

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



UNITED ARAB EMIRATES

Dhab hand?

This week's USD10bn facility from Abu Dhabi is designed to assist Dubai—a fellow emirate within the federal UAE—to undertake an orderly restructuring of its debts. In effect, Abu Dhabi is attempting to ensure that a corporate crisis in Dubai does not become a sovereign one for the UAE through collateral damage. It will probably expect a political return, as well as a financial one. Dubai has already pledged reforms, including a legislative insolvency framework. As a result, expect the business environment to improve in the LT but corporate losses and continuing uncertainties to persist in the ST. Regional markets recovered on the announcement but investors will remain wary.



MEXICO

On reform

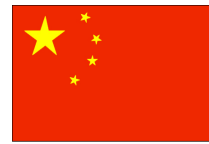
President Felipe Calderon proposed a series of political reforms to congress. The key elements of the bill are the introduction of a second-round run-off vote for the presidential elections, the re-election of members of congress and local officials (currently limited to a single term) and a reduction in the number of seats in both houses of congress. Significantly, the proposals do not include a second term for the president. The proposals should improve the functioning of the system, but they require constitutional amendments before implementation and must be approved by the opposition-dominated congress. Expect a long, drawn-out debate.



UKRAINE

(Not laughing) gas

In November, the IMF suspended the fourth tranche of funding (USD3.8bn) under the USD16.5bn two-year Stand-By Arrangement agreed a year ago, following the adoption of a bill to raise public sector wages and pensions, which it strongly opposed. The government, which has not yet implemented the law, is now seeking a USD2bn emergency loan in order to pay salaries, pensions and imported gas from Russia. However, the IMF is unlikely to give in without withdrawal of the bill. There is now a serious risk that the government will soon run out of money and another European gas-supply crisis could also emerge in early 2010.



CHINA

Mixed bag

Economic data released last week were mixed. Imports rose sharply, but exports fell 1.2%. Retail sales eased slightly but were still the second strongest in some months, although consumption is still underpinned by government support for key sectors (autos and electronic appliances). Investment growth appears to have slowed sharply—although it remains strong. November consumer prices increased yr/yr, after falling for much of 2009. Property prices are becoming a concern for policymakers and the State Council has announced plans to increase the supply of low-cost housing.

ALSO IMPORTANT...



TUNISIA

Ben edict?

Reports suggest that President Zine al-Abidine Ben Ali was recently prescribed bed rest. Ben Ali has been head of state since 1987 and health concerns have implications for succession and policy continuity. The president has not nominated a successor and cabinet reshuffles have meant that alternatives have not emerged from this area. A potential leader may now be groomed, although it is also quite possible that Ben Ali himself will seek to contest elections in 2014. Expect the strength of the ruling RCD, with military support, to ensure stability in the event that Ben Ali could not proceed. As with Egypt and Algeria, however, ageing leaderships bring some uncertainties.

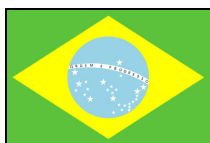


ANGOLA

Sant a clause

Presidential elections scheduled for this year were postponed last week, probably until 2012 to run concurrently with parliamentary polls. Incumbent José Eduardo dos Santos announced that this would allow constitutional reforms to be completed. Expect the reforms to reflect (and entrench) the will of the ruling MPLA, which holds a parliamentary majority in excess of the two-thirds needed to push through amendments. With the opposition UNITA unlikely to mount a serious challenge, also expect dos Santos and the MPLA to win the elections comfortably and therefore policy continuity to prevail in the region's second largest energy producer.

COUNTRY REVIEW SUMMARIES



BRAZIL

Resilient

The economy is remarkably resilient. Q3 growth, released last week, was slightly below market expectations, but overall GDP in 2009 will contract only marginally. The current account deficit will narrow slightly in 2009 and FX reserves have continued to increase. Expect a relatively strong performance in 2010 with growth of 4.5%. Policies are likely to remain supportive next year, although the monetary stance will tighten modestly. However, there are downside risks, principally commodity prices, the impact of possible further BRL appreciation on trade and the potential for over-expansionary policies ahead of presidential elections due at the end of 2010.



RUSSIA

Rub along

The economy is experiencing a deep recession (real GDP contracted by 10% yr/yr in Q1-Q3) but there are tentative signs that it has bottomed out, as the pace of annual decline in GDP has moderated. Expect GDP to contract by about 8.5% in calendar 2009 and a return to modest growth of around 2% in 2010. The banking sector is still fragile and the economy remains highly vulnerable to external shocks, particularly sharp oil price corrections. The rebound in oil prices since Q2 2009 has helped stabilise the RUB and FX reserves, but exchange rate risk and the refinancing of maturing non-sovereign external debt remain key concerns.

THIS IS THE FINAL BULLETIN IN 2009. THE NEXT ISSUE IS 6 JANUARY 2010.

Chile
Romania

Presidential elections: Sebastian Pinera leads after the 1st round but faces a run-off with Eduardo Frei on 17 January.
The constitutional court confirmed President Basescu's narrow re-election, turning down his rival's appeal.

Edited by Andrew Atkinson