



Guinea-B.



Mongolia



Czech Rep.



Hungary



Romania



Turkey



El Salvador



Bahrain



UAE

AFRICA

Guinea-Bissau: political crisis intensifies after assassination of president Vieira

- > **Event:** The political instability and violence is recurrent in Guinea-Bissau. It peaked on 2 March when the assassination of the president Joao Vieira followed the murder of army chief Na Waie a few hours earlier. Vieira, killed by Waie's loyalists, was a hero of Guinea-Bissau's independence from Portugal. After a military coup, he came to power in 1980 until 1999 before being ousted during the civil war, and later democratically re-elected in 2005. Under his rule, economic development has been poor in a country characterised by chronic political instability and today renowned as a hub of drug trade for the European market. The murder of the head of the army was certainly not a first since his three predecessors had all been killed. A new interim president, the National Assembly speaker, has been appointed until presidential elections are organised within sixty days, as is prescribed by the constitution.
- > **Impact on country risk:** Order has been maintained so far but a new period of political uncertainty has begun. Given existing dissident groups inside the army based on ethnic division, further destabilising tensions and a new military coup are potential risks. This might further disrupt the fragile democracy. (**analyst:** Raphaël Cecchi, r.cecchi@ondd.be)

ASIA

Mongolia: IMF exceptional loan requested as financing needs rise in a global crisis context

- > **Event:** As a commodity-based economy, Mongolia is hit hard by the sharp decline in world mineral prices and in foreign demand, particularly from China. Mongolia is faced with a twin deficit in the current account and the budget as a consequence of tumbling exports, especially copper. Considering the added negative impact from delayed FDI, foreign reserves have quickly depleted to a level of around two months of import cover. Therefore, in view of increasing financing needs, Mongolia has requested an exceptional \$ 224mn loan to the IMF as part of an 18-month stand-by arrangement. Further financing will come from multilateral and bilateral donors such as China. The banking system is another victim of the financial crisis as it is harmed by capital outflows and a depreciated togrog (local currency).
- > **Impact on country risk:** Mongolia is to be granted the requested IMF loan and should be able to repay it notably thanks to a number of major mining projects when they are operational in a few years. Although the risk of debt default remains low, important downside risks for the Mongolian economy lie in a prolonged crisis and in low mineral prices likely to swell its financing needs. Moreover, banks are exposed to significant exchange rate risks due to a high share of credits denominated in foreign currency. (**analyst:** Raphaël Cecchi, r.cecchi@ondd.be)

EUROPE

Czech Republic: government collapses amid EU presidency

- > **Event:** In spite of surviving 4 earlier votes, the Czech government was ousted by a fifth vote of no-confidence by a slight majority on 24 March. Controlling only 96 out of 200 Lower House seats, Prime Minister Mirek Topolánek's coalition had been hanging by a hair for some time. The most

obvious way out at the moment is an interim government until next year's scheduled poll or snap elections in the near future.

- > **Impact on country risk:** While the collapse of Topolanek's government is highly inconvenient and humiliating even, with his country holding the rotating EU presidency and with president Obama visiting the country early April, the economic fall-out should be limited. Although the Czech Republic will not escape its share of the global crisis – a contraction of 2% of GDP is forecast for this year –, it is far better placed to overcome the downturn than most of its neighbours and even better than many countries in the EU. The current account deficit is limited and external debt stands rather low as the country has been mainly relying on domestic deposits. The chief Czech weakness is its reliance on export to the slowing euro zone. (**analyst:** Ben Deboeck, b.deboeck@ondd.be)

Hungary: Prime Minister resignation creates political imbroglio while economy is ailing

- > **Event:** On 21 March, the deeply unpopular Hungarian Prime Minister Ferenc Gyurcsany announced he was to step down as he considered his figure a barrier to the adoption of crucial reforms. After more than a week of political deadlock and five candidates passing in review, current minister of economy and non-aligned technocrat Gordon Bajnai seems set to become the next Prime Minister. General elections are scheduled for April 2010 at the latest.
- > **Impact on country risk:** Gyurcsany and his minority government failed to get a parliamentary majority to rally behind measures required under the \$16bn IMF bail-out programme granted last November. His successor now looks at the same challenge: implementing essential reforms in order to stop investor flight and prevent Hungary's ailing economy from sinking any further. Bajnai has already said the continued implementation of the IMF programme will be painful and will require sacrifices as massive cuts in the oversized social system are unavoidable to get Hungary back on track in the medium run. In other words: things will get worse before they get better. (**analyst:** Ben Deboeck, b.deboeck@ondd.be)

Romania: international financial support package lessens impact of global crisis

- > **Event:** Romania has secured a total loan package of \$27bn. Aside from an IMF programme worth \$17.5bn, the support contains a \$6.8bn EU loan and a further \$2bn from the World Bank and the EBRD. After Hungary and Latvia, Romania is the third EU member state having applied for and obtained an IMF-led bail-out.
- > **Impact on country risk:** The support will help the country weather the impact of the global downturn while safeguarding Romania's economic fundamentals for the medium term. The IMF foresees a 4% contraction of GDP this year while private capital inflows, a key driver of Romania's impressive growth rates, are expected to drop sharply. Combined with a current account which has been in the red for years, the country faces a sizeable external financing gap. The financial package will largely fill this gap. Although lately the leu has stabilised against the euro, the 23% depreciation since August and the lending boom of recent years in the common currency result in a higher debt burden. Core elements of the IMF programme are a gradual strengthening of the country's fiscal stance and the financial system. The government has committed to bringing the deficit from an expected 4.6% this year to below 3% within two years, preparing the country to enter the euro zone. Although the support is expected to ease the impact of the global crisis, Romania's poor track record with the IMF, populist tendencies and presidential elections in late November pose downside risks. (**analyst:** Ben Deboeck, b.deboeck@ondd.be)

Turkey: modest win for AKP in local elections may slow reforms but quicken IMF support

- > **Event:** The economic crisis is clearly harming Prime Minister Tayyip Erdogan's ruling Justice and Development Party (AKP). Although the AKP won the local elections of late March, it lost ground for the first time since it came to power in 2002. While Mr Erdogan stated he would only be satisfied with a landslide victory and despite a forceful campaign, the AKP won about 39% of the ballot, compared to almost 47% during the 2007 general election.

- > **Impact on country risk:** Notwithstanding the limited importance of the local level and the fact the AKP remained by far the largest party, the result undermines Erdogan's federal reform agenda. By chasing a landslide win in times of economic decline, Erdogan hoped for a clear confirmation of his mandate to pursue far reaching reforms, including the adoption of a new constitution. He will now have to proceed more carefully and reckon with his secular opponents. As the economic crisis is eroding the AKP's electoral support, one can expect Turkey to finally reach an agreement with the IMF on financial support in the upcoming weeks. Point at issue remains the degree of fiscal austerity. (**analyst:** Ben Deboeck, b.deboeck@ondd.be)

LATIN AMERICA

El Salvador: candidate of former rebel group wins presidential elections

- > **Event:** After 20 years in power the Nationalist Republican Alliance (ARENA) has been defeated by the Farabundo Marti National Liberation Movement (FMLN). In March 2009 Mauricio Funes (FMLN) won the presidential elections with 51% of votes. The left-wing FMLN also won the legislative elections of January 2009 but the party does not have majority control of the national parliament. The president elect will have to re-assure the business community as investors may be put off by surging crime rates and the deteriorating economic outlook. El Salvador's current account deficit is projected to narrow with lower imports offsetting the decline in remittances, but in the current climate it will be difficult to meet all external financing needs. As a precautionary measure the authorities already secured a Standby Arrangement with the IMF in January.
- > **Impact on country risk:** The new president is not likely to propose radical policy changes. The loans granted by the IMF, World Bank and Inter-American Development Bank should help to avoid a major confidence crisis but balance of payments problems cannot be ruled out completely. (**analyst:** Inge Lambrechts, i.lambrechts@ondd.be)

MIDDLE EAST

Bahrain: budget deficits announced for 2009 and 2010

- > **Event:** The small kingdom is not immune to the global slowdown. Public revenue is mainly coming from the oil sector and the break-even oil price for the fiscal accounts is among the highest in the Gulf region. Lower international oil prices and higher public spending will lead to budget deficits. In March, Bahrain revealed its budget plans for 2009 and 2010. The education and health budgets were increased and more funds will flow to the housing program. Additional support for the domestic economy is coming from Mumtalakat, Bahrain's sovereign wealth fund which has indicated it is willing to invest more in domestic companies.
- > **Impact on country risk:** Bahrain's foreign assets are relatively low by regional standards, allowing less room for deficit spending than in certain other Gulf countries. Nonetheless, the public debt-to-GDP ratio is low and the external debt-to-GDP ratio is expected to remain sustainable. So, even though the economic outlook has worsened, political risks are still modest. (**analyst:** Inge Lambrechts, i.lambrechts@ondd.be)

COUNTRY IN THE SPOTLIGHT: UNITED ARAB EMIRATES

Late March, the IMF announced world GDP could contract by 0.5% to 1%, which is much lower than previous IMF forecasts for 2009. The downturn in economic activity has resulted in a decline of oil consumption and prices. The Organization of the Petroleum Exporting Countries (OPEC) has cut production quotas in an attempt to support oil prices. Without the output cuts by OPEC-members, oil prices could now be much lower than 50 USD/barrel.

Obviously, oil exporting countries such as the United Arab Emirates (UAE) are affected by the global meltdown and plunging oil prices. The UAE aims to increase its oil production capacity with 1 million barrels/day to 3.5 million barrels/day by 2015. In the current economic climate it will be challenging to meet this target, but the UAE's Energy Minister recently confirmed the government's commitment to expand the capacity of the energy sector. Abu Dhabi's oil production accounts for more than 90% of the UAE's total oil production, enabling Abu Dhabi to accumulate huge foreign assets during the oil boom. The Abu Dhabi Investment Authority (ADIA) is one of the largest sovereign wealth funds in the world and the oil-rich emirate has ample financial means to support federal institutions and other emirates.

The UAE's current account balance could swing into a deficit in 2009 as oil export revenue and other current account receipts are expected to decline. This is in sharp contrast with the current account surplus of 17.2% of GDP in 2008. Government officials have acknowledged that GDP growth for 2009 could turn out to be negative if the global economic outlook continues to deteriorate.

Real worries in real estate sector

Besides the oil sector, trade and tourism are also affected by the global economic crisis but the real estate and construction sector are facing the biggest difficulties. The city state of Dubai is particularly sensitive to the current crisis. This year a contraction of Dubai's GDP seems inevitable despite the expansionary fiscal policy announced by the government of Dubai. It is hard to estimate the exact price evolution in the real estate market because sales are drying up but according to a recent survey property prices in Dubai fell on average with nearly 20% during the last quarter of 2008 and for 2009 further price declines are expected. In the high-end segment price corrections are even sharper.

Banking sector in real estates sector

Due to the low real interest rates and a buoyant economy, domestic credit growth was impressive and exceeded 20% in the first half of 2008. By mid 2008 speculators started to withdraw their deposits from UAE banks because it became apparent that the fixed exchange rate of the UAE dirham (AED) to the US dollar would not be revised. The outflow of so-called hot money put a strain on the bank's liquidity position. When the real estate market crashed, the vulnerability of UAE banks increased. As the credit crunch spread, the authorities intervened to prevent a major banking crisis. Together with the federal government the Central Bank has provided 120bn AED (32.7 bn USD) to UAE banks. Emirates Development Bank (EDB), a merger between Emirates Industrial Bank and Real Estate Bank, has been created to increase credit access and the new bank, with 10bn AED in capital, will receive federal backing. The merger process should be completed by the summer. Details about a recovery plan for Amlak PJSC and Tamweel PJSC, two Dubai-based mortgage lenders that needed federal support in November 2008 and that could be integrated in the EDB, are forthcoming. The financial sector still faces important challenges. Non-performing loans are rising and the loan-to-deposit ratio remains well above the Central Bank's target of 100%.

Solidarity brings relief

The high public debt of Dubai and the ongoing turmoil made investors wary of the emirate's financial situation but markets showed relief when the UAE's Central Bank took on the first 10bn USD tranche of a 20bn USD bond issued by Dubai. The funds will allow the government of Dubai to help its ailing public companies meet their payment obligations. If necessary, the Central Bank could provide further support to Dubai to avoid an escalation of the financial and economic crisis. Solidarity among the emirates will help Dubai and the UAE to ride out the economic crisis in the near future.