

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



CHINA

A tweak in time?

Q4 2009 real GDP growth accelerated to 10.7% yr/yr (full year 8.3%). With December exports and retail sales growing strongly, attention has turned to inflation—up to 1.9% yr/yr, although this is partly from a low base—asset prices and ultra-loose monetary policy. A lower credit growth target was announced, but it is still 50% above the 2009 target (overshot) and rumours suggest that some banks had been told to stop lending temporarily. The authorities are right to re-focus, yet there is limited evidence of overheating so expect them to tread carefully—especially as the export recovery is at an early stage—although interest rates could be raised before long.



SOUTH KOREA

Make base

Real GDP grew 6% yr/yr in Q4 2009 (advance estimate), partly because of a base effect as economic activity collapsed at the end of 2008. On a qtr/qtr basis, growth eased to 0.2% as a result of weaker exports (-1.9%), government spending (-2.9%) and private consumption (-0.1%). However, the qtr/qtr slowdown should not be a major cause of concern as it followed a sound average increase of 2.9% in Q2 and Q3. Overall, the economy avoided recession as full year GDP growth is estimated at 0.2%. Monthly indicators and the consumer sentiment index indicate the recovery will continue. Expect about 3-4% growth in 2010.



HUNGARY

Further reductions

The key policy interest rate was cut this week by 25bps to 6%, taking the cumulative reduction to 350bps since mid-2009. The central bank continues to prioritise exchange rate stability and economic recovery rather than curbing inflation, which rose to 5.6% yr/yr in December from 3.7% in June, albeit largely as a result of increases in indirect taxes. The HUF/EUR exchange rate has stabilised within a 265-280 band since H2 2009. Further interest rate cuts are possible but will depend on whether fiscal prudence can be maintained beyond a likely government change in April. Positively, the IMF programme in place was extended to October 2010.



SRI LANKA

Hinda and Seka

Yesterday's presidential election had been expected to be close. Mahinda Rajapaksa had the advantages of incumbency and had gained some popularity following last May's defeat of the Tamil Tigers. However, his key challenger, former head of the armed forces General Sarath Fonseka, similarly claimed such an electoral boost. In the event, expect early results showing a win for Rajapaksa to be confirmed and also expect overall policy continuity. Of more concern are reports that armed forces are being used to limit Fonseka's movements—at least for now—and that Rajapaksa's family may further concentrate power within a small elite.

ALSO IMPORTANT...



ANGOLA

Gola keeper

Last week, the National Assembly—in which the ruling MPLA has a large majority—approved a new constitution. Amendments strengthen the powers of the presidency and eliminate the need for elections for the position of head of state. Incumbent José Eduardo dos Santos could therefore remain in place for a further long period, or as long as the MPLA maintains its majority and/or his health permits. There are perceptions that the new constitution was rushed through while the country hosts the African Cup of Nations—itsself a sign of oil-rich Angola's growing continental significance. Do not expect ST political changes as the new constitution just re-affirms the status quo.



MAURITIUS

Maur and more

China plans to invest USD700mn in a special economic zone from where it will service the country's strategic investments in Africa. Mauritius had already identified its need to diversify from sugar, textiles and tourism and towards services (IT, financial and trade), so this is not a one-sided deal. The local population is largely of South Asian descent, so expect China's involvement to concern India, which already uses Mauritius as a springboard to continental Africa and is wary of a growing Chinese naval presence in the Indian Ocean. Mauritius has a track record of sound economic management so expect further inward investments and trade growth.

COUNTRY REVIEW SUMMARIES



GUATEMALA

Key note

Some key indicators are improving, notably the current account deficit, inflation and domestic credit expansion and the real exchange rate. However, GDP growth has been hit by the global recession and the fiscal deficit and public debt-GDP ratios have risen. Prompt negotiation of an IMF stand-by and good performance under the programme has been important in maintaining confidence and will be essential to recovery, as external debt payments due relative to FX reserves are high. Social tensions remain deep-rooted. Political institutions are weak and political parties are fragmented and polarised. Expect growth of 2.5% in 2010 (0.3% 2009).



MONTENEGRO

C'Mon

The political environment has been fairly calm since independence in 2006. However, progress with political reforms has been limited, resulting in a difficult business environment because of weak administrative capacity and efficiency, uncertain legal and regulatory frameworks and a high level of perceived corruption. Economic fundamentals are also weak. After overheating in 2006-08 the economy experienced a hard landing, contracting by around 4% in 2009. Expect the current account deficit to remain unsustainably high at over 10% of GDP in 2010 and external debt accounts for a hefty 80% of GDP. Overall country risk is very high.

IN BRIEF

South Africa

Despite inflationary concerns, the central bank, SARB, kept its key repo interest rate unchanged at 7% (26 January).

Edited by Andrew Atkinson

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