



Sudan



Tanzania



India



Thailand



Kyrgyzstan



Ukraine



Argentina



Nigeria

## AFRICA

### Sudan: President al-Bashir's and Salva Kiir's ruling confirmed in Sudanese polls

- > **Event:** Omar Hassan al-Bashir, who came to power after a state coup in 1989 and is charged for war crimes by the international court in The Hague for his role in the Darfur conflict, has been elected as Sudan's president. Some of his main rivals had withdrawn their candidacy even before the election - the first in 24 years - took place, stating that the election process was unfair. Mr Al-Bashir's victory had been widely expected. With 68% of the vote, he has strengthened his position. The April 2010 elections were part of the 2005 Comprehensive Peace Agreement which brought an end to the civil war between the predominately Muslim north and Christian and animist south. President al-Bashir, a member of the National Congress Party based in North Sudan, has indicated he is willing to accept the outcome of the referendum due in 2011 in which oil-rich South Sudan could decide to secede from the north. In already semi-autonomous South Sudan, Salva Kiir of Sudan's People's Liberation Movement has obtained approximately 93% of the vote and has thus been re-elected as South Sudan's political leader. Southern opposition parties stated that such a large win implies that the elections were rigged. Nonetheless, the general view is that the elections in the southern part of Sudan were more competitive than in the North.
- > **Impact on country risk:** The EU has admitted that the elections were flawed but analysts believe that the results will be accepted internationally. The crucial test for Sudan will probably be the implementation of the referendum in which the southerners are likely to vote in favour of independence. There are still (occasional) clashes at the border between South and North Sudan and the situation remains tense. In other words, the political and war risks are expected to remain high in the near and medium term. (**analyst:** Inge Lambrechts, i.lambrechts@ondd.be)

### Tanzania: mixed reactions after approval of new mining law by Tanzanian Parliament

- > **Event:** After a heated discussion the Tanzanian Parliament has approved the new draft mining law which will become effective as President Kikwete signs the law. The legislation only applies to new mining contracts. The aim is to raise the sector's contribution to Tanzania's economy. If the new law is enacted without amendments, a revision of mining contracts will be required every five years. The royalty system has been modified, which implies a royalty rise for gold of 3 to 4%. Foreign investors that want to enter into new mining deals will be obliged to form joint ventures with local partners as the mining of gemstones has become a privilege of Tanzanians. The new ownership rules have been contested by foreign investors and some MPs, while other MPs have stated that compensations for local villagers are inadequate.
- > **Impact on country risk:** The new law may have its flaws and the reaction of foreign investors is not surprising given that the law was designed to increase Tanzania's share of mining revenues and a change of ownership rules had also been expected. The approval of the mining law brings an end to a long reviewing process and it is re-assuring that existing contracts will not be revised. The law also sets a legal framework to which foreign investors and local partners can adjust. (**analyst:** Inge Lambrechts, i.lambrechts@ondd.be)

## ASIA

### India: balanced withdrawal of monetary and fiscal stimuli as economy rebounds

- > **Event:** In April, the Reserve Bank of India (RBI) raised its interest rates for the second consecutive month and the reserve requirement in an attempt to ease growing inflation pressures. During the global economic crisis of 2008 and 2009, the RBI had severely eased its monetary conditions in order to boost domestic demand. As a consequence, the Indian economy grew by 5.7% in 2009. Prospects for 2010 are bright as domestic demand is strong and exports are expected to rebound. In the wake of a strong recovery, the government decided to withdraw its monetary and fiscal stimuli. It is a welcome move after two years of fiscal slippage. The 2010 budget is the first step of a needed fiscal adjustment. In fact, one of the main weaknesses of the Indian economy consists in its huge public debt (mainly held domestically).
- > **Impact on country risk:** The decision of the central bank is in line with the recent announcement of the withdrawal of monetary and fiscal stimuli. India's economy proved to be highly resilient during the crisis. A balanced withdrawal of monetary and fiscal policies should help to sustain the rebound. (**analyst:** Pascaline della Faille, p.dellafaille@ondd.be)

### Thailand: confrontation intensifies between Red Shirts and government forces

- > **Event:** Tensions are mounting in Thailand, particularly in Bangkok, where anti-government protesters, the rural Red Shirts, have set up barricades calling for PM Abhisit's resignation. End April, fights against security forces led to more than 27 dead and 1,000 injured since the beginning of the unrest, a record in two decades that highlights a deepening political crisis. Political chaos might worsen as the army could eventually take the decision to quell further protests. Meanwhile, the Constitutional Court is considering a possible dissolution of Mr Abhisit's ruling Democrat Party as it received such a recommendation from the independent Electoral Commission referring to misused campaign donations in 2005.
- > **Impact on country risk:** Thailand faces persisting political deadlock. If the government deploys military troops to crack down on the Red Shirts, protests could spread outside the capital. Yet, early elections aimed at meeting the Red Shirts' demands and ending the unrest could trigger similar protests among the urban Yellow Shirts. Whatever happens in the coming weeks, a political status quo looks unsustainable and elections are among the most likely scenarios. The prospect seems even more likely in light of the possible five-year legal ban from politics for DP leader Mr Abhisit. Moreover, political violence is having a negative economic impact on investments and tourism in the Bangkok area, and might harm economic activity, which grew considerably in the first quarter. (**analyst:** Raphaël Cecchi, r.cecchi@ondd.be)

## EURASIA

### Kyrgyzstan: Popular uprising overthrows unpopular president

- > **Event:** A bloody popular revolt in Kyrgyz capital Bishkek left at least 83 dead and hundreds injured. President Kurmanbek Bakiyev, who ordered the use of force against demonstrators, was forced to flee to the south of his country as the opposition seized power and installed a provisional government led by former Foreign Minister Roza Otunbayeva. Her regime swiftly gained support from both the US and Russian administrations, who are eager to safeguard their military interests in the country where either countries have a military base. Mr Bakiyev reconciled to his powerless situation, stepped down and fled the country. Ironically, Mr Bakiyev rose himself to power after the so-called Tulip Revolution in 2005 on the pledge to eliminate corruption and promote democracy. Instead, his rule became increasingly marked by authoritarianism and nepotism, while corruption ran as rampant as ever. What ultimately sealed his fate were utility prices hikes. In an extremely poor and underdeveloped country already heavily hit by the economic downturn, these hikes triggered intense turmoil.
- > **Impact on country risk:** The interim government seems determined not to repeat the mistakes made after the 2005 revolution. A new constitution will lay with the framework of a parliamentary republic with a more ceremonial presidential role. It will be put to referendum end June and should

be followed by presidential and parliamentary elections in October. These tight deadlines as well as the acceptance by the interim government of a potentially unfavourable electoral result will provide a first test for the country. However, a new constitution and more or less free elections will not take away the deep problems the weak Kyrgyz economy struggles with, and little seems to be needed to yet again rouse the emotions in the impoverished country. Furthermore, and in spite of the swift transition of power in Bishkek by the opposition, the provisional government faces difficulties in consolidating its control and restoring law and order nation-wide. Especially the South of the country could pose considerable problems. Neighbouring countries in Central Asia, all ruled by authoritarian presidents, are without any doubt observing closely the developments in Kyrgyzstan. As upheaval could spill over to their countries, one should factor in the risk of a greater instability in these countries as well. (**analyst:** Ben Deboeck, b.deboeck@ondd.be)

## EUROPE

### Ukraine: 'Gas for fleet' deal provides Ukraine with welcome financial breathing space

- > **Event:** Ukraine and Russia last month reached a controversial bargain. Russia's Gazprom announced a 30% discount over 10 years on gas prices for Ukraine, with the Russian government compensating Gazprom for the lost revenues. From the Ukrainian side, the lease of Russia's strategically important military base in Sevastopol was extended. The naval base is home to Russia's Black Sea fleet. The lease was due to expire in 2017 but has now been extended to at least 2042, much to the disgrace of Ukrainian opposition, which made havoc during the parliamentary discussion – and adoption – of the deal.
- > **Impact on country risk:** Allowing Russia a prolonged stay on the Crimean seems a price worth paying for the gas discount, especially since one cannot speak of a total Ukrainian sell-out to Russia as, for example, Ukraine did not surrender control over its strategic gas transit network. What's more, Ukraine's quid pro quo with Russia provides Kiev with some breathing space amid deep financial worries. As domestic gas prices are heavily subsidised by the government, the new gas arrangement bodes well for the Ukrainian treasury and will help the authorities to rein in the fiscal deficit. As a matter of fact, days after the gas deal was approved, a workable 2010 budget was adopted. With a budget in place, all seems set for renewed assistance by the IMF, which suspended last year after irresponsible fiscal measures. The Ukrainian government does not seek a mere resumption but aims for a new multiyear arrangement. The IMF has already expressed satisfaction about progress made by the government on crucial areas, though several issues remain. Nevertheless, crucial IMF support looks likely to be resumed and stepped up shortly, hopefully heralding Ukraine's economic revival. (**analyst:** Ben Deboeck, b.deboeck@ondd.be)

## LATIN AMERICA

### Argentina: debt swap offer unveiled

- > **Event:** The Minister of Economy has unveiled a debt swap offer (without giving full details) for bondholders, those who did not participate in the sovereign debt restructuring in 2005. Regulators have approved the deal. The subscription period opens on 3 May and closes on 7 June. Amid the worsening fiscal outlook before the presidential election, Argentina is seeking to restore access to international markets and therefore needs to close the chapter of its 2001 default on USD100bn. The country concluded a first debt swap in 2005 with more than 75% of owners of defaulted bonds. The holders of the remaining USD 20bn (USD 29bn included interests) refused the terms proposed as they did not meet their expectations. Now, the lawsuit won by the bondholders prevents Argentina from tapping into the capital market as any money raised might be seized by creditors. In order to straighten out the situation, Argentina is offering a second debt swap which varies for large- and small-scale investors. The 66.3% haircut is the same as the one in 2005.
- > **Impact on country risk:** Even if the debt swap is a success, Argentina will still owe over than USD 4.8bn (interests not included) to the Paris Club creditors. An IMF mission, which appears more likely as the Minister of Economy discussed the topic with the IMF, is required for rescheduling the Paris Club debt. A Paris Club rescheduling looks unlikely in the near future, however. As a result, short-term prospects for a change in our cover policy are slim. (**analyst:** Pascaline della Faille, p.dellafaille@ondd.be)

## COUNTRY IN THE SPOTLIGHT: NIGERIA

Nigeria is faced with significant challenges ahead, both at political and economic level. While it is recovering from the global economic crisis, Nigeria has to cope with a far from resolved conflict in the Niger Delta, a weakened banking sector and looming political battles in the run-up to the presidential and parliamentary elections scheduled for April 2011.

### Political uncertainty to postpone the economic agenda and tackling of the Niger Delta issue

The government amnesty plan launched last summer and the rebels' ceasefire (notably the MEND, Movement for Emancipation of the Niger Delta) have helped halt attacks in the restive oil-rich Niger Delta for several months. In addition, the government had suggested to grant 10% of stakes in oil Joint-ventures to the State communities. However, negotiations with rebels have stalled since the power vacuum at the end of 2009 when Northerner President Yar'Adua was abroad for medical treatment. In the context of Yar'Adua's prolonged absence - who has in the meantime returned home - and poor health along with a deteriorating security climate in the centre of the country, the National Assembly appointed Southerner Jonathan Goodluck as acting President. Yar'Adua's likely incapacity to ever rule the country again means that games are open within the ruling Peoples' Democratic Party. Although country interests have overridden political paralysis, the expected clash between Yar'Adua and Mr Jonathan's clans might make life difficult for the latter until next year's elections.

Meanwhile, Mr Jonathan has appointed a new Cabinet and seems determined to bring the economic policy agenda forward, in continuity with Yar'Adua's goals, notably in addressing the key Niger Delta issue as it is the region from which he originates. Mr Jonathan has one year to make a political breakthrough and show results. However, it remains doubtful whether he will stand as candidate and thus break the tacit rotation rule of two presidential mandates between Northerners (Muslims) and Southerners (Christians), with the risk of fuelling instability. Progress is necessary on several issues such as the electoral system reform and the crucial Petroleum Industry Bill. The latter is currently under debate at the National Assembly and aims to raise sector transparency, efficiency and increase government revenues with the risk of undermining the investment climate. Besides, in the Niger Delta, rebels are growing impatient and have resumed some attacks against oil facilities. The improvement in oil production (back to around 2mn b/d) that has been observed since the amnesty plan might therefore be difficult to preserve though Mr Jonathan appears as a more acceptable interlocutor to them.

### Improved economic forecasts clouded by macroeconomic risks

After having been hit hard by the global crisis through lower energy prices and capital outflows, Nigeria's economy is slowly recovering. Exports are rising thanks to higher oil prices, foreign exchange reserves are moving slowly upward since last summer and still allow for a comfortable 8 months of import cover whereas the naira has somewhat stabilised after a 25% depreciation at the end of 2008. A performing non-oil sector, in telecom and especially agriculture, but also high energy prices expected in the medium term, will support the economic outlook given the dependence on oil and gas exports (75% of total exports). GDP growth is expected at an average 7% in 2010-2011.

However, while the current account surplus will exceed 10% of the GDP and external debt remains moderate at 5% of GDP, there are some downside risks to the outlook. One major downside risk is clearly the impact of political uncertainty and election prospects on macroeconomic stability and on tackling structural barriers such as weak infrastructure and frequent power shortages that constrain Nigeria's economic potential. The banking sector is also at risk. Although the Central Bank restored confidence last September when it spent \$ 3.9bn to bail out 10 out of the country's 24 banks, accounting for 40% of total loans, the rescue plan requires follow-up. Banks are burdened with higher bad loans (with a ratio to total loans probably above the official figure of 7%) and need to raise capital. To this end, foreign investors are being encouraged to enter the banks' capital and an Asset Management Company is to be set up later this year. A successful bank sector restructuring is important to retain investor confidence, avoid new capital outflows and pressures on the naira, which is quite stable in 2010). Furthermore, fiscal consolidation is to remain inadequate in the short term. After the consolidated government fiscal deficit reached a heavy 9.7% of GDP due to tumbled oil revenues, it is likely to remain very high in light of expected high election-related spending, with risks of further withdrawals from Nigeria's Excess Crude Account.

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