COUNTRY RISK WEEKLY BULLETIN

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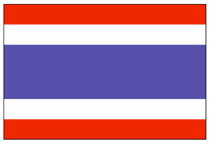
London: David Atkinson +44 (0)20 7860 2807; Andrew Atkinson +44(0)20 7860 2577 **Hamburg:** Manfred Stamer +49 (0)40 8834 3607

IN THE HEADLINES



THAILAND

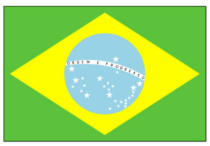
Sin to make a comeback?

Real GDP growth picked up to 6% yr/yr in Q1 2008 from 4.8% in 2007 (full year) as a result of greater political stability during the period that encouraged stronger domestic demand. However, rising inflation—which recorded a 9-year high of 7.6% yr/yr in May—and renewed political tensions threaten to stall the tentative recovery at an early stage. Just four months after democracy was restored, anti-government protests by Bangkok elites re-started last week, nurturing coup rumours and sending local stock markets down. The protesters accuse the ruling PPP of PM Samak of pursuing constitutional changes to enable a comeback of ousted former PM Thaksin.

MACEDONIA

Balking?

The ruling centre-right VMRO-DPMNE of PM Gruevski claimed a landslide victory in the early general elections held on 1 June, gaining 48.2% of the vote and, most likely, a majority of parliamentary seats. Policymaking will nevertheless be difficult as, by law, a majority of ethnic Albanians must approve decisions that relate to inter-ethnic issues. Among the Albanian parties, the uncompromising DUI (11.2%) is slightly ahead of the moderate DPA (10.3%). However, following violence in some ethnic Albanian areas, electoral re-runs are required in around 20 districts. Expect the violence also to dent hopes of early EU and NATO accession talks.



BRAZIL

Orthodox rules

With inflation (5.25% yr/yr mid-May) well above the central bank's target, the benchmark interest rate was raised yesterday by another 50bps to 12.25%. The government announced its intention to use 0.5% of GDP of the primary fiscal surplus over the original target of 3.8% in its new sovereign wealth fund. It also plans to help exporters hit by the strong exchange rate with fiscal rebates. The evident commitment to maintain a robust orthodox macroeconomic framework, notwithstanding greater micro-intervention, has helped underpin the recent investment grade awards by S&P and Fitch. Expect solid over-arching policies to continue.

ISRAEL

Prime mover?

PM Ehud Olmert has pledged to resign if indicted on charges of bribery and fraud. His already-chequered political career now appears tenuous. Some within the coalition government (including Defence Minister Ehud Barak, Labour Party leader) are urging him to stand aside. However, if he doesn't and Labour withdraws from the coalition, elections would probably return Likud to power and relegate Labour and Kadima (Olmert's party) to the sidelines. Expect further domestic political jostling and this to slow progress in the regional peace process, making settlement in the Bush era unlikely.

ALSO IMPORTANT…

SLOVAKIA

Seeking parity

Last week, the authorities revalued the central parity rate of the koruna against the euro within ERM2 by 15%. The larger-than-expected increase is intended to curb inflation and to fend off recent speculative pressure, which had pushed the exchange rate close to the top end of the ±15% band around the previous parity rate. On 3 June, the finance ministers of the EU backed Slovakia's Eurozone accession, scheduled for 1 January 2009. As the country had already got the green light from the European Commission and ECB on 7 May, expect the EU heads of state to follow the recommendation at the EU summit later this month.

INDIA

Fuelling discontent

Latest data releases indicate continuing strong growth and mounting inflationary pressures. GDP growth in Jan-Mar was 8.8%, yr/yr similar to the previous quarter, and for FY 2007/08 (April/March) growth averaged 9%. However, this is down from an official 9.6% in 2006/07 and the manufacturing sector appears to have lost momentum. Meanwhile, inflation at 8.1% is at a three-year high, with little indication of easing. Indeed, this week's fuel price increases of 8-17% (to reduce the fiscal cost of subsidies) will add to inflationary pressures. Expect street protests and anti-government demonstrations.

COUNTRY REVIEW SUMMARIES

ARGENTINA

Powering on?

Growth has been strong in recent years, with fiscal and current account surpluses and strong external liquidity. Debt ratios have been reduced substantially. Yet there are vulnerabilities. Firstly, high commodity prices and catch-up from deep recession have masked structural deficiencies (e.g. power shortages). Secondly, the low exchange rate, accommodative monetary policy and strong public spending model has produced accelerating inflation. Thirdly, if commodity prices fall sharply the economy's twin surpluses will be under pressure. The political system has proved resilient, but the new government faces a number of challenges, which have the potential to erode its authority quickly.

SWAZILAND

Locked in

This small landlocked country is one of few surviving absolute monarchies. The economy is vulnerable to natural disasters (drought and flooding), to man-made misfortunes (incidence of HIV/AIDS is one of the world's highest) and to global economic volatility and regulatory changes (through its relatively small textile and clothing and sugar export sectors). Around 70% of the population is employed in agriculture although the sector contributes only 10-20% of GDP directly. While the resilience of its main trading partner, South Africa, provides some support, the political environment and overall economy remain weak. The structural business environment is well below average.

IN BRIEF

Oil prices	Benchmark Brent USD123/barrel (year-to-date average USD105/b, compared with full 2007 average of USD72/b).

Edited by Andrew Atkinson