

LATIN AMERICA**Brazil**

Brazil's inflation rate will end 2009 at 4.85 percent, less than the 4.90 percent forecast last week, according to a weekly central bank survey of economists. Economists covering Brazil's economy lowered their 2009 inflation forecast for a fourth week and kept their 2008 forecast unchanged at 6.14 percent, according to the Oct. 3 survey of about 100 economists published today on the bank's Web site. The annual inflation rate 12 months from now will be 5.15 percent, up from the 5.14 percent forecast last week, the survey showed.

Brazil canceled a local bond sale for the first time in seven months, a sign the global credit crisis is beginning to squeeze the finances of Latin American countries. The Treasury shelved an auction of inflation-linked bonds, known as NTN-Bs, as a tumble in the currency throttled demand for local assets. The Treasury hadn't said how much it planned to sell of the bonds. "We are in the middle of a crisis of confidence that's everywhere and is affecting everyone," said Jose Mauro Cardoso Delella, chief economist at Itau Asset Management.

Chile

Chile's economy grew less than economists expected in August as mining output shrank and wholesale sales declined. Economic activity expanded 2.4 percent in the 12 months through August, the central bank said on its Web site. The median estimate of 12 economists in a Bloomberg survey was that the economy would expand 3.6 percent from a year ago.

Colombia

Colombia eliminated controls on foreign investment in fixed income securities in a bid to increase access to capital and prevent swings in the peso as the global economic crisis threatens investment inflows. The controls, imposed in May 2007 to stem gains in the peso, were always intended to be temporary, President Alvaro Uribe said in a statement posted on the presidential Web site last night. "In a world economic crisis we have to defend the Colombian economy, we have to defend employment and the income of Colombians," Uribe said.

Costa Rica

Standard & Poor's Ratings Services said that it revised its outlook on the Republic of Costa Rica to stable from positive. Standard & Poor's also said that it affirmed its 'BB/B' foreign-currency and 'BB+/B' local-currency sovereign credit ratings on the republic. In addition, Standard & Poor's affirmed its 'BBB-' transfer and convertibility assessment of Costa Rica. Standard & Poor's also affirmed its 'BB+' long-term debt ratings on Costa Rica's foreign-currency senior unsecured debt. The foreign-currency debt ratings are one notch above the credit rating to reflect both default and recovery prospects. The recovery rating of '2' remains unchanged. The '2' rating indicates an expectation for substantial (70%-90%) recovery in the event of a payment default.

Ecuador

Ecuadorian President Rafael Correa said he may expel foreign oil producers, including Spain's biggest energy company, Repsol YPF, and Brazil's state-owned Petroleo Brasileiro SA, because of declining production. The companies, particularly Petrobras, as the Rio de Janeiro-based Brazilian company is known, have dragged their feet in contract negotiations in which Correa wants a greater share of oil income, he said in his first regular Saturday address after almost two-thirds of voters approved a new constitution he had proposed.

Honduras

Standard & Poor's Ratings Services said that it assigned its 'B+' long-term and 'B' short-term foreign- and local-currency sovereign credit ratings to the Republic of Honduras. Standard & Poor's also said that it assigned a transfer and convertibility assessment of 'BB-' to the sovereign. The outlook on Honduras is stable. Honduras is the 119th sovereign rated by Standard & Poor's. "The ratings are supported by Honduras's low debt and debt-service burdens as well as its good prospects for long-term economic growth and diversification of the economy," noted Standard & Poor's credit analyst Joydeep Mukherji.

Mexico

Mexican President Felipe Calderon proposed a stimulus package worth 1 percent of gross domestic product that includes spending on energy, infrastructure and education to help the economy weather a global credit crisis. The president sent an initiative to Congress that would allow the government to spend an extra 65.1 billion pesos (\$5.26 billion). The plan, which includes building Mexico's first refinery in almost 30 years, would also eliminate some tariffs and change laws to ease bottlenecks in infrastructure spending.

Venezuela

President Hugo Chavez has figured out how to use Venezuela's vast oil reserves to increase his regional influence while diminishing U.S. clout: He all but gives it away. The self-proclaimed socialist revolutionary is allowing impoverished U.S. allies such as Honduras and the Dominican Republic to buy discounted oil with low-interest loans. Then he rebates the revenue back to those countries in the form of aid - - attached to strings he controls.

AFRICA & MIDDLE EAST

Coins clank softly and Ugandan shillings shuffle their way through counting machines at a foreign exchange bureau in downtown Kampala. Yet in the last few months, the money-flow has been dwindling, with cash sent from Ugandans abroad via the bureau down by more than half to about \$35,000 per day. "August was the worst month. September was bad, and October is going bad, bad, bad," said Igal Mohamed Ali, managing director of Bicco Forex Bureau, which is a conduit for money from Ugandans living in the United Kingdom. Remittances to Africa, worth \$40 billion a year according to the United Nations, could be an early casualty of the global financial crisis. Though traditionally resilient even at times of crisis, remittance flows are bound to suffer if Africans working abroad have to tighten their belts or lose their jobs. "Remittances were keeping a very, very strong anchor under us, but I think we are going to have a dramatic slowdown in remittances because I think the second round effects (of the crisis) are going to mean a lot of lay-offs," Kenyan financial analyst Aly Khan Satchu said. That could deliver a heavy blow to parts of Africa at a time the continent had been enjoying its fastest growth in decades -- an annual average of over 6 percent for the past five years.

Egypt

Egyptian banks are unaffected by the banking crisis gripping the U.S. and Europe and Egyptian companies are performing well even after the recent collapse in the local stock market, said Rachid Mohamed Rachid, Egypt's Trade & Industry Minister. "At the moment, banks in Egypt have strong liquidity," said Rachid in an e-mailed statement. "In relation to the stock market, the current drop in the performance of the Egypt Stock Exchange has little to do with the actual valuations of the listed Egyptian companies."

South Africa

South African consumer confidence rose in the third quarter as the prospect of interest rates cuts next year and lower fuel prices eased concern about the economy, a survey showed. The FNB/BER consumer confidence index rose 5 points to minus 1 from minus 6 in the second quarter, First National Bank and the Bureau for Economic Research said in an e-mailed statement.

South Africa's ruling African National Congress said Mosiuoa Lekota failed to attend a scheduled meeting with party leaders to discuss disputes that may lead to a split in the movement. The meeting was arranged for 10 a.m. local time with ANC Treasurer-General Matthews Phosa, the party said in an e-mailed statement. Lekota didn't give the ANC a reason why he abandoned the meeting, it added. Lekota, a supporter of former President Thabo Mbeki who was ousted last month, said he was unhappy with the way the ANC was conducting itself under the leadership of Jacob Zuma, including a lack of respect for the law. Lekota suggested that he and other former leaders may form a rival party to the ANC, which led an eight-decade fight to end apartheid in South Africa.

South Africa's rand clawed back some ground against the dollar on Monday, tracking gains in high yielding currencies as moves by global leaders to rescue banks hit by the credit crisis helped calm rattled investor nerves. By 0640 GMT, before the market opening at 0700 GMT, the blue chip Top-40 December futures contract was up 4.85 percent, suggesting a similar recovery for the local bourse after stocks took a hammering last week. The rand last traded 3.23 percent firmer at 9.1350 versus the dollar, compared to Friday's New York close of 9.44. "The rand has strengthened quite a bit from this morning on the back of positive sentiment after suggestions of adding liquidity to help struggling banks," a Johannesburg trader said. "But it's generally going to be very, very choppy. It's going to be another very wild day, I think." High-yielding currencies hit by risk aversion in recent weeks rallied on Monday as European officials offered to guarantee some bank debt and inject public funds into individual banks if necessary.

ASIA**China**

China cut interest rates for the second time in three weeks as the global financial crisis threatened to undermine the world's fourth-largest economy. The People's Bank of China said it would lower the key one-year lending

rate by 27 basis points to 6.93 percent, and the one-year deposit rate by the same amount to 3.87 percent according to a statement on its Web site. It also cut the proportion of deposits that banks must set aside by 50 basis points effective Oct. 15.

Charles Collyns, deputy director of research at the International Monetary Fund, comments on China's economy during a press briefing in Washington. His comments were taken from a transcript. The IMF yesterday cut its growth forecast for China, the world's fourth-largest economy, to 9.3 percent from 9.8 percent. On the outlook for growth: "We are expecting growth to slow in China, in part because of the slowdown in export growth to the rest of the world. And in part because of a slowdown in investment, particularly in the real estate sector."

India

India's capital markets regulator lifted curbs on overseas investors imposed a year ago, in a bid to stem record sales by offshore funds that have triggered a 42 percent slide in the benchmark index this year. A requirement forcing investors to register in India before buying shares and limits on offshore derivatives that were imposed in October will be lifted with immediate effect, C.B. Bhave, chairman of the Securities & Exchange Board of India, told reporters after a board meeting in Mumbai.

Indonesia

Indonesia's central bank raised its policy rate to slow inflation and boost the rupiah after the nation's stock index plunged 10 percent amid a global credit crisis. Bank Indonesia Governor Boediono and his seven colleagues raised the BI Rate to 9.5 percent, from 9.25 percent. Fourteen of 19 economists surveyed by Bloomberg News forecast today's move, with five expecting no change.

Philippines

The Philippine central bank has room to reduce borrowing costs after U.S. and European policy makers cut rates and the Southeast Asian nation's inflation slowed from a 16-year high, Governor Amando Tetangco said. "The move, taken together with improved inflation expectations, gives us greater monetary policy space," Tetangco said in a mobile-phone message from Washington. The coordinated rate cuts will also have a "positive effect" on markets including Asia, he said.

EMERGING EUROPE & CIS

As the global financial crisis sends many emerging markets into tailspin, Eastern European economies are seen as most at risk from unstable exchange rates and a resulting foreign debt exposure of indebted corporates. Latvia and Ukraine are seeing their currencies strain against targeted trading bands and debt insurance costs soar. And with Iceland's shocking plunge into a financial crisis this week intensifying market worries over other emerging market flashpoints, there has been widespread scrutiny of countries running current account deficits with large foreign debt. South Korea and Pakistan are feeling the heat in Asia as their external deficits flag concern. And Latin America, even though regional bourses were down more than 10 percent on Wednesday, has much healthier external national accounts. But Central and Eastern Europe sticks out and the International Monetary Fund on Wednesday forecast the collective current account deficit for the region to rise to a whopping 7.2 percent of total gross domestic product from 7.1 percent this year and more than twice the shortfall as recently as 2002. "Eastern Europe is the most exposed region among emerging economies. These countries have large external financing needs and the global environment looks more challenging than ever," said Edward Parker, head of Emerging European sovereigns at Fitch Ratings. Brown Brothers Harriman data showed Bulgarian and Estonian external debt at 101 percent of GDP, with Hungary's debt at 96 percent. "Virtually all (Eastern European economies) are running current account deficits...many have very high external debt/GDP ratios. In this region, the International Monetary Fund may end up playing a significant role, particularly with the smaller Baltic countries," it said. A Credit Suisse table of countries showing most macroeconomic risk leads with Iceland, following by Bulgaria, Estonia, Lithuania, Ukraine, Latvia, Romania and Hungary. South Africa is 10th, below the United Kingdom.

Hungary

The International Monetary Fund is ready to offer financial and technical help to Hungary, the European Union said on Monday, expressing its support for the new member state's efforts to overcome its financial woes. "The Ecofin (EU finance ministers) welcomes the readiness of the IMF to consider providing technical and financial assistance as needed to Hungary," the executive European Commission and the EU's French presidency said in a joint statement. They said they were following the situation on Hungary's financial markets closely following

severe pressure on the forint and Hungarian bonds on Friday. Hungary has been hit hard by the global financial crisis because it has one of the most fragile economies in Europe due to high budget and current account deficits and heavy reliance on external financing, analysts say. To reduce fragility, Budapest announced plans to cut this year's budget deficit to 3.4 percent of gross domestic product from an earlier projection of 3.8 percent and cut it further to 2.9 percent next year, below the earlier planned 3.2 percent. "We are committed to use all available instruments with a view to supporting Hungary in steering its economy through these difficult times," the Commission and presidency said, adding the country had improved its macro-economic policies since 2006. The EU authorities said they were in contact with Hungary to ensure that any conditions attached to possible IMF aid were consistent with economic goal agreed with the EU.

Lithuania

Lithuania's main centre-right opposition was set to win a parliamentary election and a new party headed by a TV talent show host was a surprise second, heralding tough coalition talks, results showed on Monday. The vote took place amid anger over double digit inflation and fears the once high flying economy would slide in the global financial crisis. A newly assertive Russia has also been a focus of concern for some in the former Soviet republic. "All the ruling parties were punished and the opposition and new forces were preferred by the voters," said Virgis Valentinavicius, editor-in-chief of news portal Alfa.lt. With nearly all ballots counted from Sunday's election in the EU and NATO member country, the opposition centre-right Homeland Union Party led with 18.51 percent of the vote for party lists and in 25 of 71 single mandate areas. Homeland Union's leader, former Prime Minister Andrius Kubilius, said he was ready to work with most other parties but analysts say he will have a hard time forming a coalition from the disparate groupings, most of which are broadly left-leaning. A second run-off for single mandate constituencies is due on Oct. 26, after which the parliament line-up will be clear. The Homeland Union is a traditional tax-cutting conservative party but it also says the budget deficit could rise. The party is the one which most raises the issue of Russia as a threat to Lithuania. Kubilius also backs the launch of the euro, which analysts have said could happen in 2011 or 2012. The ruling Social Democrats were in fourth place in party lists, but second in single mandate areas. They were ahead of the Labour Party of Russian-born millionaire Viktor Uspaskich, nicknamed the "Gherkin King" after one of his businesses.

Romania

Romanian President Traian Basescu urged on Friday for the government, parliament and trade unions, clashing over wage claims in the run up to the Nov. 30 election, to minimise the impact of the global financial crisis. Basescu's speech came as Prime Minister Calin Tariceanu and major trade unions met to discuss pay increases after parliament cleared a 50 percent wage hike in teachers' wages last month. The decision, which still needs to be approved by Basescu and which the centrist minority cabinet opposes, saying it will lead to a huge budget deficit in 2009, has triggered a flurry of similar wage demands from most of the public sector. "The impact of a potential lack of responsibility of the government, parliament and unions could be that of bringing the (international) crisis here," Basescu said. "We have the potential to be minimally affected by the international crisis if we behave responsibly." Pensions and wages have become a key campaign issue ahead of the Nov. 30 parliamentary vote, and all major parties, including the ruling Liberals, have promised to boost incomes. Analysts say wage hikes could further fuel rampant consumption and imports and exacerbate risks to an economy already made vulnerable by its vast current account deficit and high foreign currency borrowing. Basescu also reiterated assurances made earlier this week by central bankers that Romanian banks are safe from the world crisis as a result of restrictive monetary policy.

Russia

Russia accused Georgia of committing terrorism and seeking to provoke a new conflict between the countries after a series of explosions and assassination attempts during the past four days. Georgia rejected the claim. Russia will still observe an agreement signed by Presidents Dmitry Medvedev of Russia and Nicolas Sarkozy of France to withdraw its troops from Georgia by Oct. 10, the Foreign Ministry said in a statement posted on its Web site.

Moscow's government plans to spend as much as \$2 billion bailing out developers who are struggling to fund projects in the world's third costliest property market. The city is in talks to buy land and apartments from construction companies in need of cash, Deputy Mayor Yuri Roslyak said, according to his spokesman, Leonid Bratkin.

Russia's economic growth will be hit by the global credit crunch and some neighboring economies in the Commonwealth of Independent States will also slow next year, the International Monetary Fund said on Wednesday. "Growth is set to weaken appreciably, reflecting slowing world demand and tightening financial conditions," the IMF said in its latest World Economic Outlook. It forecast Russian growth of 5.5 percent in

2009 down from a projected 7 percent this year while Ukraine's economic expansion will slow to 2.5 percent next year from 6.4 percent. High world prices for food and fuel have contributed significantly to inflation pressures across the region, with inflation of 14 percent seen in Russia this year. "Thus, there are concerns about overheating, with output consistently above potential and labor markets remaining tight," the IMF said.

Turkey

Turkish Prime Minister Tayyip Erdogan is widely expected to reshuffle his government, but political and economic analysts say big changes in economic policy are unlikely. Although Turkish media suggest the finance and energy ministers could be replaced, the analysts do not expect a reshuffle would give any new impetus to a reform drive needed to secure European Union membership. Erdogan has said nothing about a reshuffle, but Turkish media expected changes following allegations of high-level corruption and because of the ruling AK party's long-running battle with secularists over the role of Islam. Erdogan is expected to keep a grip on policy, including combating the global financial crisis, signing a new deal with the International Monetary Fund and the drive to join the EU. "With the global crisis hitting the markets we are not expecting a hypothetical cabinet reshuffle to bring changes to the government's macroeconomic policies," said Ozgur Altug from Raymond James Securities in Istanbul.

The Turkish lira rose 3 percent against the dollar on Monday and stocks opened 5 percent higher after governments around the world agreed bank bailouts worth hundreds of billions of dollars, restoring some confidence. By 0654 GMT Turkey's lira traded at 1.3840 against the dollar in interbank trade, as most Asian markets reacted positively to news of bank bailouts and increasingly drastic measures to open up frozen credit markets. The currency had fallen to a 19-month low on Friday and closed at 1.4330 as investors dumped assets worldwide. "This new united move of rich nations should bring some calm to the markets," said Tera stockbrokers in a research note. Istanbul's main stock exchange index traded around 5 percent higher at 29903.03 points after slumping to levels not seen for three years on panic selling on Friday, when it closed down 7.72 percent. The index lost around 17 percent of its value last week as investors fled from emerging markets into safe haven investments, and Turkish stocks have now almost halved in value since the start of this year. Turkish banking stocks outperformed the index, rising around 6 percent, led by the most actively traded stocks, Garanti up 6.25 percent and Is Bank, up 3.9 percent.

Ukraine

Prominvestbank, Ukraine's sixth-largest lender by assets, had its ratings cut three steps by Moody's after the National Bank of Ukraine took control of management and assets. Moody's cut the Kiev-based bank's foreign-currency deposit ratings to Caa2, its fourth-lowest grade, from B2, it said in a statement. "The rating action is in response to the announcement that the National Bank of Ukraine has taken control of Prominvestbank following the concerns about the bank's ability to continue its operations as a viable stand-alone entity," wrote Moody's analyst Yaroslav Sovgyra in a statement.

Ukrainian President Viktor Yushchenko has ordered early parliamentary elections be held on Dec. 7, according to a decree published on Thursday. Yushchenko on Wednesday abandoned a search for a coalition and dissolved parliament, known as the Rada. "I decree ... to hold early elections to the Supreme Rada on December 7, 2008," according to the decree which was published on the president's official Web site, www.president.gov.ua.

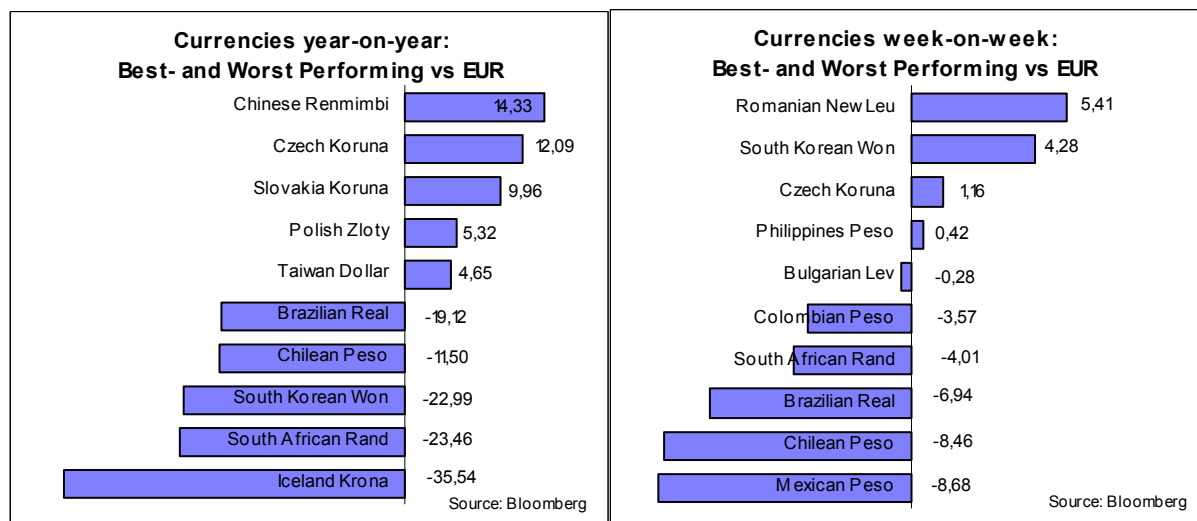
Ukraine's ability to repay its sovereign debt will depend on the central bank's future actions on the hryvnia currency, which hit a record low earlier this week, Moody's Vice President Jonathan Schiffer said on Friday. But he noted that Ukraine has little debt and that liabilities -- such as a sovereign guarantee for ailing state energy firm Naftogaz or promises to compensate for lost Soviet-era savings -- are so far manageable. "Ukraine has very, very little debt," Schiffer told Reuters by telephone. "It does have some contingent liabilities, it has Naftogaz, we all know that and it has those co-called "lost savings" which I personally think the current government dealt with pretty well." "I think that they could end up in a situation where they could still pay their debt but it really does depend on what the central bank does in terms of letting the currency settle on its own on a market price, or intervening heavily or intervening intermittently," he said. Moody's has a positive outlook and a B1 rating for Ukraine. Ukraine last year issued two Eurobonds -- a \$700 million 10-year bond at 6.75 percent and a five-year \$500 million bond at 6.385. It has been unable to issue a Eurobond this year as lending slumped, despite completing a road show in June. Another ratings agency, Fitch, downgraded its outlook to negative, warning of an increased risk of a currency crisis. Schiffer said Ukraine's gaping current account gap, global slowdown, possible lower foreign direct investment and the lack of lending have all heaped pressure on the 12-year-old currency. "Moody's is looking closely at the situation because we're aware that Ukraine is being hit by a variety of pressures. We're monitoring this closely," Schiffer said. The central bank intervened on Friday for the third day running, selling dollars at 5.0 hryvnias, after the currency hit a record low of 5.9/\$ on Wednesday. The central bank has said that it thinks the hryvnia's weakness is temporary due to capital flight from the stock

exchange and a demand for the dollar as banks repay foreign debts and Naftogaz pays for gas imports. The bank has to weigh the costs of intervention, which will keep the hryvnia stable but encourage imports that would boost further its trade and current account deficits, against the risks of letting the hryvnia go, which would remove one of the few anchors of the economy.

INDUSTRIAL COUNTRIES

Iceland

Iceland signalled on Sunday it might turn to the International Monetary Fund for assistance to pull through a financial storm that has brought its economy to the brink of collapse. As Icelandic officials prepared to depart for Moscow this week to begin negotiations for an emergency loan from Russia of potentially billions of euros, a top minister gave Iceland's strongest signal yet it may ask for IMF help. An official at the country's financial watchdog said a decision would be taken on Monday on whether to reopen the stock market, which was shut at the height of last week's turmoil. Meanwhile, the fallout from the crisis showed no sign of abating. A popular Icelandic minister on Sunday called for the dismissal of Central Bank head David Oddsson, saying there was a need to review Iceland's monetary policy. When asked if she wanted Oddsson out, Social Affairs Minister Johanna Sigurdardottir told Icelandic television: "I think a change is necessary." British retail billionaire Philip Green edged closer to a deal to buy the debts of Icelandic investor Baugur, a once- powerful predator that acquired a string of famous brands. Baugur UK Chairman Jon Asgeir Johannesson told Icelandic television selling the group's debts, even at "firesale prices", would be better than letting its British companies fail. "Nothing's happened yet," Green told Reuters on Sunday.

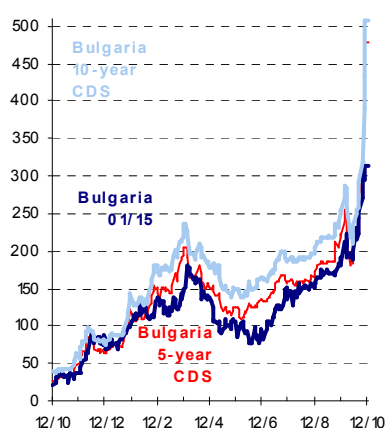
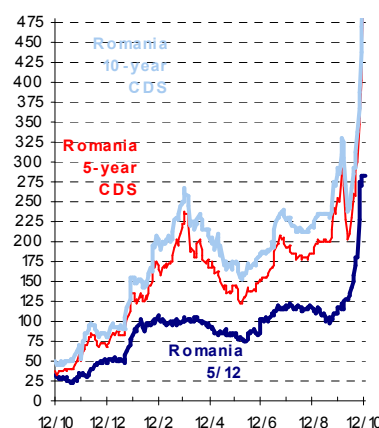
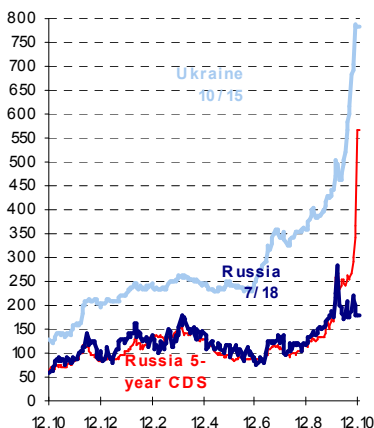
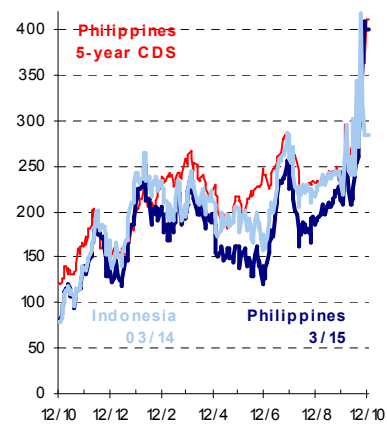
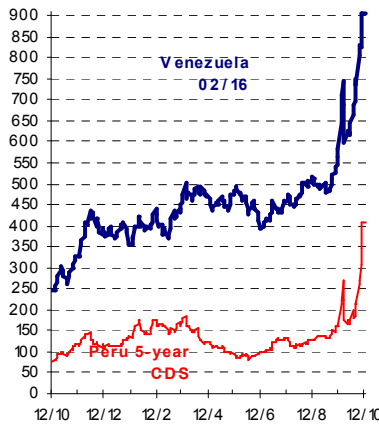
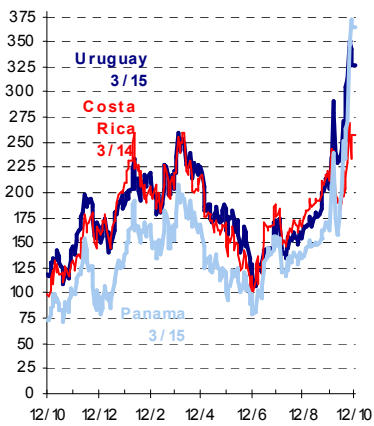
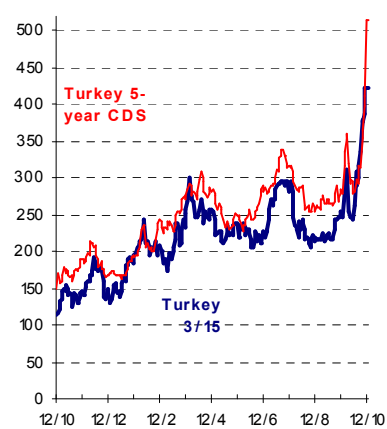
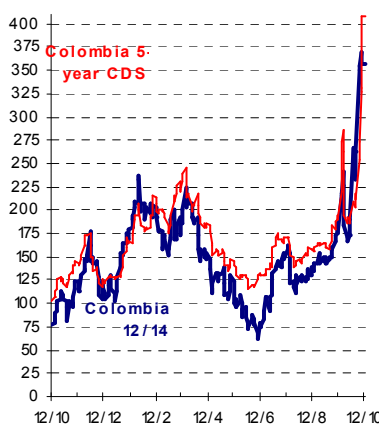
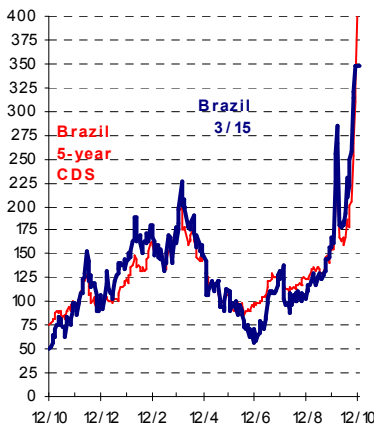
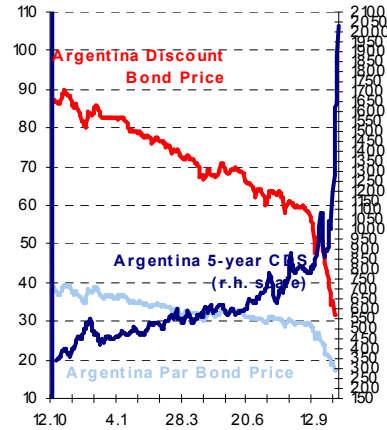
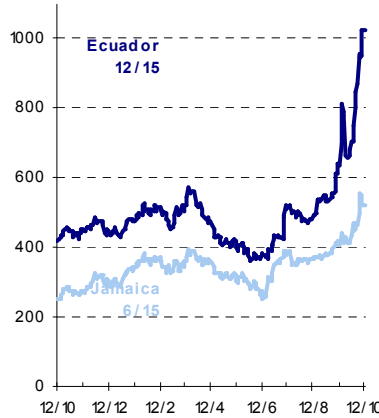
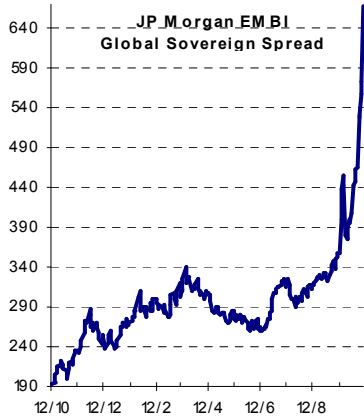


Sources: Reuters, Bloomberg, Erste Group Country Risk

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Credit Spreads, Source: Bloomberg



Credit Spreads, Source: Bloomberg

