

COUNTRY RISK WEEKLY BULLETIN

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IN THE HEADLINES



HUNGARY

Opposition in two?

Expect Fidesz, the centre-right main opposition party, to win overwhelmingly in the two-round general elections to be held on 11 and 25 April. The ruling MSZP is performing poorly in opinion polls owing to widespread popular frustration with austerity—necessary to correct unsustainably high fiscal and current account deficits—prolonged recession and corruption scandals in the party. Despite some campaign rhetoric, Fidesz is unlikely to relax the fiscal consolidation without agreement from the IMF, as a break with the Fund would eventually dent economic recovery. The central bank cut its policy interest rate by 25 bps to 5.5% this week.



UAE

World saved?

Markets responded favourably to preliminary details of the Dubai World debt restructuring—and to its management. The emirate still has some way to go in restoring confidence and interest rates involved in the retiming of payments have yet to be announced—potentially another hurdle. Nevertheless, most creditors, bondholders and contractors are assured of staged repayments, with the government allocating USD9.5bn, principally to enable property-developer Nakheel to service its debts and finance ongoing operations. Do not expect a return to the largely-unregulated days of the construction and real estate boom.



SOUTH AFRICA

Target market

In contrast to tightening in some economies (such as India and Israel), monetary policy was eased, with a 50bps cut in the key repo interest rate. The Monetary Policy Committee notes some economic improvements—GDP grew 3.2% qtr/qtr annualised in Q4 2009 and inflation fell back within the 3-6% target range in February. Even so, a further stimulus was seen as necessary to reinforce the upswing. Expect inflation targeting to remain a cornerstone of monetary policy—despite some calls within the ruling ANC for it to be abandoned—and rates to be relatively stable in the rest of the year. Further, expect sound management to prevail and a World Cup-related resurgence in 2010.



TURKEY

Rebound

Q4 2009 real GDP rebounded strongly to 6% yr/yr growth after four consecutive quarters of contraction, driven by private and public consumption—though base effects also mattered. Investment continued to contract and the net export contribution returned to negative. Expect 3%+ growth in 2010 (-4.7% 2009). Inflation picked up to 10.1% yr/yr in February from a low of 5.1% in October 2009, well above the authorities' end-2010 target of 6.5%. Expect the central bank, which has kept its key policy interest rate unchanged at 6.5% since November, to switch to monetary tightening in Q2 if inflationary pressures persist.

ALSO IMPORTANT...



VIETNAM

Early bird

Among reporting early birds, Q1 2010 GDP increased by 5.8% yr/yr, slightly down on Q4 2009 (6.9% yr/yr) but probably mainly reflective of policy tightening (reining back of credit growth and higher interest rates). However, first quarter trade data, show that exports fell by 1.6% while imports increased rapidly. This partly reflects distortions relating to gold sales in Q1 2008 and on the upside there was an 18% increase in foreign remittances in the same period, but the external balance remains vulnerable. Moreover, inflation—9.5% yr/yr in February—remains a threat. The central bank left interest rates unchanged for April, but expect further increases.

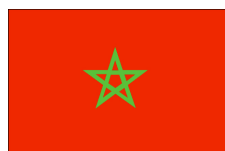


COLOMBIA

Right on

The economy grew by 1.1% qtr/qtr and 2.5% yr/yr in Q4 2009, according to recently released data, confirming that it has emerged from recession. The pace of recovery is relatively slow, however, hampered by the closure of the Venezuelan border, which hits manufacturing. Expect growth of around 2.5% in 2010. With inflation in the target range, the central bank has left interest rates on hold at 3.5%, having cut aggressively in 2009. Meanwhile, with presidential elections on 10 May, right-of-centre candidates are widening their lead in opinion polls, building on the security successes of outgoing President Uribe, but expect a second round.

COUNTRY REVIEW SUMMARIES



MOROCCO

Roc on

The recent S&P one-notch upgrade of LT sovereign foreign-currency debt to BBB- reflects some stabilisation in macro-economic data and political resolve to proceed with a reform agenda. It also suggests resilience to adverse effects of the global financial crisis. Despite some regional uncertainties, international relations are good and King Mohammed VI remains popular. Although agriculture still accounts for around 16% of GDP and phosphates and textiles generate the bulk of export receipts, expect FX drivers to be tourism and workers' remittances, with both increasing as the global economy expands. Also expect GDP growth of around 4% in 2010 (2% in 2009).



URUGUAY

Orthodox rules?

Real GDP increased by 2.1% qtr/qtr in Q4 2009, slightly down on Q3, but full year growth was 2.9%—one of the stronger performances in the global recession, though well down on 8.9% in 2008. With local consensus expectations for growth above 4% in 2010, the government of incoming president Jose Mujica has a better platform than many. Despite his left-wing background, Mujica has appointed orthodox economic ministers and outlined a pragmatic approach to policy. In any event, he is constrained by a small majority in congress. There is little scope for a strong fiscal or monetary expansion, but the external balance is adequate.

IN BRIEF

ROMANIA

Policy interest rate cut by 50 bps to 6.5%.

Edited by David Atkinson

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