



# Weekly Export Risk Outlook



25 April 2012

## In the Headlines

FIGURE OF THE WEEK: **-0.2%** > UK QTR/QTR Q1 GDP CONTRACTION

### ▶ Euro-zone: Public finances

The overall government deficit for the EZ area decreased from -6.5% of GDP in 2010 to -4.5% in 2011, according to recent Eurostat data. Public debt increased moderately, by 1.9pps to 87.2%. Although the trend in public finances is broadly favourable in all the main EZ economies—decreasing deficits and slowdown in growth of public debt—performance varies across the wider region. In terms of government deficit/GDP ratios in 2011, Ireland and Greece registered the largest, with -13.1% and -9.1%, respectively, although the former's deficit in 2011 was better than the EU/IMF target. Germany and Luxembourg had the lowest ratios, with -1.0% and -0.6%, respectively. Financial stress points in the EZ remain significant, including, most recently, concerns over Spain's public debt dynamics, while political uncertainties have increased with François Hollande's victory in the first round of the French presidential elections and the fall of the Dutch government.

### ▶ US: Weaknesses still evident

Data releases continue to suggest that the economy is finding it difficult to sustain even a modest recovery. House prices gained 0.2% mo/mo in February but are still down 34% from the peak in 2006. New home sales fell 7.1% mo/mo in March, leaving them 69% below the peak of the housing bubble. Additionally, consumer confidence edged down from 69.5 to 69.2 in March. Moreover, weekly jobless claims have been flat since the middle of January and the relatively more stable, four-week moving average of claims actually increased in the last two weeks. One positive development is that gasoline prices have been falling, leading many analysts to believe that the peak is now passed for the year. Overall, the economy continues to struggle.

### ▶ Brazil: Interest rates cut further

At its latest monetary policy committee meeting last week, the central bank again cut interest rates, lowering the policy rate (SELIC) to 9% from 9.75%, as the risks to inflation remain limited and, the bank noted, the contribution of the external sector is disinflationary, given the fragility of the global economy. Domestic economic growth also remains relatively subdued. This was the sixth consecutive cut by the committee—following a period of significant tightening in the first half of 2011—and takes rates almost back to the record low of 8.75%, but policy loosening may not be over yet. A further reduction in rates seems likely, although a more cautious approach may become evident as economic growth strengthens in the second half of the year.

### ▶ Bahrain: Continuing sectarian tensions

Last weekend's Formula One Grand Prix was completed without significant incident but the event served as a reminder of the kingdom's ongoing social/political demonstrations, including some demands for regime change. The ruling al-Khalifa family was determined to stage the race—it was cancelled in 2011—as a way of showing that the country is stable. However, demonstrators (largely Shia) appear unwavering in their demands for reforms, particularly as they fear that implementation of recommendations in the November 2011 Independent Commission of Inquiry may be slipping. Protests have disrupted economic activity since Q1 2011, with weakened financial and tourism sectors but relatively unaffected outputs from the oil—85% of fiscal and external account revenues—and aluminium industries. As a result, overall GDP growth last year was around 1.5-2% (average 5.7% 2006-10). Expect further sectarian tensions and demonstrations and only moderate GDP growth this year, of around 2.5-3%.

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► **Mediterranean, Africa & Middle East – Kuwait: Oil wealth**

High oil prices generate large surpluses in the fiscal and current accounts—15-20% of GDP and over 30% of GDP, respectively, in 2012. In turn, these allow a build-up in foreign assets and in special funds established to serve future generations. Net foreign assets are estimated at around USD400bn and these provide a cushion in times of weak oil prices or global downturn and tend to mitigate transfer risk. Foreign debt stock and repayment obligations are low. Domestic politics is complicated by a deep division between the legislative and the executive branches of government, which leads to periodic cabinet resignations, suspension of the National Assembly (parliament) and rule by emiri decree. Expect the ruling al-Sabah family to maintain control and GDP growth of around 4% in 2012.



► **Americas – Argentina: YPF nationalisation**

Last week, the government announced the nationalisation of YPF, an energy company largely owned by Repsol of Spain, taking control of 51% of the shares. Arbitrary nationalisation in the energy sector is likely to raise concerns over FDI generally, as it will leave foreign investors uncertain over where the boundaries of state intervention lie, perhaps for a prolonged period, especially as the question of compensation looks set to take some time and probably will be contentious. The move also looks set to damage seriously international relations, particularly with Spain and the EU. The government's action follows recent measures to tighten foreign exchange and import controls and also comes as the economy is beginning to show signs of weakening after strong growth in recent years.



► **Asia-Pacific – Philippines: Monetary policy on hold**

Inflation edged down slightly in March, to 2.6% yr/yr from 2.7% in February, remaining below the central bank's 3-5% target range for 2012. Nonetheless, the central bank last week paused in its interest rate easing cycle after a cumulative 50bps reduction in the first two monetary policy meetings of 2012 and kept its key policy rates unchanged, at 4% for the overnight borrowing rate and 6% for the overnight lending rate. While the inflation outlook for 2012 remains generally benign as a result of the relatively weak global economy and the stable PHP, the balance of risks to the outlook is now leaning somewhat to the upside because global oil prices have remained high and may pass through to other prices. The effect of continued strong capital inflows on domestic liquidity poses another upside risk.



► **Europe – Belarus: Crisis update**

Real GDP increased by 5.3% in 2011 according to the statistics office, indicating a hard landing in Q4, given that growth had been reported at 7.9% yr/yr in Q1-Q3 and at 11% in H1. Preliminary data for Q1 2012 show that GDP resumed modest growth of 3% yr/yr. The official BYR/USD exchange rate weakened by 178% in 2011 but has been fairly stable since its unification with the market exchange rate into one floating rate in October 2011. Inflation, driven up by devaluation in 2011, remained high at 106.5% yr/yr in March, although it moderated to 1.5% in mo/mo terms. The current account deficit narrowed to a still large 10% of GDP in 2011 (15% in 2010) while the devaluation pushed up external debt to 61% of GDP (51% in 2010). The crisis is far from over, as IMF support is unlikely in the near term.

**Worth knowing**

► **UK**

Q1 GDP contracted by 0.2% qtr/qtr, according to the first official estimate, as output of the construction sector fell 3%, leaving the economy in technical, though shallow, recession.

► **Other GDP growth**

**Ghana:** 14.4% yr/yr in 2011, revised upwards from an earlier projection of 13.6%. **Mauritius:** 4.1% yr/yr in 2011 (4.2% 2010).

► **Asian headline inflation**

**Malaysia:** 2.1% yr/yr in March, down from 2.2% in February. **Singapore:** 5.2% yr/yr in March, up from 4.6% in February.

**Thailand:** 3.4% yr/yr in March, marginally up from 3.3% in February. **Vietnam:** 10.5% yr/yr in April, down from 14.1% in March.

► **Azerbaijan**

Last week, Moody's lifted Azerbaijan to investment grade by a one-notch upgrade of its LT sovereign ratings to Baa3 from Ba1, with a stable outlook, citing continued strengthening of public finances and the recent strong performance of the non-oil sector.

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