

COUNTRY RISK WEEKLY BULLETIN

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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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