



Weekly Export Risk Outlook



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In the Headlines

FIGURE OF THE WEEK: **6.1%**>COLOMBIA'S YR/YR GDP GROWTH IN Q4 2011

▶ Euro-zone: Weakness in sentiment?

After some improvement over the previous two months, the Economic Sentiment Index (ESI) declined moderately in March, by 0.1 points to 94.4. The decrease was driven largely by a weakening in confidence in Germany and Spain, by -2.4 and -1.1 points, respectively, compared to February. A sector breakdown shows that the fall in confidence was particularly evident in industry and construction (-1.5 and -1.9 points, respectively) but that confidence in the retail and service sectors improved (+0.6 and +1.2 points, respectively), reflecting the pick-up revealed in the Consumer Confidence Indicator. Overall, the most encouraging signs within the large EZ economies now come from Italy, where the ESI increased by 3.5 points in March with only one sector (construction) recording a fall in confidence.

▶ US: Mixed news

The housing market appears to be the laggard in the nascent economic recovery. Data on starts, permits, unit sales and prices all disappointed over the last week. Since the peak in 2006, prices are still down 30% and starts and permits are still down 70%. By contrast, durable goods orders increased by 2.2% mo/mo in February and the “non-defense capital goods, ex-aircraft” component, which is a proxy for business spending, was up significantly, by 5.7% yr/yr in real terms, compared with a long-term average of 1.3%. In several talks over the last week, Fed Chairman Ben Bernanke appeared to suggest that further monetary easing may yet be needed. As a result, Treasury yields fell moderately. Meanwhile, the Supreme Court heard arguments over the constitutionality of “Obamacare” (health care provision), leading some to believe it could be overturned.

▶ West Africa: Political events and trends

The 25 March run-off presidential election in **Senegal** resulted in a win for Macky Sall, with incumbent Abdoulaye Wade conceding defeat and announcing his willingness to stand down. Wade failed to improve on his support in the first round whereas the opposition coalesced around Sall. A peaceful power transfer boosts Senegal's reputation of relative political stability and of transparency in its electoral process. However, it remains to be seen whether the heterogeneous coalition behind Sall will hold together and whether the differing vested interests will allow effective policy implementation. These policies will need to address pressures stemming from poverty and unemployment and to improve power supply and infrastructure development. Real GDP growth was only 2% yr/yr in 2011 and new policies will be required to promote recovery, particularly in the primary sector. In stark contrast to events in Senegal, the government of President Amadou Touré in **Mali** was overthrown last week, ostensibly because of his weak leadership in tackling a protracted Tuareg rebellion in the north. After the coup—led principally by junior officers in the armed forces—a National Committee for the Restoration of Democracy and State (CNRDR) dissolved all the non-military state institutions and suspended the constitution. The CNRDR pledges to return the country to democratically-elected governance once security and stability are assured. However, it is not known what level of popular support the CNRDR commands or whether Touré has backing to facilitate a counter-coup. Expect a period of political uncertainty and associated economic frailty, although gold output is reportedly unaffected, to date. Do not expect the coup in Mali to signal that the region is returning to its previous and widespread anti-democratic tendencies, although occasional setbacks appear unavoidable. Overall, as in **Senegal, Ghana, Benin** and **Cape Verde** the trend is towards improved governance.

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► **Mediterranean, Africa & Middle East – Egypt: Constitution**

The committee charged with drafting a new constitution is now established and, with the withdrawal from nomination of liberals and secularists, Islamists will control this stage of the political transition, as well as dominating the newly-elected parliament. The constitution will specify the relationship between religion and the state and it will define the powers of the president and the military. Last week, the latter refused to remove the interim government and replace it with one led by the Freedom and Justice Party (FJP), the political arm of the Moslem Brotherhood. The FJP and the military appear at odds in relation to political evolution in the period leading to the presidential elections in May and the army's scheduled formal transfer of power in July, so expect a messy transition and continuing weak economy.



► **Americas – Colombia: Growth and interest rates**

Data released last week put Q4 2011 real GDP growth at 6.1% yr/yr (7.5% Q3), 1.3% qtr/qtr sa (slightly slower than Q3) and full year 2011 at 5.9%, the most rapid annual growth since 2007. On the demand-side, gross fixed investment was up 17.2% in 2011, reflecting continued strong global commodity demand, which is also supporting strong FDI inflows. Amid signs of growth slowing (EH expects 3.8% in 2012) and inflation (3.5% yr/yr in February, against a 2-4% target range) passing its peak, the central bank's monetary policy committee left interest rates unchanged last week for the first time in nine months. This should ease some of the upward pressure on the exchange rate, which returned to sharp appreciation in the early part of 2012.



► **Asia-Pacific – Hong Kong: CEO elections**

Leung Chun-Ying will become the next Chief Executive (the handover will take place in July) after securing 689 votes (58%) of the Electoral Committee in the election last Sunday. Leung achieved a clear majority, although it was much lower than that of his predecessor, Donald Tsang, who had 82% of the vote. Leung's nearest rival, Henry Tang, initially the front-runner, faded after he was damaged by disclosures about his private affairs. The third placed candidate, Albert Ho, of the opposition Democratic Party, won only 78 votes. Leung has the support of Beijing, crucial under the "one country, two systems" principle of government in Hong Kong, but he may need to work to strengthen both public support and that of the business community.



► **Europe – Hungary: Poor growth prospects**

Second estimates of the Statistical Office confirmed that Q4 2011 real GDP grew by 1.4% yr/yr and 0.3% qtr/qtr sa, taking full-year growth to 1.7% in 2011, after 1.3% in 2010. Growth in 2011 was entirely driven by net trade, which contributed 2.2pps as the expansion in exports (8.4%) exceeded imports (6.3%). Private consumption growth was negligible at 0.1% while government consumption fell by 0.3% and fixed investment declined by 5.4%. Monthly indicators for industrial output and exports suggest that economic activity decelerated in late 2011 and early 2012. Against the backdrop of a weakening Euro-zone, economic growth prospects for 2012 are poor overall, reflecting a tight monetary policy and limited scope for fiscal stimulus. Expect full-year real GDP growth of 0.2% in 2012.

Worth knowing

► **Iceland**

GDP increased by 1.9% qtr/qtr and 2.8% yr/yr in Q4 2011, taking full-year 2011 growth to 3.1%. Last week, the central bank raised its key policy interest rate by 25bps to 5% as inflation (6.3% yr/yr in February) remains stubbornly above its 2.5% target.

► **Israel**

Shaul Mofaz replaced Tzipi Livni as leader of the centrist Kadima political party, the leading opposition group. However, support for Kadima appears to be weakening and PM Binyamin Netanyahu's ruling Likud-led ruling coalition does not appear to be seriously challenged at this juncture.

► **Q4 2011 GDP growth**

Sri Lanka: 8.3% yr/yr after 8.4% in Q3, driven by reconstruction expenditure and a boost in tourism arrivals. For the full calendar year, growth accelerated to 8.3% in 2011, from 8.0% in 2010. **Uganda:** -1.4% yr/yr, the first quarterly contraction since Q1 2007.

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