

# COUNTRY RISK WEEKLY BULLETIN

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## IN THE HEADLINES



### LEBANON

**Ha, at last!**

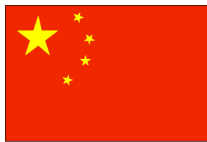
Last week's Doha Agreement is a positive development as tensions have eased and security improved. Parties have agreed that weapons should not be used in internal disputes, Michel Suleiman (head of the military) was elected president, electoral amendments will be legislated and a government of national unity will be formed. With the opposition protest camps in central Beirut now dismantled, businesses are re-opening and outright civil war appears to have been avoided. However, expect intense political sparring and Hezbollah will have a veto in cabinet decisions that may limit policy implementation. The outlook is brighter but expect sectarian divides to remain.



### GEORGIA

**'Vili be stronger?**

Four months after President Saakashvili's disputed re-election, his ruling National Movement won the 21 May parliamentary election unexpectedly clearly. The NM took around 59% of the vote and claims around 120 of the 150 seats in parliament, half of which will have been directly elected by constituencies. Although observers from the OSCE and the CIS have assessed the poll as generally fair, the opposition has protested and initiated a 70,000 people strong rally on Monday. Expect deep political divisions to remain a threat to domestic stability, in turn reducing the prospects of a reduction in tensions with Russia.



### CHINA

**Serious, but limited**

The earthquake in Sichuan presents profound humanitarian problems. The direct economic impact, however, is likely to be quite limited. For perspective, the whole of Sichuan province accounts for just 4% of national output. It is also likely that any initial lost output will be compensated by future reconstruction activity. There will be some impact on ST inflationary pressures (pigs and building materials) but again this should be limited and not enough to reverse the expected H2 downtrend in overall inflation. What the authorities must do though is maintain the overall balance of policy at this stage towards tightening.



### INDIA

**Farm out?**

The Hindu nationalist Bharatiya Janata Party (BJP)'s success in assembly elections in the state of Karnataka is significant at both local and national levels. For the first time, the BJP will have outright control of a state government in the south. Moreover, India has a record of unseating national governments that appear embedded, so the BJP's heightened regional support may translate into a May 2009 poll upset for the current Congress-led coalition. The government has responded with a USD3bn increase in its planned USD15bn farmer debt relief scheme but electoral momentum is now with the BJP.

## ALSO IMPORTANT...



### COLOMBIA

**Farc in the road....**

The leading guerrilla group, FARC, has confirmed the death of its leader and founder, Manuel Marulanda, of a heart attack. The new head of the seven-strong leadership group is Alfonso Cano, currently leader of the FARC's political wing. Marulanda's death is a further setback for the guerrilla group, which has also had two other leaders killed recently and one defection, as government forces continue their aggressive military campaign. While this may improve the chances of the Uribe administration forcing FARC to the negotiating table, if it does, expect the process to be long and complex. It also remains to be seen how solid the leadership will be around Cano.



### GUINEA

**....or(e) not?**

Security and stability have deteriorated following President Lansana Conté's removal last week of reformist PM, Lansana Kouyaté. The new PM, Ahmed Tidiane Souaré, will have a difficult time as strikes and riots have become widespread, partly reflecting Conté's unpopularity but also because of rapidly rising prices. A military coup may be the catalyst for change as the political process is weak. Despite pledges to release back-pay to the army, expect continuing uncertainty and further industrial unrest, which will limit output of bauxite from the world's second largest producer. In turn, this will add further to global commodity inflation.

## COUNTRY REVIEW SUMMARIES



### BOLIVIA

**The old Evo?**

Social and political schisms run deep and the radical-left government's re-distributive policies, driven through by natural gas nationalisation and constitutional reform have brought confrontation with the gas rich lowland provinces. A series of referenda, including a recall on president Evo Morales, will probably not resolve the impasse, so expect the risk of further instability to remain high. Key economic indicators, however, such as the fiscal and external balances are strong, providing a ST cushion against political instability and re-distributive policies. Yet this owes much to high commodity prices, masking the underlying risk of the current policy direction.



### CYPRUS

**Euro plus**

The political environment is stable and pro-business. Moreover, re-unification hopes have picked up after the change of president in February. The business climate is strong and macroeconomic fundamentals are solid. Thanks to the adoption of the euro in January 2008, exchange rate, transfer and external liquidity risks have almost vanished. Nonetheless, high current account deficits (7.1% of GDP in 2007) and declining FDI inflows have resulted in rising external debt levels, causing some concern. Overall, however, the outlook remains favourable and the economy should benefit from euro adoption in the near future.

## IN BRIEF

### SINGAPORE

Q1 real GDP growth has been revised down to 6.7% yr/yr from the advance estimate of 7.2%.

Edited by David Atkinson