) declared "illegitimate" by his External Debt Audit Commission. However, he intends to recognise some of the debt, although at a "much lower price". This is the first major sovereign default since Argentina in 2001 and, if President Correa follows that lead, a discount of at least 70% on a take-it-or-leave-it basis can be expected. While Ecuador's decision may be more about willingness to pay than ability at this juncture, sliding oil prices no doubt were an influence and perhaps could raise questions over Venezuela down the line.



THAILAND

Sit up

On Monday, parliament elected Abhisit Vejjajiva, head of the hitherto opposition Democrat Party (DP), as new PM. This followed the ban on the ruling PPP two weeks ago and a change of allegiance of some smaller parties from the PPP to the DP. However, expect political instability to continue. Abhisit faces multiple challenges. These include cooling the charged political climate (difficult as supporters of the ousted government are incensed by the turn of events), potential coalition instability and countering the impact of the global economic downturn. Expect the economy to slow sharply in 2009.



OPEC

Oil s(l)ick?

Expect this week's meeting in Oran in Algeria to produce OPEC's largest cut in oil output. Saudi Arabia has already suggested a cut of 2mbpd (additional to 2mbpd agreed previously in the last two months) and Iran and Venezuela (both requiring higher oil revenues to support political agenda) are supportive. Benchmark Brent is currently below USD45/b and will average around USD100/b for 2008 (USD72/b 2007) but had peaked at USD146/b in July. However, even if Russia (the world's second largest producer) aligns itself with OPEC, do not expect a large rebound in oil prices. Indeed, Saudi Arabia's implicit target of USD75/b appears unlikely to be achieved in the ST.



TURKEY

...and stuffing

Real GDP growth declined to a six-year low of 0.5% yr/yr in Q3, down from an already weak 2.3% in Q2. Consumer spending grew a mere 0.3%, investment fell by 5.4% and exports increased by just 1.5%. A 7.7% jump in public spending kept overall growth positive, but the government will be unable to continue that pace once a new IMF programme is agreed (expected early next year). Expect weak domestic and external demand, tight credit conditions and high interest rates to curtail 2009 growth to 1% (at most), with risks firmly on the downside. The lira has continued to fall (6.7% against the euro so far in December).

ALSO IMPORTANT...



SOUTH AFRICA

Starting to Cope

This week's formal launch of the Congress of the People (Cope) party could herald a new era, with the ANC's dominance balanced by a meaningful opposition. Former Defence Minister Mosiuoa Lekota became Cope's first president and many of the party's members are disgruntled former ANC supporters. Expect Cope to adopt business-friendly policies and to promote a tougher stance on crime. At this stage, do not expect Cope to be able to defeat the ANC's experienced (and funded) party machinery in national elections next year. However, expect the existence of Cope to make the ANC more accountable in a more competitive political environment.



SOUTH KOREA

Korea break?

The central bank cut its key policy interest rate by 100bps to a record low of 3% last week, attempting to counter the risk of a severe economic slowdown. Data on consumer sentiment, industrial production (down 2.4% yr/yr in October) and exports (down 18% in November) indicate a sharp drop in growth in Q4 from a still robust 4.8% yr/yr in Q1-Q3. Financial markets have remained weak despite recent large-scale interventions by the authorities aimed at easing FX funding conditions for companies. A recession in 2009 looks increasingly likely. Expect bankruptcies to rise sharply, particularly among highly indebted SMEs.

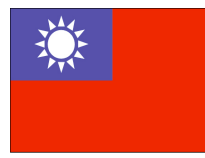
COUNTRY REVIEW SUMMARIES



LEBANON

Ban(d) aid?

Although an effective system of governance has yet to be put in place and policy implementation is weak, international funding (from Lebanese in the diaspora and the GCC states) is available. Nevertheless, expect the domestic (and regional) perspectives to remain tense. External liquidity indicators remain challenging—the annual current account deficit remains 8-15% of GDP—and the business environment is testing. The economy remains weak overall and political, sectarian and security issues are largely negative. Against this domestic background and a weak global economy, expect GDP growth of only 2.5%, at best, in 2009.



TAIWAN

Wan

Export earnings fell by 23.3% yr/yr in November, the third consecutive month of decline and the biggest fall in seven years, while industrial production fell by 12.6%. This comes after a fall in Q3 real GDP of 1% yr/yr as the heavily trade-dependent economy (76% of GDP) bears the full brunt of the intensified global recession of recent months. The government has announced a large fiscal stimulus and cut interest rates five times since September, the latest last week by 75bps, but much will depend on developments in the main economies. Expect little or no growth in 2009, at best.

IN BRIEF

Interest rates US Fed yesterday cut its benchmark interest rate from 1% to a range of 0-0.25%.

THIS IS THE LAST BULLETIN IN 2008. THE NEXT ISSUE IS 7 JANUARY 2009.

Edited by Andrew Atkinson

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