



Weekly Export Risk Outlook



EULER HERMES

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In the Headlines

FIGURE OF THE WEEK: **10.8%** >EZ UNEMPLOYMENT IN FEBRUARY

▶ Euro-Zone: Debt crisis

Finance ministers approved plans to allow the ESM and the EFSF to operate in parallel for a period, increasing the total funds in the “firewall” to just over EUR800bn, made up of EUR500bn of available funds in the ESM, which is to start in July 2012, and just over EUR300bn of loans already committed from the EFSF to Greece, Portugal and Ireland. In USD terms, this meets the much vaunted “trillion” mark, but it remains to be seen if it will be sufficient to encourage G-20 countries to contribute to a much needed and potentially critical enlargement of IMF funds, to which the focus now turns. Meanwhile, Spain finally introduced the 2012 budget with large planned spending cuts to meet a deficit target of 5.3% of GDP—a positive step, but a challenging target.

▶ Germany: Potential domino effect of wage agreement

At the end of March, public service authorities and labour unions reached agreement on a new wage scale, including a pay rise for 2mn public sector employees at federal and state level, which will be equivalent to a total of 6.3% in stages over two years—considerably more than expected. According to initial calculations, these increases will lead to higher costs for local governments of an estimated EUR6.5bn up to 2013. Many cities and local governments, some already in highly precarious financial circumstances, now see themselves under much greater pressure to make significant cuts in their budgets, either by levying higher charges and taxes or by further privatisation or job cuts. In this context, the German central bank warned of the danger of higher inflation in the—not unlikely—case that the public sector wage agreement is taken as a benchmark for other sectors.

▶ Euro-Zone: Mixed unemployment rates

The rate of unemployment reached a record 10.8% in February, after 10.7% in the previous month and 10% in the corresponding period in 2011. Results by country vary markedly, as is indicated by the sharp contrast in unemployment rates in the four largest economies. Spain has the highest rate of unemployment, at 23.6% in February, while Italy (9.3%) and France (10.0%) are close to the EZ average but Germany (5.7%) is in the EZ group of economies with the lowest unemployment. Partly reflecting labour market conditions, the volume of retail sales fell back into negative territory, at -0.1% mo/mo in February, after a rebound of +1.1% mo/mo in January.

▶ Turkey: Slowdown

The Turkish Statistical Institute announced that Q4 2011 real GDP growth decelerated to 5.2% yr/yr (8.4% in Q3) and 0.6% qtr/qtr sa (1.3%). Full-year 2011 growth was 8.5%, after an upwardly revised 9.2% in 2010. The moderation in Q4 was a result of slowing domestic demand, with investment expanding by 2.4% yr/yr (14.6% in Q3) and private consumption by 3.2% (7.3%) while public consumption contracted by 4.3% (+10.3%). In contrast, the contribution of net trade to overall growth shifted to positive in Q4 as exports increased by 6.7% (10.2% in Q3) while imports declined by 5.1% (+6.8% in Q3). The current account deficit widened to 10% of GDP in 2011 from 6.4% in 2010, but early indicators for 2012 suggest the gap may narrow gradually this year. Inflation was 10.4% yr/yr in March, unchanged from February and slightly down from 10.6% in January.

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► **Mediterranean, Africa & Middle East – Zambia: New policy**

A new monetary policy framework was introduced, effective 2 April. The previous system targeted monetary aggregates but now, against an overall objective of limiting average inflation to 7% yr/yr in 2012, a benchmark policy rate of 9% is in place, which will link into overnight lending rates with a spread of 200bps or less and into the Overnight Lending Facility of the central bank. Inflation increased to 6.4% yr/yr in March (6% in February) largely reflecting higher food prices but expect the rate to fall as the marketing season for the 2011/12 harvests will start mid-May and maize output will be more than adequate for domestic consumption. Expect good agricultural output and continuing inward investment in the mining sector to generate GDP growth of around 6% in 2012.



► **Americas – Mexico: Election campaign**

The formal campaigns for the 1 July presidential and legislative elections opened on 30 March. Opinion polls show Enrique Pena Neto of the opposition PRI starting as clear front runner for the presidency, ahead of nearest rival Josefina Vazquez Mota of the ruling PAN, according to one published last week. Andres Manuel Lopez Obrador of the PRD—a close second in the 2006 election—is a distant third and Gabriel Qadri of PANAL fourth. So far, Vazquez Mota has made little inroad into Pena Neto's lead since her nomination in February and will need to gather momentum quickly, while Lopez Obrador is likely to struggle to repeat his standing in the previous election. In the legislative elections, 128 Senate seats and 500 lower house seats will be contested.



► **Asia-Pacific – Vietnam: Q1 GDP growth weakens**

Q1 real GDP growth decelerated to 4% yr/yr from 6.1% in Q4 2011. The sharp moderation was largely a result of a slowdown in industrial production growth, to a five-year low of 4.1% yr/yr, and a 3.9% yr/yr decline in construction. The slowdown was also, at least in part, a lagged response to the sharp monetary policy tightening in 2011—the central bank raised its key policy interest rate by a cumulative 600bps last year in an attempt to contain soaring inflation. Since then, inflation has eased, to 14.2% yr/yr in March 2012 from a high of 23% in August 2011, and the central bank began loosening policy, cutting the interest rate by 100bps to 14% in March. GDP growth may pick up in the course of 2012 but do not expect it to reach the government's full-year target of 6%.



► **Europe – Ukraine: Risk update**

Real GDP increased by 4.7% yr/yr in Q4 2011, down from 6.5% in Q3. Full-year 2011 growth was 5.2% (4.2% in 2010). Inflation eased to 3% yr/yr in February from a recent high of 12% in June 2011, encouraging the central bank to cut its key policy interest rate by 25bps to 7.5% in late March. However, external liquidity risk remains high. The annual current account deficit tripled to USD9bn in 2011 (5.5% of GDP). Gross external debt was USD126bn at end-2011 (76% of GDP), with a shortening maturity structure for the private sector highlighting an increasing risk aversion among international lenders. FX reserves were USD29.4bn in February, down 17% yr/yr as a result of central bank intervention to defend the quasi-fixed exchange rate, covering just 52% of all external debt payments due in 2012.

Worth knowing

► **Myanmar**

The pro-democracy NLD party of Aung San Suu Kyi won at least 40 out of 45 parliamentary seats contested in a by-election (there are 664 seats altogether). It remains to be seen if this marks the start of a new political—and economic—era in Myanmar.

► **Cameroon**

Parliament approved a delay in the election timetable, with legislative polls previously scheduled for July 2012 postponed until an unspecified date in 2013. The delay reflects the introduction of a new voter roll using biometric data, although it remains to be seen whether the new system will assuage criticisms of a perceived electoral bias in favour of the ruling party.

► **Interest rates**

Albania: key policy rate cut by 25bps to 4.25%. **Kazakhstan:** key policy rate cut by 50bps to 6.5%. **Romania:** key policy rate cut by 25bps to 5.25%.

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