

LATIN AMERICA**Argentina**

Argentina expects financing to become "more difficult" next year, Finance Secretary Hernan Lorenzino said. Argentina won't reopen its debt swap to investors who didn't participate in a 2005 restructuring of \$95 billion of defaulted bonds, Lorenzino told reporters in Buenos Aires.

Brazil

Brazilian inflation forecasts for 2008 fell for the first time in 19 weeks and those for next year were unchanged in a central bank survey of economists. The benchmark IPCA consumer price index will finish the year up 6.54 percent, less than the 6.58 percent forecast made a week earlier, according to the Aug. 1 survey of about 100 institutions published on the bank's Web site. The central bank targets inflation of 4.5 percent, plus or minus 2 percentage points.

Chile

Chile's economy to expand more than 4% this year as investment rises and the country's energy sector recovers, said Finance Minister Andres Velasco in Santiago. Inflation in the South American nation is largely imported and is being driven by food, fuel and energy costs, Velasco said. Government reports showed that economic activity had rebounded in June while monthly inflation slowed less than expected by economists.

Chile's central bank policy makers considered a 0.75 percentage point rate increase at their July meeting, before voting unanimously to raise interest rates by half a point, the bank said on its Web site. The bank raised the rate to 7.25 percent on July 10 from 6.75 percent after annual inflation reached a 13-year high of 9.5 percent. The vote for a half-point raise implied further rate increases, the central bank said.

Venezuela

Venezuelan President Hugo Chavez's opponents will meet with a regional trade bloc's human rights panel in a bid to press the government to reverse a rule that bans some of their candidates from running for office. Adriana Pena, president of the human rights commission of Mercosur, arrived in Caracas to hear the complaints of key opposition figures barred from participating in local and regional elections on Nov. 23 by a high court ruling. "The fact that the commission has bothered to come analyze this case is significant," Ricardo Sucre, a political analyst in Caracas, said in a telephone interview.

AFRICA & MIDDLE EAST**Burkina Faso**

Standard & Poor's Ratings Services said it had revised its outlook on Burkina Faso from positive to stable on increased fiscal and external vulnerabilities. At the same time, we affirmed the 'B' long-term and 'B' short-term foreign and local currency sovereign credit ratings on Burkina Faso. "The outlook revision reflects our expectation that the current economic environment, characterized by upward pressure on energy and food prices and an appreciating currency that is pegged to the euro, will further weaken Burkina Faso's already minimal external and fiscal flexibility," Standard & Poor's credit analyst Sarah N'Sonde said. "The general government deficit (excluding grants) is estimated at 12% of GDP in 2008 and at about 13% of GDP in 2007." The sovereign rating remains constrained by the country's very low level of development, with GDP per capita of below \$600 among the lowest in the world. That said, one of Burkina Faso's ratings strengths is the country's long track record of strong donor support and domestic stability, which we expect to continue despite the difficult economic environment. The ratings are also supported by the country's moderate debt burden, with general government debt estimated at 25% of GDP in 2008, from 40% in 2004, following sizeable multilateral debt relief.

Kenya

Kenya's central bank left its benchmark interest rate unchanged, after raising it in June, as inflation slowed. The Central Bank Rate was kept at 9 percent, Governor Njuguna Ndung'u said in an e-mailed statement from Nairobi. The bank last raised the rate by a quarter percentage point June 5. While inflation pressure has eased, it "continues to be a source of concern to the Monetary Policy Committee," the governor said.

Kenyan markets have been supported by S&P's decision to raise the sovereign's B Rating outlook to positive from stable, a move that has also raised prospects for a long awaited debut Eurobond issue. The horrific post-election violence at the beginning of the year obviously scuppered issuance prospects for a time. The turmoil prompted S&P to cut the sovereign's rating to B from B+ and for Fitch to lower its B+ ratings outlook to

negative. Since then a coalition government has been formed which has helped stabilize the country. "The grand coalition government's tentative success in continuing the growth-enhancing reforms and relatively prudent macroeconomic policies of the previous government, which is expected to ease Kenya's economic recovery and improve medium-term growth potential," according to S&P's credit analyst Farouk Soussa.

Lebanon

Standard & Poor's raised its long-term sovereign credit rating of Lebanon to "B-" from "CCC+" on the easing of tensions between political parties that in May could have driven Lebanon to civil war. The outlook remains stable. "The ratings on Lebanon were raised to reflect the easing of tensions between the March 14th coalition, which dominated the government, and the opposition that in May had taken Lebanon to the brink of civil conflict," Standard & Poor's credit analyst Ben Faulks said in a statement. "The Doha accord, which has delivered the election of a president and the formation of a national unity cabinet, augurs well for Lebanon's immediate political stability. "This reduces the risk that depositors will withdraw funds from the Lebanese banking sector, which in turn lessens the government's near-term financing risks as banks are by far the government's largest creditors."

Seychelles

Standard & Poor's cut its credit rating on the Republic of Seychelles after the country failed to service a note and warned that the tiny African nation may also default on its global bond. S&P downgraded Seychelles' foreign currency sovereign rating to "selective default" or "SD" from "CCC/C", citing the country's failure to pay the principal due on July 1 of a privately placed 54.75 million euros amortising note due 2011. The ratings agency also lowered its rating on Seychelles' \$230 million global bond due 2011 to "CCC-" from "CCC". "Since the private placement note is already in default, there is high risk they will default on the global bond," David Beers, S&P head of global sovereign ratings group told Reuters.

South Africa

Several hundred South African ruling party members converged on the eastern town of Pietermaritzburg to show support for their leader Jacob Zuma as he seeks to get corruption charges against him declared invalid. In a pre-trial hearing scheduled to last two days, High Court Judge Chris Nicholson will rule whether the case should go ahead next week as planned. Zuma, 66, ousted President Thabo Mbeki as leader of the ANC in December and is the party's candidate to become the nation's next ruler after elections next year.

ASIA

China

China approved new foreign-exchange control rules to reflect changes in regulatory practices since 1997, according to a statement from the country's State Council or cabinet published. The rules allow the government to take "necessary safeguarding and control" measures to cope with an imbalance in international payments or economic crisis. The new regulations didn't give details on the new measures.

Indonesia

Indonesia's central bank raised its benchmark interest rate for a fourth straight meeting to tame inflation running at the fastest pace in almost two years. Governor Boediono and his seven colleagues increased the policy rate by a quarter point to 9 percent, Bank Indonesia said in a statement in Jakarta.

Philippines

A widening gap between U.S. and Philippine benchmark interest rates will help the Asian nation attract portfolio investments, central bank Deputy Governor Diwa Guinigundo said. "Risk aversion seems to be keeping foreign capital in so-called safe havens like the U.S. market," Guinigundo said in a mobile-phone text message. "We expect good fundamentals plus this rate gap to start bringing in foreign capital." The Philippine Stock Exchange Index has slumped 26 percent this year and the peso has declined 5.8 percent as investors sold Asian assets on concern accelerating inflation in the region will weigh on economic growth.

South Korea

South Korea's central bank raised interest rates on Thursday to a 7-1/2-year high and appeared to keep the door open for more tightening, but analysts said the first rise in a year could also be this year's last. The central bank raised its benchmark interest rate by a quarter of a percentage point to 5.25 percent, the highest since February

2001, its eighth rate rise since late 2005 and the first since last August. Bank of Korea Governor Lee Seong-tae said the rate rise aimed at containing inflation expectations and that it was too early for the central bank to lower its guard on prices. "It is not yet time for monetary policy to focus only on slowing economic growth because the inflation risk remains in place," Lee told a news conference.

Thailand

In the spat between the Bank of Thailand and government over how best to tackle soaring inflation, the unlikely figure of King Bhumibol Adulyadej could yet emerge as a key defender of central bank independence. Last week, the government packed the central bank's new board with people noted for favouring growth over price stability, or, in the case of the national police chief and the top public prosecutor, whose economic credentials are doubtful at best. Under new central bank legislation, the board will appoint a new rate-setting Monetary Policy Committee (MPC), which investors believe will be far more reluctant to raise interest rates than the outgoing committee led by governor Tarisa Watanagase. The central bank raised its key rate by 25 basis points to 3.50 percent last month and Tarisa has primed markets for another move this month, saying higher rates were needed to curb inflation, which hit 9.2 percent in July. Rate rise bets, however, could be off if a new bank board and new MPC take over in time for the next meeting due on Aug. 27. But that is a big if. The chairman of the new board requires approval from the King -- and so far he has not granted it. There is no deadline for the approval and nobody knows why the 81-year-old monarch is taking his time after last week's cabinet decision.

EMERGING EUROPE & CIS

Bulgaria

Bulgaria's economy is expected to expand by 6.2-6.5 percent this year against a previous forecast of 6.2 percent because of bumper crops, Economy Minister Petar Dimitrov said on Friday. The Socialist-led government had expected the economy to expand at the same rate as in 2007, despite the global credit crunch and an expected slowdown in foreign investment. "I am optimistic and we have upped our end-year forecast because of a very good harvest," Dimitrov told reporters. The official said Bulgaria's gross domestic product was seen rising by 6.3 percent in the second quarter this year against 7 percent recorded in the first quarter.

Hungary

Hungary posted a smaller-than-expected trade surplus in June, adding to signs that economic slowdown in the euro zone is taking its toll on central European exports, a key growth driver, analysts said. The surplus amounted to 100.3 million euros in June, according to preliminary data published by the Central Statistics Office (KSH) on Friday, up from 27.5 million euros in May, but below analysts' 146 million euro forecast. Analysts said the figure still did not cause a big surprise after an unexpected 0.3 percent fall in industrial output in June. "The whole CEE (Central European) region is starting to print weaker growth and worse trade numbers given easing external demand and surging commodity prices," said Silja Sepping of Lehman Brothers in London. In the first half of the year, Hungary's exports were up 11.9 percent while import growth was only 10.0 percent year on year. In June alone, imports were up by 8.4 percent year-on-year and exports rose by only 7.6 percent.

Romania

Romanian inflation is expected to peak in July due to gas and power price hikes, and fall sharply afterwards helped by bumper crops, allowing the central bank to hold fire in September, a Reuters poll showed on Friday. The mid-range forecast showed annual inflation rising to 9.3 percent in July from 8.6 percent in June. Monthly inflation was seen at 0.9 percent in July, due mainly to a 12.5 percent increase in domestic gas tariffs and a 5.3 percent hike in electricity costs. Gas and power account for about 10 percent of the price basket in Romania, which joined the European Union in 2007 and is struggling to rein in stubborn price growth ahead of its planned 2014 euro adoption target.

Russia

Russia's trade surplus surged 58 percent to \$110.121bn in the first half of 2008, the Federal Customs Service reported today. Russia's foreign trade stood at \$359.613bn in January-June 2008, having increased 50.2 percent compared to H1 2007. Trade with non-CIS countries soared 50.8 percent to \$305.433bn, and 47 percent to \$54.18bn with the CIS. Exports reached \$234.867bn, which is 52 percent greater than in the first six months of 2007. Exports to the CIS went up 54.8 percent to \$36.013bn, while exports to non-CIS countries rose 51.5 percent to \$198.853bn. Imports amounted to \$124.746bn, or 46.9 percent more than in H1 2007.

Turkey

Turkey's inflation rate rose at the fastest pace in more than four years in July as energy and food costs jumped, putting more pressure on the central bank to raise interest rates for the fourth month in a row. The inflation rate rose to 12.1 percent from 10.6 percent in June, the statistics office in Ankara said in a statement on its Web site. Consumer prices were expected to increase 11.8 percent, according to a Bloomberg survey of 18 economists. In the month, prices rose 0.6 percent.

Ukraine

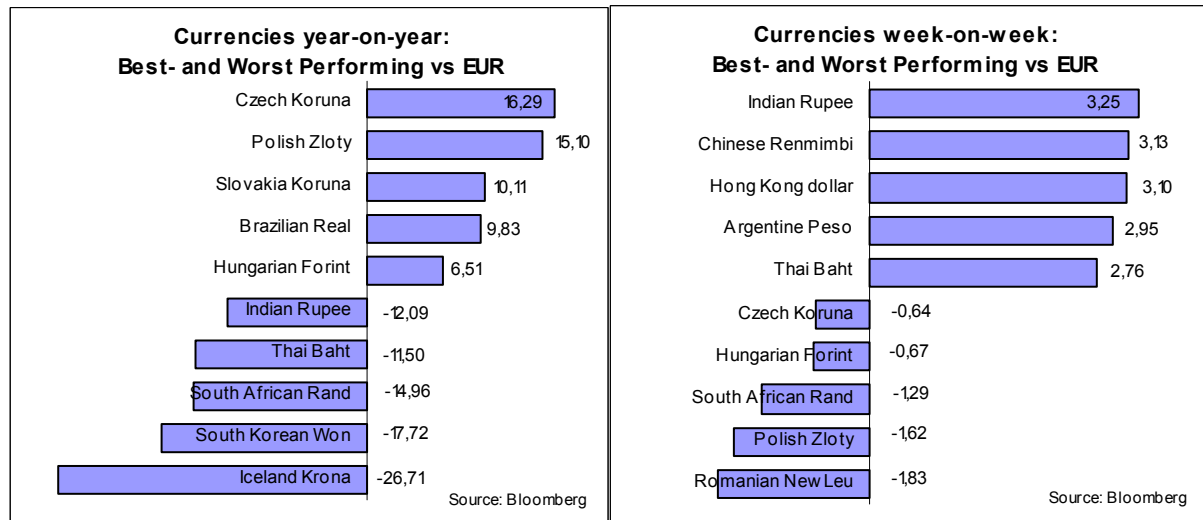
Moody's Investors Service has confirmed several key credit ratings of Ukraine, concluding a review for possible upgrade that began in March, and has maintained a positive outlook on these same ratings. The decision not to upgrade the ratings that were under review but rather to keep a positive outlook takes into account an upcoming period of political and economic uncertainty, set against the much-improved sustainability of the government's debt metrics and relatively consistent fiscal policy. Moody's said the positive outlook applies to the B1 foreign- and local-currency government bond ratings, the country's Ba3 foreign-currency ceilings for bonds and the B2 country ceiling for foreign currency bank deposits. The A3 (stable outlook) local currency country ceiling and Baa1 (stable outlook) local currency bank deposit ceiling have been affirmed. Also affirmed are the Not Prime short-term ratings for country ceilings for foreign currency bonds and bank deposits. "Moody's expects there will be difficult days ahead for Ukraine given its heightened external financing needs in the context of global market volatility," said Moody's Vice President Jonathan Schiffer. "Still, a positive outlook was judged to be appropriate because Ukraine has accumulated a large foreign reserve cushion after many years of strong economic growth and earlier current account surpluses."

Georgia

Standard & Poor's lowered its long-term sovereign credit ratings on the Government of Georgia to B from B+ and placed the ratings on CreditWatch with negative implications, as the sovereign moves rapidly toward all-out war with Russia. The transfer and convertibility assessment was lowered to BB- from BB. "The violence between Georgian troops and armed separatists in the breakaway region of South Ossetia over the past seven days has escalated to the brink of war with Russia - upon whom the separatists depend for political and economic support," Standard & Poor's said. After the breakdown in a 24-hour ceasefire on Aug. 8, 2008, full-scale military action by the Georgian government and escalating hostilities in the separatist zone have been followed by a significant build-up of Russian military hardware in the area. The rhetoric and actions of the two governments indicate that they are both on a war footing, which will jeopardize the large foreign direct investment inflows that finance Georgia's large current account deficit, and which have been a key factor in Georgia's strong economic growth performance over recent years. Higher-than-anticipated defense spending will also put the Georgian government's goal of fiscal consolidation at significant risk. Official Georgian statements suggest that the military action will continue until South Ossetia is fully under Tbilisi's control, while the Russian president has promised to defend Russian citizens in South Ossetia. However, it is possible that the difference in military capabilities between the two sovereigns or the geopolitical dynamics of the region, which are likely to result in intense diplomatic efforts by the international community, will prevent extended hostilities. Nevertheless, the outcome for domestic and foreign policy of even a short-lived conflict remains uncertain.

INDUSTRIAL COUNTRIES**Iceland**

Iceland posted a trade deficit of 18.2 billion Icelandic crowns (\$229 million) in July, a reversal after it managed its first surplus June in more than five years, data showed on Wednesday. The country had exports of 34.4 billion crowns in July and imports of 52.6 billion, the statistics office said. In June, Iceland had a surplus of 2.3 billion crowns, its first positive trade balance since February 2003.

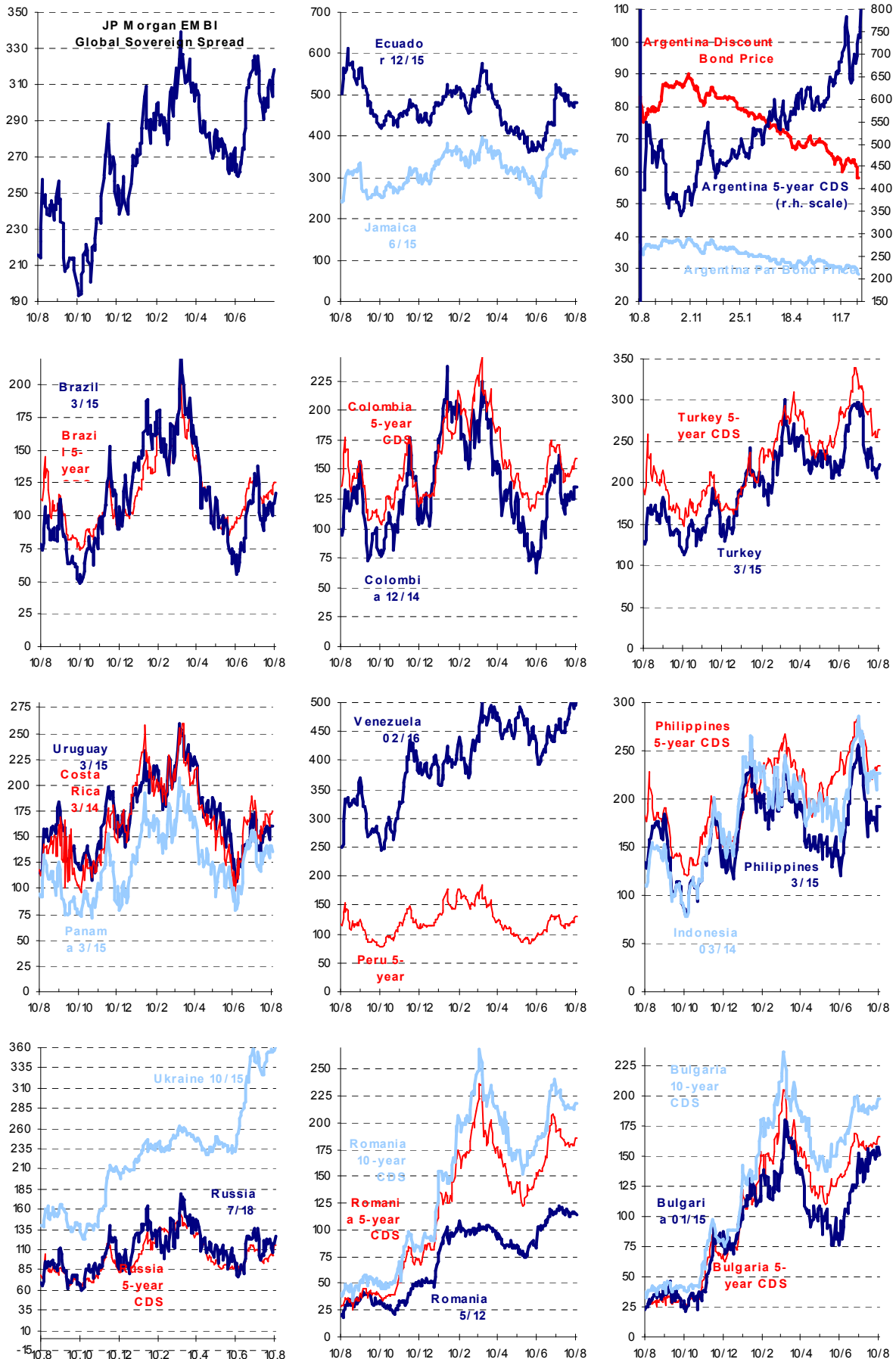


Sources: Reuters, Bloomberg, Erste Group Country Risk

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Credit Spreads, Source: Bloomberg

