

# COUNTRY RISK WEEKLY BULLETIN

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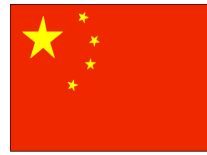
## IN THE HEADLINES



### UKRAINE

#### Orange peel?

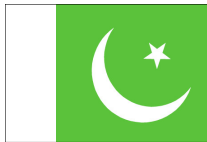
The ruling coalition of the two major "Orange Revolution" parties, Yulia Tymoshenko Bloc and Our Ukraine, has been fragile ever since it was inaugurated in late 2007; and tensions between the party leaders, PM Tymoshenko and President Yushchenko, have increased in recent weeks. Last week, the growing rift was underscored by the resignation of two MPs, which potentially deprives the government of a narrow parliamentary majority. As a result of the ongoing political turmoil, economic policies have been poor at a time when soaring inflation (31% yr/yr in May) and a rising fiscal deficit require just the opposite.



### CHINA

#### Producing the goods?

The authorities surprised the markets over the weekend with a 1% increase in bank reserve requirements, a more aggressive move than previously, prompting the sharpest one-day fall in equity prices in over a year. Probably to try and calm the markets, the CPI for May has been made known earlier than scheduled. The headline rate was down on a yr/yr basis to 7.7% from 8.5% in April, a bigger drop than consensus forecasts. However, with producer prices up 8.2% yr/yr in May (8.1% April) expect the non-food element, which has been on an uptrend for some time, to matter more.



### PAKISTAN

#### Pak lak tak?

Yesterday's military clashes on the border with Afghanistan and this week's demonstrations against President Musharraf by lawyers are indicative of both national security and domestic political strife continuing to be key challenges. Moreover, the PPP-led coalition government has yet to show that it can operate effectively. All this is having an adverse impact on business at a time when strong management is required because of inflationary pressures and a slowdown in the economy. A USD2bn deferment of payments for Saudi oil is under discussion and would help, as would a World Bank loan, but expect today's budget to provide only limited relief.



### PHILIPPINES

#### (P)rice surge

Inflation surged to 9.6% yr/yr in May from 8.3% in April and just 3.9% at end-2007, driven by soaring food and fuel prices. The central bank reacted with 25 bps increases of its overnight borrowing rate to 5.25% and its overnight lending rate to 7.25%. Expect further monetary tightening if inflation remains high. The surge in commodity prices also dampened consumer spending in Q1—the Philippines is the world's biggest rice importer and heavily dependent on fuel imports—while exports contracted as a result of the US slowdown. Overall, real GDP growth slowed to 5.2% yr/yr in Q1 from 7.4% in Q4 2007.

## ALSO IMPORTANT...



### KENYA

#### Safari suit

Monday's floatation of a 25% stake in the leading mobile phone company, Safaricom, appears to have been a success. Investor appetite (including sale of many small share allocations) was strong, indicating an underlying business confidence. Moreover, the government raised over USD800mn from the sale. However, political tensions remain high and today's by-elections in five constituencies could lead to renewed violence. Expect the unity government, which took office in April, and parliament to remain largely in deadlock. Accordingly, also expect economic reforms to be difficult to implement.



### VENEZUELA

#### About face

President Chavez appears to have changed his mind on a national intelligence and counter-intelligence law, which had been criticised by the opposition and human rights groups as unconstitutional and a serious infringement of civil rights. He also appears to have changed his stance on FARC (Colombian guerrillas), calling for them to give up arms, release hostages and make peace. The president's motives are unclear. However, with local elections in November, amid signs that the opposition may gain ground, and inflation accelerating sharply, he cannot afford too many unpopular positions until then.

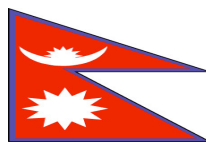
## COUNTRY REVIEW SUMMARIES



### AZERBAIJAN

#### Aliyev to possibilities

Domestic political stability has improved as President Ilham Aliyev has consolidated his grip on power. Expect him to be re-elected in October 2008. However, external stability remains threatened by the conflict with Armenia over Nagorno Karabakh. Soaring oil revenues have sharply improved economic fundamentals in recent years, reflected in very strong growth, large current account surpluses and a substantial reduction of foreign debt, minimising medium-term external liquidity risk. But economic structures and policies have remained very weak, casting doubt over longer-term sustainability and future resilience to external shocks.



### NEPAL

#### Mao vow

A militant Maoist insurgency and violent pro-democracy street protests resulted in the country becoming largely ungovernable under its traditional monarchy. Elections in April for a constituent assembly gave the Maoists a strong voice in determining the new political system. The Maoists have pledged to abolish the monarchy but are expected to promote a democratic republicanism. Nepal remains a largely agrarian economy (farming accounts for 38% of GDP). Poor internal security and external shocks have limited growth in other sectors (including tourism) so expect GDP growth of only 2.5% this year and in 2009, even assuming greater stability.

## IN BRIEF

### VIETNAM

Interest rates hiked by 200bps (third increase this year) and exchange rate devalued by 1.96%. More policy tightening will be needed to rein in inflation of 25% and prevent further pressure on the exchange rate.

Edited by David Atkinson