Weekly Focus

April 7, 2011

TRENDS TO KEEP AN EYE ON

Brazil – yet another effort to fend off hot money, one in whose effectiveness not even the Finance Minister has confidence; **China** – owns a whole lot more US T-Bills than previously assumed; **European Union** – with the sovereign debt problems nowhere near being resolved, the ECB is walking a tightrope.

CHINA

The authorities are working now to make sure that banks deemed to be "systemically important" give proper risk weightings to loans extended to local-government vehicles not fully backed by cash flow, and that they have procedures in place allowing them to restore their finances in the event of a crisis.

INDIA

Increasingly bitter partisan politics are making it exceedingly difficult for the government to push through its agenda, including economic reforms, although the defection of a key party in the ruling coalition does not raise the specter of a collapse of Prime Minister Singh's administration.

POLAND

The CB has raised interest rates to dampen inflation expectations, but the budget deficit is likely to widen and the political environment will not become more conducive to fiscal reform after the parliamentary elections planned for October.

PORTUGAL

The country had to pay a high price at its last auction of short-term debt and this made it clear that Lisbon could not continue to get by with stop-gap measures but would need a bailout from the EU. Since it will not have a fully empowered government until late in June, at the earliest, negotiating the conditions will not be easy.

RUSSIA

Russia benefits from the war in Libya, as well as from the disasters in Japan. Growing trade surpluses will help the economy sustain a good momentum. The just-approved development strategy for the banking sector, however, seems to run counter to trends on the ground.

SPAIN

PM Zapatero will not seek re-election next year. While his intent was probably to give himself a free hand for implementing the tough austerity measures his government has introduced, there is a risk that he may become a lame duck while his Socialist Party focuses on strictly political issues rather than additional reforms.

TURKEY

The encouraging economic picture ought to help PM Erdogan and his team in the upcoming elections. There is reason for concern, however, about the authorities' growing efforts to stifle political dissent and re-Islamization trends.

YEMEN

While hard predictions about sociopolitical developments are still difficult to make, certain is that the alliances of convenience that have been cobbled together by opponents to the President will not survive his departure from the scene. This means that if and when he steps down, the US, Saudi Arabia and European interests will have much to worry about.

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