

# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES



ROMANIA

Review relief

The IMF reached staff level agreement on the 2nd and 3rd reviews of the Stand-By programme currently in place, giving a broadly positive assessment of the government's fiscal intentions. Once the IMF Board has approved the agreement, a total of about EUR2.3bn financing will be made available. As half of this amount could be allocated for budget financing, it should ease strains on public finances for some time. The next IMF review and disbursement is scheduled for May-June 2010. However, political uncertainty remains a risk as the government is reliant on the support of representatives of ethnic minorities and independents in parliament.



RUSSIA

Oil impact

Preliminary data put 2009 real GDP contraction at 7.9%. This implies a 2-2.5% yr/yr decline in Q4 GDP, a significant improvement over the contractions of 9-11% in Q1-Q3. The poor performance in 2009 was in large part due to Russia's dependence on oil—the average price of exported Urals blend fell to USD61/b from USD94/b in 2008—but the initially weak economic policy responses to the global economic crisis and the impact of structural and institutional weaknesses also contributed. Expect modest growth of 2-3% in 2010, though the fragile banking sector and vulnerability to oil price shocks remain downside risks.



COSTA RICA

Chin Chin?

Latest opinion polls give Laura Chinchilla, the ruling PLN candidate, a comfortable lead over nearest rival Otto Guevara of the ML with Otto Solis of the PAC and Luis Fishman (PUSC) a long way back, going into the presidential election this Sunday (7 February). With a shade over the minimum 40% threshold, there is the possibility of a first round win, though Guevara has been gaining ground recently. Should Chinchilla win—and become the country's first woman president—expect her to maintain broad policy continuity with the outgoing Arias administration (largely centrist with social democratic leanings). Legislative and municipal elections will be held at the same time.



PHILIPPINES

Growth fillip

Q4 2009 real GDP increased by 1.8% yr/yr (advance estimate), up from 0.4% in Q3. The upturn was driven by a 12.1% surge in public spending (Q3 8.1%) and 5% private consumption growth (Q3 3.2%). Investment continued to drop (-1.6%), as did exports (-10%) and imports (-2.5%). Calendar 2009 GDP increased by 0.9% (3.8% 2008). Inflation edged up to 4.4% at end-2009. The central bank left its key policy interest rates unchanged last week—the overnight borrowing rate at 4% and the overnight lending rate at 6%—but it raised the rediscount rate by 50bps to 4%. Expect further monetary tightening in the coming months.

## ALSO IMPORTANT...



KUWAIT

Not waiting around

Preliminary budget statistics show a surplus of around USD25bn in the first nine months of the fiscal year ending in March—revenues were 60% above the projected total for the full FY2009-10, but this was based on oil prices of USD35/b. For FY2010-11, an oil price of USD43/b is being used, so expect a projected deficit to be yet another healthy surplus. Parliament approved expenditure of USD104bn on mega-projects over a 2010-14 planning period, so expect a boost to construction and infrastructure-related businesses as rail, road, harbour and support facilities are improved or initiated. Despite problems elsewhere, expect a relatively healthy GCC business environment.



GUINEA

Open Doré?

A civilian government has been inaugurated under the premiership of Jean-Marie Doré and elections are promised by year-end. This is a notable turnaround, following a military coup in 2008, last September's violence and the December shooting of President Moussa Dadis Camara. However, democracy remains fragile so expect the military to maintain a high profile. With over half of the budget financed by foreign assistance and regional sanctions beginning to take effect, reversion to civilian rule was a pragmatic decision. Guinea has a strategic significance as the world's second largest producer of bauxite, a feedstock of aluminium.

## COUNTRY REVIEW SUMMARIES



PARAGUAY

Go on?

The economy contracted in 2009 by 3.8%, though this was partially drought induced, as agriculture—soya, cereals and meat—is a mainstay. Recession pressured the fiscal deficit and public debt ratios, though both started in manageable positions and the external balance overall is adequate. However, there are questions over future policy implementation given a relatively weak governance position. Moreover the commodity price outlook remains fragile. The strained institutional framework and weak position of President Lugo also raises some question over political stability (though this probably also limits the possibility of a radical leftward shift).



DJIBOUTI

Port ray?

Internal ethnic tensions between the Issa and Afar communities and external concerns relating to security in neighbouring states—there are land borders with Somalia, Eritrea and Ethiopia—result in high political stability risk. The economy is reliant on services, with FX inflows deriving from port revenues from trans-shipment trade—most of Ethiopia's trade is shipped through Djibouti's port—and from the international military bases within its territory. A currency board mitigates transfer risk. Annual average real GDP growth was around 6% in 2008-09, largely reflecting port investments. Expect this rate to continue in 2010-11.

## IN BRIEF

LITHUANIA

Q4 real GDP shrank by 13% yr/yr, while calendar 2009 GDP contracted by 15%.

Edited by David Atkinson

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