Frontier and Emerging Markets
Economics

Update
Economics and Strategy research

22 June 2011

Renaissance Capital

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The revolutionary nature of growth

Contents

Summary

If this were a piece focused on developed markets (DM), the title may have been the revolutionary nature of no growth, as their electorates reject incumbent governments across the no-growth economies. We have downgraded our estimate for US growth to 2.5% on the assumption that oil averages $110/bbl over 2011-2012, and low growth will only intensify the political debate over the debt ceiling and US fiscal deficit. We see little hope for growth in most of peripheral Europe without surprising productivity improvements. There will be rising voter pressure for a solution to no growth, which in southern Europe might include withdrawal from the euro. But Francis Fukuyama, a political scientist and economist, was right: rising political risk in DMs will not challenge the system of democracy.

Rising levels of wealth do lead to democracy, and in this piece we analyse 150 countries and 60 years of history to quantify this. Many of the larger emerging markets (EM) from Brazil to Poland to Turkey to Mexico are now immortal democracies. Tunisia, which sparked the Arab Spring, recently crossed the $6,000 per capita GDP threshold, when the shift to democracy becomes highly likely. China has been so successful in improving living standards for its people that it is now on course for democracy by 2017, and the best news for the global economy is that this shift can occur with no interruption to growth. Meanwhile we find that thanks to rapid growth, Nigerian democracy became considerably safer between the last two elections, and that Kenya and Ghana should see significant reductions in political risk within the decade.

Energy exporting countries remain exceptional, but Russia's and indeed Iran's positions are interesting. Their energy wealth per capita is not comparable with the Gulf sultanates. Based on one database, Russia is now the richest 'weak' democracy in the world and there is nearly a 30% chance that it becomes a strong democracy in any given year – yet another example of the upside surprise that Russia might offer the markets. We would not be at all surprised by a fully competitive presidential election race in 2018. Iran meanwhile may face a political challenge with its elections in 2012, especially if food prices head higher.

If growth is the fuel for democracy, will it continue? We assume China will still grow at 8-9% over 2011-2012, despite the usual cyclical worries after an over-extension of credit, and that it will avoid a severe crash until 2025. Russia, the CIS in general and South Africa (SA) are now growing well and at an easily sustainable pace, which may pick up from 2012 onwards as credit growth rises. These countries and many in SSA from Nigeria to Ghana and Zambia will continue to benefit from high commodity prices and growth opportunities in many other sectors too.

What do we worry about? Food prices of course, which over 2011-2012 may head higher if harvests disappoint in August. Only Russia and probably Ukraine stand to benefit from poor global harvests. We also worry that the Brent oil price might head to $130/bbl or higher, which could lead to QE3 in the US. There are already heavy strains on energy importers like Turkey and even more acutely on Kenya and Belarus. The best news for all three would be a reduction in oil prices to $90/bbl.

Against this backdrop, it was only mildly surprising to us that there is evidence of an explosion in borrowing by the private sector in EMs. Corporates in EMs have upped their bond issuances by 64% ($127bn) in the past two years, while EM banks have borrowed an extra $208bn. Meanwhile, yields on sovereign debt have fallen so low that Brazil and Russia now borrow at just 4%. Lending to growing EM economies is alive and well and we expect continued inflows to all EM asset classes over the coming years.

Figure 1: Country summaries (for stock picks – see our section on equity markets)

Country	Comments
Russia	While you might expect nothing less from Renaissance Capital, we do like Russia. Its 4.5-5.0% growth rate will comfortably exceed all EU member states and high oil prices should cap public debt at 10% of GDP. In a world of food shortages, Russia's high cereals supply in 2011-2012 will provide export revenues and should mean inflation heads lower from the summer. The key questions are political: will Prime Minister Vladimir Putin see stability as enhanced by one-to-two terms as president, and will Russia join the World Trade Organization (WTO)? While Putin has not yet given us a quick phone call to confirm his plans, we do see plenty of room for positive political surprises out of Russia, and believe WTO membership is largely a done deal. In the short term, our strategist believes the RTS could rise to 2,800 as energy stocks begin to price in oil over $100/bbl.
South Africa	Despite good first-quarter growth figures, the market remains steadfastly unexcited by SA. We stick with our call that interest rates will remain unchanged at 5.5% this year before rising to 7.5% in 2012E. We are not overly concerned by twin deficits at 4-5% of GDP over 2011-2012, but recognise that these may lead to mild currency depreciation in 2012. Our South Africa (SA) strategist sees greater potential in commodity stocks, in general, over financials.
Nigeria	The most successful democratic elections in 2Q11 will allow the president to deliver on reforms to the economy, with probably the most important being reforms to the electricity sector. Privatisation here is ongoing and could result in the renovation of existing capacity as well as the construction of much-needed new plants. The potential to slash electricity costs is evident and could set Nigeria up to grow above 10% pa, from the current 7-8% rates. In the short term, we assume that the tighter 2011 budget should help the central bank defend the currency; the naira has been under pressure due to pre-election spending. On the assumption that this proves effective, we like the double-digit domestic currency yields and the eurobonds, while equities should begin to strengthen as credit picks up going into 2012.
Turkey and Kenya	We continue to pair these economies as both are running 6-7% interest rates, while credit growth is 30% or more, which, with high energy prices, means current account (C/A) deficits are widening towards 10% of GDP and both currencies have weakened considerably. Turkey is evidently in the stronger position, not least because the AKP election victory in June 2011 means it can now tighten fiscal policy, while Kenyan politicians do not face the electorate until late-2012. We are increasingly concerned by the policy stance in both countries, and would not be surprised if short-term currency weakness forces both central banks to abruptly hike rates. We will turn more positive on both economies if oil drops to $90/bbl and if the central banks and governments take action. We believe there is much to like at the micro level.
Zimbabwe	Good micro stories mean Zimbabwe will be very attractive once the political situation improves, which we think is unlikely before 2012-2013. Growth is good at 7-8% pa and the large C/A deficit is self-financing (as the dollar and rand are now used as the local currency). Inflation may pick up due to food prices, but cannot get out of control given the currency regime, in our view.
Ghana	We still expect 2011 growth of 11% out of Africa's newest oil producer, and its most recent country to reach middle-income status. The historic twin deficit problems approaching elections (due in 2012) may now be a thing of the past, as we think oil exports are on course to slash the C/A deficit from 7% of GDP in 2010 to 2.5% of GDP in 2011. But we still assume the budget deficit will widen, from 4% of GDP in 2010 to 8% of GDP in 2012. Chinese investment in the country is another long-term positive. The main constraint for investors continues to be access to equity volume.
Zambia	Evidently, Zambia will be a play, in part, on Japanese reconstruction and Chinese housing; we think the copper price is high enough to justify 6-7% growth over 2011-2012E. Inflation is picking up to 10%, but real currency appreciation means investors are compensated for this. There may be high levels of investor interest in its debut $500mn eurobond planned for October, given that is was awarded a similar credit rating to Nigeria and Angola.
Kazakhstan	We see Kazakhstan as one of the main beneficiaries of high oil prices in an environment where banks remain fairly cautious; we see Kazakh banks as offering good value at the present time. Growth is likely to be 6-7%, we think inflation could remain in single digits and the balance of payments is in rude surplus. Currency appreciation is already priced in.
Ukraine	Ukraine is still deleveraging and, based on our forecasts, will have cut private sector debt from nearly 80% of GDP in 2008 to 50% of GDP by 2012. This offers no domestic support to local asset prices but it should set the scene for a possible resurgence in borrowing after 2012. We also expect government debt to stabilise at around 40% of GDP and external debt ratios to fall from a concerning 100% of GDP in 2009 to close to 80% of GDP in 2012E. Risks centre mainly on its adherence to the IMF programme. Growth is good at 5-6% and inflation may average at around 9-11% in 2011-2012E – we assume there will be no significant FX moves.
Poland	This remains the market with the best potential in Central Europe, seeing as Poland cruised through the global financial crisis, as it has significant scope to borrow and as it has arguably the only fundamentally undervalued currency in the EU. The markets would like to see the Civic Platform party win this autumn's elections and push on with reforms, including privatisation and getting the budget under control. We think the flies in the ointment will be its twin deficits of 4-5% of GDP and a possible rise in inflation if agricultural production is weak this August.
Romania	After excessive borrowing and government spending in 2004-2007 and the subsequent crash, the IMF-suggested policy response has been implemented impressively well. We think the C/A deficit may fall below 3% of GDP this year and the fiscal deficit could be cut to 3-4% of GDP by 2012E. Growth has been hit of course, but around 5% might be achieved in 2012E, assuming the IMF allows a little pre-election spending next year. With low government and private sector debt, we believe Romania has a second chance at strong growth over 2012-2015.

Source: Renaissance Capital

Figure 2: Key commodity forecasts (average price)

Commodity		2010	2011E	2012E
Crude oil (average)	Brent, $/bbl	80	110	110
Global hot rolled coil	FOB $/tonne	670	800	720
Copper	$/tonne (LME cash)	7,543	9,477	8,816
Precious metals				
Gold	$/oz	1,227	1,450	1,500
Silver	$/oz	21.25	37.75	29.00
Platinum	$/oz	1,612	1,820	2,000

Source: Bloomberg, Renaissance Capital Estimates

The revolutionary nature of growth

The revolutionary nature of growth

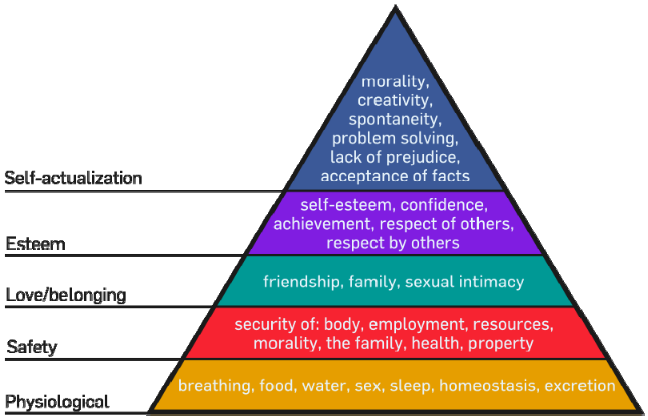
So far no one has successfully challenged Fukuyama's thesis

Political risk can be measured. Revolutions can be predicted. There are sufficient data on political history to give us guidance on which countries are most likely to make the shift from autocracy to democracy, and when. We can also look at the risks along the road to democracy that might see a country temporarily become an autocracy again. But the end result for all countries is democracy – as Fukuyama forecast in his seminal 1992 book, *The End of History and the Last Man*. So far there has not been a successful challenge to his core thesis. Not one high-income country has replaced democracy with autocracy, despite the alternatives that have been proffered, from strong one-party rule in Asia to Islamic theocracy.

Democracy is the most effective way to meet our need for respect

The key to understanding political development can be seen in the hierarchy of needs identified by the psychologist Abraham Maslow. First, we all need our basic needs to be met: steak, wine and, according to Maslow, someone to go to bed with. Second, we need security, for our family, our property and our jobs, along with some morality to make sure we don't go overboard in meeting our most basic needs. Third, we need love (so sex is more important than love – yes, Maslow was a man), fourth we need esteem and lastly we seek self-actualisation. Fukuyama's thesis uses work by the philosopher Georg Wilhelm Friedrich Hegel to suggest that only the democratic political system gives us the sense of esteem that we seek once we have met more basic needs. Or, to put it in per capita income terms, once we have fed ourselves, housed ourselves and are thinking about buying a car, we begin to demand political rights.

Figure 3: Maslow's hierarchy of needs pyramid



Source: Wikipedia

For 60 years, political scientists have tried to tally wealth levels to democratisation

Of course, we're not the first to suggest this. The political sociologist Seymour Lipset's original research on this was published in 1959, but the most useful work we have been using in recent years was published in 1997 by the political scientists Adam Przeworski and Fernando Limongi. They examined 80 countries over 50 years (roughly 1945-1995), or 4,000 data points, tracking per capita GDP against regime change for each year, to produce a measure of political risk. Our only problem with this measure is that we do not have the underlying data they used, which has limited our ability to offer additional analysis, and which would have been particularly helpful in 2011 when some rather unexpected developments occurred in oil-producing Arab states.

We have used 7,000 data points and data from 1950-2009 to measure political risk

So for this report we have taken their exercise and gone further. With the invaluable assistance of our quant analyst, Renda Rundle, we have looked at data for nearly 150 states with a population above 0.5mn, from 1950-2009, or 7,000 data points, and weighted the relevant income brackets to maximise the predictive power of our model. We have mainly used the Polity IV dataset to classify political regimes, as their data goes back to 1950 (even to 1800 in some cases), rather than Freedom House's dataset, which only starts in 1972-1973, and we have mainly used the Penn World tables for per capita GDP in constant 2005 PPP dollars, which go back to 1950, rather than World Bank data, which only start in 1980. We may need to tinker with our classifications as we receive feedback for this report, but we expect only marginal differences in the ratios outlined below.

Figure 4: Chance of democracy dying, in any given year

Upper limit	In 2005 PPP dollars	Democracies changed to autocracies	Total democracies	Chance of democracy dying in given year (%)	If incomes are shrinking (democracies to autocracies)	Income shrinking (all democracies)	Chance of democracy dying in given year if incomes are shrinking (%)	If incomes are growing (democracies to autocracies)	Income growing (all democracies)	Chance of democracy dying in given year if incomes are growing (%)
800	**<800**	**23**	**287**	**8.0%**	13	122	10.7%	9	151	6.0%
1,200	**800-1,200**	**10**	**265**	**3.8%**	4	87	4.6%	6	172	3.5%
2,000	**1,200-2,000**	**20**	**269**	**7.4%**	7	82	8.5%	10	168	6.0%
3,500	**2,000-3500**	**16**	**398**	**4.0%**	4	99	4.0%	10	284	3.5%
6,000	**3,500-6000**	**15**	**524**	**2.9%**	6	133	4.5%	7	372	1.9%
10,000	**6,000-10,000**	**5**	**610**	**0.8%**	1	148	0.7%	4	449	0.9%
19,000	**10,000-19,000**	**0**	**642**	**0.0%**	0	108	0.0%	0	524	0.0%
	>=19,000	**0**	**731**	**0.0%**	0	114	0.0%	0	616	0.0%

Source: Polity IV Project and the Center for Systemic Peace, Penn World Table, World Bank, Renaissance Capital estimates

High-income democracies are immortal

The first table confirms Fukuyama's thesis. There is no case in history of democracy 'dying' in a country with a per capita GDP in 2005 PPP dollars of above $10,000. High-income democracies are immortal. So 45 countries (we only count those with a population above 0.5mn), including Mexico ($11,630) and Lebanon ($12,940), are safe.

Rich democracies – those with per capita GDP above $10,000 in 2005 PPP dollars – are immortal

This tells us that all EU member states are immortal democracies, not because they have joined the EU, but because their per capita income is above $10,000 (though joining the EU does help with that). Romania at $9,740 in 2009 is virtually at that level, while Turkey ($9,910) surely crossed the threshold in 2010, probably along with Brazil ($9,350) and Serbia ($9,700).

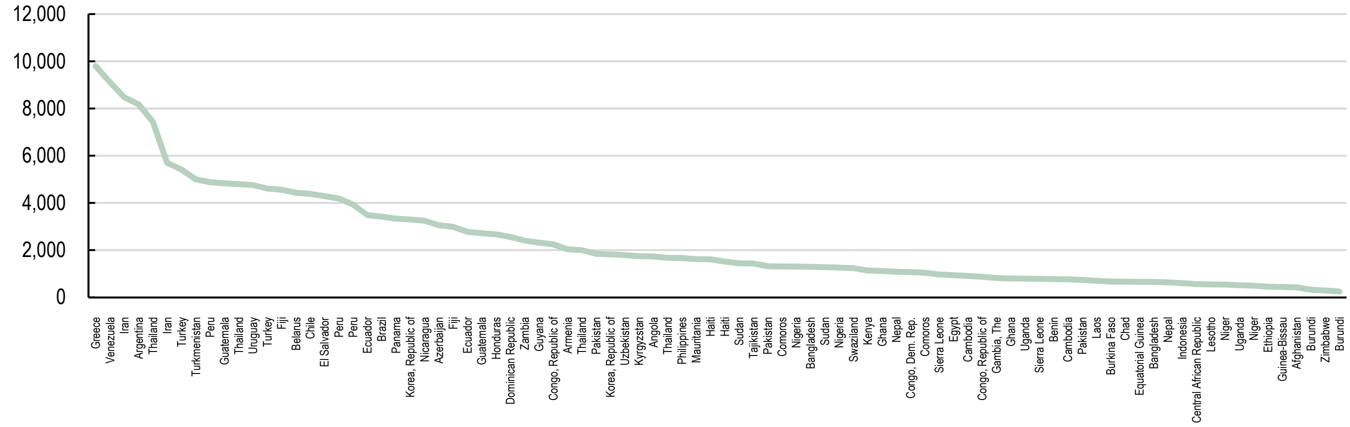
Only five democracies above the $6,000 income level have died

There is a less than 1% annual chance of countries richer than $6,000 losing democracy; good news for SA and Peru

Even democracies above the $6,000 level have a 99% chance of sustaining their political system each year. The only exceptions were the military coups in Greece in 1967 ($9,800), Argentina in 1976 ($8,180) and Thailand in 2006 ($7,440), and the events in Venezuela in 2009 ($9,115), as well as Iran in 2004 ($8,475), when the Polity IV dataset suggests it slipped from a fragile democracy back to autocracy.

This is positive for some 20 countries, including those noted above (i.e. Turkey and Brazil), as well as Latin American countries like Peru, Colombia and Ecuador, and African countries such as SA and Botswana.

Figure 5: Shift to autocracy - very few above $6,000 per capita (2005 PPP dollars)



Source: Penn World tables, Polity IV Project and the Center for Systemic Peace

Democracy is most fragile at the lowest income levels, and when incomes are shrinking

Above $3,500 the risk is 3% annually, and 4-8% for income brackets below this

The risk to democracy is roughly 3% pa when income is between $3,500-6,000, and 4.5% when incomes are shrinking. The overall figure rises to 4% pa when income is from $2,000-3,500, and then nearly doubles to 7.4% pa when incomes are $1,200-2,000, rising to as high as 8% pa when incomes are below $800 (11% pa if incomes are shrinking), with a slightly odd fall to 4% pa for incomes in the $800-1,200 range.

It is problematic when countries remain poor for decades

In an individual year, the risk is evidently low. But it has historically taken a long time for countries to drag themselves out of this sub-$6,000 income level, so democracy is often derailed.

For example, the Penn World data series suggests that Kenya per capita GDP ranged between $951-1,206 from 1950-2009, so the fact that it experienced a move from a fragile democracy to autocracy in the 1960s is not a shock. It's more surprising that it only happened once.

India has defied the odds

Even more unlikely is that a country like India has never lost democracy, even though its per capita income was under $800 from 1950-1967, and only exceeded $2,000 in 2003.

Fast growing economies like Nigeria get safer too quickly for many political commentators to recognise

Evidently, what these low-income democracies need most is rapid growth. When they achieve it, the risk to democracy shrinks so quickly that most commentators are left behind. Nigeria is a good example. In 2003, with per capita income at $1,800, or in 2007, at $1,940, the risk of democracy dying was a high 7.4%. By 2011, the risk was a much lower 4%, though many failed to recognise this. But it was borne out by elections that have widely been proclaimed as the fairest ever held in Nigeria.

When will democracies become more secure?

Figure 6: Low-income democracies

2.9% chance of democracy dying
4.5% if incomes are shrinking
1.9% if incomes are growing

Country	2009 per capita GDP	Polity IV rating	Year when $6,000 level will be reached based on 2005-2007 average growth
Armenia	5,369	5	2011
Georgia	5,052	6	2013
Namibia	4,733	6	2011
Bhutan	4,566	3	2013
Guyana	4,338	6	post-2025
Indonesia	4,075	8	2020
Sri Lanka	4,034	6	2015
Bolivia	3,794	7	2024
Paraguay	3,705	8	2024
Honduras	3,605	7	2023

4.0% chance of democracy dying
4.0% if incomes are shrinking
3.5% if incomes are growing

Country	2009 per capita GDP	Polity IV rating	Year when $6,000 level will be reached based on 2005-2007 average growth
India	3,238	9	2019
Mongolia	3,167	10	2018
Philippines	2,839	8	post-2025
Papua New Guinea	2,746	4	post-2025
Moldova	2,494	8	2025
Pakistan	2,353	5	post-2025
Kyrgyzstan	2,299	1	post-2025
Nicaragua	2,191	9	post-2025
Djibouti	2,061	2	post-2025
Nigeria	2,034	4	post-2025
Solomon Islands	2,005	8	post-2025

7.4% chance of democracy dying
8.5% if incomes are shrinking
6.0% if incomes are growing

Country	2009 per capita GDP	Polity IV rating	Year when $2,000 level will be reached based on 2005-2007 average growth
Cambodia	1,766	2	2011
Zambia	1,765	7	2022
Senegal	1,492	7	2021
Haiti	1,445	5	post-2025
Lesotho	1,311	8	2027
Ghana	1,239	8	2018
Nepal	1,211	6	post-2025
Kenya	1,206	7	2019

3.8% chance of democracy dying
4.6% if incomes are shrinking
3.5% if incomes are growing

Country	2009 per capita GDP	Polity IV rating	Year when $2,000 level will be reached based on 2005-2007 average growth
Timor-Leste	1,155	7	post-2025
Benin	1,116	7	post-2025
Mali	999	7	post-2025
Comoros	916	9	post-2025
Sierra Leone	873	7	post-2025
Guinea-Bissau	818	6	post-2025

8.0% chance of democracy dying
10.7% if incomes are shrinking
6.0% if incomes are growing

Country	2009 per capita GDP	Polity IV rating	Year when $2,000 level will be reached based on 2005-2007 average growth
Mozambique	759	5	2027
Ethiopia	684	1	2020
Malawi	653	6	post-2025
Burundi	368	6	post-2025
Congo, Dem. Rep.	231	5	post-2025

Source: Polity IV Project and the Center for Systemic Peace, Penn World Table, World Bank, Renaissance Capital estimates

The group closest to the relative safety of the $6,000 threshold includes Armenia and Georgia. But if we assume per capita GDP growth from 2010 onwards occurs at the average of the 2005-2007 period (i.e. recent data, but excluding the global financial crisis), it is Armenia and Namibia who could both make it this year, followed by Bhutan and Georgia in 2013 and Sri Lanka in 2015. Others, including India and Mongolia, would follow within the decade based on the same assumptions.

India, Mongolia, Armenia and Namibia may all greatly improve the safety of their political systems through fast growth this decade

Among the poorest and most vulnerable democracies that might cross the $2,000 mark, and roughly halve their chances of losing democracy, Cambodia is closest, along with Ghana and Kenya before the end of this decade, and Ethiopia and Mozambique just after 2025. Assuming elections happen on schedule, this means Ghana and Kenya only have to navigate the 2012 and 2016 elections, and by the time we get to 2020 their democracies should be as safe as Nigeria's today – and as noted above, Nigeria's democracy is safer than it has ever been.

Ghana and Kenya, followed by Mozambique and Ethiopia, could achieve the same improvements by 2020-2025

Based on 2005-2007 growth rates, the countries most vulnerable to losing democracy in the coming decades are the poorest in Africa, along with a few others such as Haiti and Nepal. This raises the question of whether the 2005-2007 growth rates are indicative for 2010-2025, or whether more rapid progress might be made, but that is a subject for another report. Naturally, if growth can accelerate, a democracy will become more secure.

The high-income threat to autocracies

High levels of wealth protect democracies, but they threaten autocrats. It is a rather sad fact for a benign autocrat (if you believe in such a person), who is intent on raising living standards, that the nearly inevitable result of his success will be his overthrow. It also puts the West in an awkward moral position, as this suggests that the best way to overthrow an autocratic regime is to trade and invest heavily in the country; which has indeed been the US policy towards China, but not Cuba or Myanmar (Burma). Tourists intent on fermenting revolution should smoke cigars in Cuba, party in Belarus, dress like Indiana Jones at Petra, in Jordan, visit 'Tatooine' in Tunisia, and buy t-shirts in Swaziland.

Higher wealth leads to democracy, suggesting trade not sanctions is a better policy to promote democracy

Figure 7: Chance of democratic transition from autocracy, in any given year

Upper limit	In 2005 PPP dollars	Autocracies changed to democracies	Total autocracies	Chance of autocracy becoming democracy in given year (%)	If incomes are shrinking (autocracies to democracies)	Income shrinking (all autocracies)	Chance of autocracy becoming democracy in given year if incomes are shrinking (%)	If incomes are growing (autocracies to democracies)	Income growing (all autocracies)	Chance of autocracy becoming democracy in given year if incomes are growing (%)
800	<800	22	636	3.5%	15	294	5.1%	7	326	2.1%
1,200	800-1,200	18	518	3.5%	4	194	2.1%	14	313	4.5%
2,000	1,200-2,000	18	542	3.3%	9	185	4.9%	8	337	2.4%
3,500	2,000-3,500	22	562	3.9%	9	162	5.6%	10	382	2.6%
6,000	3,500-6,000	22	434	5.1%	3	102	2.9%	16	315	5.1%
10,000	6,000-10,000	17	266	6.4%	9	58	15.5%	7	200	3.5%
19,000	10,000-19,000	7	194	3.6%	3	59	5.1%	3	132	2.3%
	>=19,000	0	145	0.0%	0	45	0.0%	0	95	0.0%

Source: Polity IV Project and the Center for Systemic Peace, Penn World Table, World Bank, Renaissance Capital estimates

Maslow's hierarchy of needs still applies. Based on our data, an autocrat only faces a 3-4% chance of being overthrown in any given year up to a per capita GDP level of $3,500. The right to vote is less important than food, housing and a job.

At low levels of wealth, autocratic systems (if not autocrats themselves) are less vulnerable to democratisation than vice-versa

In fact, autocracy as a system is safer than democracy at all income levels up to $3,500, and far safer at the lowest income levels. When per capita GDP is under $800, an autocrat only has a 3.5% pa chance of being thrown out of office by a democratic revolution, against the democrat's 8.0% pa risk of falling to a coup. However, we have not attempted to count every coup in which one colonel is replaced by another.

But above $3,500, the threat to autocratic regimes intensifies sharply, with the most dangerous time for autocrats when per capita is GDP $6,500-10,000; few avoid democratisation here

Risk suddenly intensifies at the $3,500 income level, with a 5.1% chance each year of democracy erupting, rising to 6.4% at the $6,000-10,000 level, with the very greatest risk of regime change in all categories happening if incomes shrink. With nearly a one-in-six chance, the period of maximum political risk for an autocratic regime is when per capita GDP is between $6,000-10,000 and incomes are falling. So it should come as no surprise that Tunisia entered that dangerous range in 2004, and became the trigger for the Arab Spring.

The exceptions are energy exporters; all the richest autocracies are energy exporters

What happens above the $10,000 income level is that the risk to autocracies appears to fall. Any autocracy that achieves per capita GDP of $19,000 has also proven to be as immortal (so far) as democracies above the $10,000 threshold. It is no coincidence that nearly all of these countries are energy exporters.

No representation with no taxation

We chose the tourist destination countries in the earlier paragraph deliberately, as none is an energy exporter, which is a fundamental qualification to the opening line of both this section on autocracies, and indeed the thematic element of this report. When we look at countries that experience revolutions and become democracies, there are only a few energy exporters among them. This, again, has been written about many times and it simply comes down to the issue of taxation. Countries that export a lot of energy do not need to tax their people. When you don't pay tax, you care less about how the government spends money, so you care less about having a vote. Interestingly China is planning to raise income tax thresholds, such that just 0.3bn of the 1.3bn population will pay income tax. Significant energy exporters tend not to tax their people. Note that Canada and Norway were democracies before they became large energy exporters, and rich democracies are immortal, hence the oil curse has not been so problematic for them.

Figure 8: Autocracy and energy

	2009 per capita GDP (in 2005 PPP dollars)	Freedom House rating (2009)	Polity rating (2009)	Recent political history	Chance of democracy (Freedom House) - 2009 data	Chance of democracy (Polity IV data)	Oil production / population (kbpd/mn people)	Gas production / population (bcf/mn people)	Energy production per capita
Qatar	82,978	5.5	-10		1.8	0	811	6.6	Very high
United Arab Emirates	52,435	5.5	-8		1.8	0	564	1.0	Very high
Brunei Darussalam	*49,340*	5.5	no rating		1.8	0	412	2.9	Very high
Kuwait	46,629	4	-7		1.8	0	696	0.3	Very high
Singapore	45,978	4.5	-2		1.8	0			
Bahrain	31,588	5.5	-7	Unrest (2011)	1.8	0	0	3.8	Very high
Equatorial Guinea	28,857	7	-5		1.8	0	209	0.0	Very high
Oman	22,866	5.5	-8	Demonstrations (2011)	2.3	0	290	0.9	Very high
Saudi Arabia	21,244	6.5	-10		2.3	0	383	0.3	Very high
Libya	14,985	7	-7	Civil war (2011)	2.3	3.6	253	0.2	Very high
Russian Federation	13,611	5.5	4		2.3	3.6	73	0.4	Very high
Gabon	13,094	5.5	3		2.3	3.6	164	0.0	Very high
Belarus	11,841	6.5	-7	Demonstrations (2011)	5.1	3.6			
Cuba	11,518	6.5	-7		5.1	3.6			
Iran, Islamic Rep.	10,496	6	-7	Unrest (2009), demonstrations (2011)	5.1	3.6	56	0.2	Very high
Kazakhstan	10,452	5.5	-6		5.1	3.6	113	0.2	Very high
Venezuela	9,115	4.5	-3		5.1	6.4	85	0.1	Very high
Azerbaijan	8,752	5.5	-7		5.1	6.4	115	0.2	Very high
Tunisia	7,512	6	-4	Revolution (2011)	5.1	6.4	8	0.0	
Algeria	7,421	5.5	2	Demonstrations (2011)	9.5	6.4	50	0.2	Very high
Thailand	7,260	4.5	4	Demonstrations (2010-2011)	9.5	6.4	5	0.1	
Turkmenistan	6,576	7	-9		9.5	6.4	40	0.8	Very high
China	6,200	6.5	-7		9.5	6.4	3	0.0	
Angola	5,278	5.5	-2		9.5	5.1	97	0.0	Very high
Egypt, Arab Rep.	5,151	5.5	-3	Revolution (2011)	9.5	5.1	9	0.1	
Jordan	5,082	5.5	-3	Demonstrations (2011)	9.5	5.1			
Armenia	4,794	5	5		5.4	5.1			
Bhutan	4,643	4.5	3		5.4	5.1			
Swaziland	4,539	6	-9		5.5	5.1			
Syria	4,295	6.5	-7	Unrest (2011)	5.5	5.1	19	0.0	High
Fiji	4,110	5	-4		5.5	5.1			
Morocco	4,081	4.5	-6	Demonstrations (2011)	5.5	5.1			
Congo, Rep.	3,848	5.5	-4		5.5	5.1	76	0.0	Very high
Iraq	3,222	5.5	-9 (2002)	Unrest (2011)	5.5	3.9	77	0.0	Very high
Vietnam	2,682	6	-7		6.1	3.9	4	0.0	
Uzbekistan	2,611	7	-9		6.1	3.9	3	0.2	High
Pakistan	2,369	4.5	5		6.1	3.9	0	0.0	
Yemen	2,243	5.5	-2	Revolution (2011)	6.1	3.9	11	0.0	High
Djibouti	2,106	5	2		6.1	3.9			

Figure 8: Autocracy and energy

	2009 per capita GDP (in 2005 PPP dollars)	Freedom House rating (2009)	Polity rating (2009)	Recent political history	Chance of democracy (Freedom House) - 2009 data	Chance of democracy (Polity IV data)	Oil production / population (kbpd/mn people)	Gas production / population (bcf/mn people)	Energy production per capita
Kyrgyz Republic	2,073	5.5	1		6.1	3.9			
Lao PDR	2,048	6.5	-7		6.1	3.9			
Sudan	2,007	7	-4		6.1	3.9	12	0.0	High
Cameroon	2,002	6	-4		6.1	3.9			
Nigeria	2,001	4.5	4		6.1	3.9	15	0.0	High
Tajikistan	1,791	5.5	-3		6.1	3.3			
Mauritania	1,771	5.5	-2		6.1	3.3			
Cambodia	1,739	5.5	2		5.8	3.3			
Cote d'Ivoire	1,545	5.5	0	Revolution (2011)	5.8	3.3			
Gambia, The	1,285	5	-5		5.8	3.3			
Myanmar (Burma)	1,260	7	-6		na	3.3	0	0.0	
Afghanistan	1,200	6	-7*(2000)	Civil war (2011)	5.8	3.3			
Tanzania	1,189	3.5	-1		5.8	3.5	0	0.0	
Chad	1,181	6.5	-2		5.8	3.5	12	0.0	High
Uganda	1,105	4.5	-1	Demonstrations (2011)	5.8	3.5			
Haiti	1,045	4.5	5		5.8	3.5			
Rwanda	971	5.5	-3		5.8	3.5			
Guinea	951	6.5	-1		5.8	3.5			
Ethiopia	848	5	1		4.2	3.5			
Togo	772	4.5	-4		4.2	3.5			
Central African Republic	688	5	-1		4.2	3.5			
Eritrea	592	7	-7		4.2	3.5			
Burundi	356	4.5	6		4.2	Strong democracy since 2005			
Congo, Dem. Rep.	290	6	5		4.2	3.5			

Note: Freedom House defines democracies as those recording 1.0-3.0 on their scale, autocracies as those on 5.5-7.0 and those in between are partly free countries.
Polity IV defines democracies as those recording +5 to +10 on their scale, autocracies as those on -6 to -10, and those in between are anocracies. For the purposes of this report, we have used -5 to -10 to mean strong autocracy, -1 to -4 to mean weak autocracy, +0 to +4 to mean weak democracy and +5 to +10 to mean strong democracy.
First column- grey shading = energy exporter, red text = Arab country

Source: Polity IV Project and the Center for Systemic Peace, Penn World Table, World Bank, Renaissance Capital Freedom House, http://www.guardian.co.uk/world/interactive/2011/mar/22/middle-east-protest-interactive-timeline, BP, IMF, Renaissance

Yet the data still surprise us. Whether we use datasets from Freedom House or Polity IV to define a political system, of the 25 richest autocracies, all but six are significant energy producers. The exceptions are the city state of Singapore, Cuba, Tunisia, Thailand and China, as well as Belarus, which has been given subsidised energy from Russia. Of these, Singapore has just experienced the most challenging election in 2011 since the 1960s, Belarus is facing protests with shrinking incomes since the devaluation, Tunisia has just had a revolution and Thailand has elections scheduled for this year. This leaves Cuba as a country with apparently high per capita GDP but no energy exports; but we are inclined to doubt that its per capita GDP figure is actually higher than that of Brazil or Romania.

Non-energy exporting, relatively wealthy autocracies in 2009 were Singapore, Cuba, Tunisia, Thailand, Belarus and China

What about China?

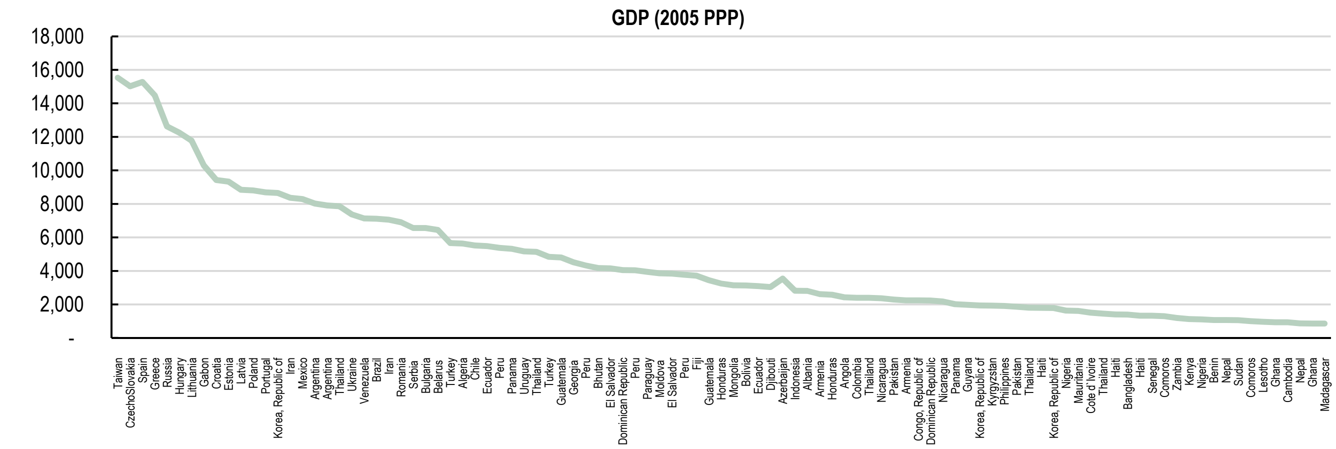
Like Tunisia, China has just entered a most dangerous political period, with per capita GDP at $6,200 in 2009. Even assuming 9% pa growth in per capita GDP, the country will remain in the most dangerous $6,000-10,000 range until 2014. As the table above shows, the greatest risk (15.5%) is if incomes shrink. Given this, it is much easier to understand: 1) why the authorities have been so anxious about a Jasmine revolution at this time, and it helps explain 2) the intention of the authorities to double incomes by 2015, despite the risk of inflation. Unfortunately for China, we see inflation as a potential trigger for demonstrations, given the saving habits of the population, so we think the government is actually stuck between a rock and a hard place.

Democratisation is ever more likely in China, thanks to the Communist Party's success in raising wealth levels

Theoretically, China may hope that if it can boost per capita GDP above $10,000, then political risk will decrease. Perhaps it may become another Singapore. This is a highly unlikely scenario, in our view. Non-energy exporting countries always become democracies, unless they are a city state called Singapore, fearful of its neighbours and led by an exceptional leader.

The city state of Singapore is an improbable alternative example for China to follow

Figure 9: Shift to democracy



Note: Countries with a threshold below 850 are not included in the graph due to space restrictions. The countries and their values are: Afghanistan (848); Sierra Leone (845); Ghana (838); Bangladesh (824); Burkina Faso (821); Guinea-Bissau (794); Pakistan (789); Cambodia (736); Somalia (691); Sierra Leone (680); Mali (667); Burkina Faso (658); Central African Republic (637); Chad (617); Afghanistan (611); Guinea-Bissau (561); Niger (526); Liberia (519); Malawi (511); Niger (510); Ethiopia (473); Congo, Dem. Rep. (451); Burundi (421); Burundi (389); Ethiopia (386); Mozambique (371); Zimbabwe (143).

Source: Polity IV Project and the Center for Systemic Peace, Penn World Table

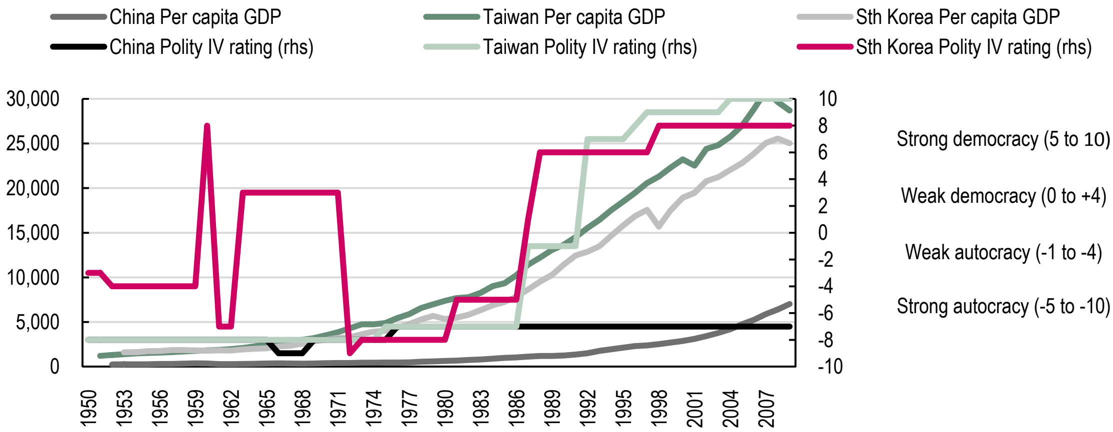
Only six non-energy exporting autocracies have ever crossed the $10,000 threshold, all of which (except Singapore) fell before $15,530 was reached

Only six non-energy exporting autocracies have ever survived above the $10,000 threshold, and these are Czechoslovakia and Hungary (neither of which had a choice over their political system until the late 1980s), the military dictatorships of Spain and Greece, as well as Singapore and Taiwan. Of these, Taiwan managed to reach an income of $15,530 before democratisation, which China will achieve by 2017 if GDP per capita grows at the average rate of 2005-2007.

South Korea made its big shift when in the $8,000-9,500 range, and Taiwan changed at $11,400 and went all the way to strong democracy at $15,530

We think it is worth focusing on South Korea and Taiwan, given their proximity and several cultural similarities. South Korea did manage a period of weak democracy in the 1960s, which was sufficient to give it political parties that went on to help it manage the transition from military rule in the 1980s (China does not have this yet). The first cracks in South Korea's military regime towards less autocracy occurred after the second oil shock of 1979, when per capita income was around $5,500 in 1981, followed by a far bigger shift to strong democracy in 1987-1988, when per capita income had boomed to $9,520 in 1988 from $7,850 in 1986. Taiwan's shift took place at far higher wealth levels, moving from strong autocracy to weak autocracy as incomes soared past $11,400 in 1987, and then decisively towards democracy in 1992 when incomes reached $15,530. In both cases, the big democratic shift occurred when incomes were rising fast. Even growing incomes are not sufficient to prevent democracy.

Figure 10: Asian democratisation



Source: Polity IV Project and the Center for Systemic Peace, Penn World Table, World Bank

If China grows fast, democracy could occur by 2017 (using Taiwan as an example), or earlier if growth slumps

To conclude, the Communist Party of China is right to fear a revolution, and history suggests it will be lucky to avoid democracy by 2017, assuming per capita GDP has reached $15,550 by then. **The positive news for the world economy is that the move to democracy did nothing to impede the growth of Taiwan and South Korea**. Per capita GDP continued to rise by roughly $1,000 annually in Taiwan and South Korea after democratisation. Also positive is that once a country becomes a democracy at this wealth level, it becomes an immortal democracy.

What about the Middle East?

Political change was viral and cultural even before Facebook and Twitter

Political change can be viral and cultural, as history has shown. Examples include the wave of Latin American independence in the early 19th century; the attempted popular revolutions of 1848 in Europe; the successful and attempted communist revolutions of 1917-1921 (e.g. Russia, Bulgaria and Hungary); the wave of independence across Africa in the 1950s and 1960s; the fall of military dictators in Turkey, Greece, Spain and Portugal over 1973-1976; the overthrow of the communist leaders in eastern Europe in 1989-1990; and the respective Rose, Orange, and Tulip revolutions in the CIS countries of Georgia, Ukraine and Kyrgyzstan in 2003-2005. And all of these were achieved without Twitter or Facebook.

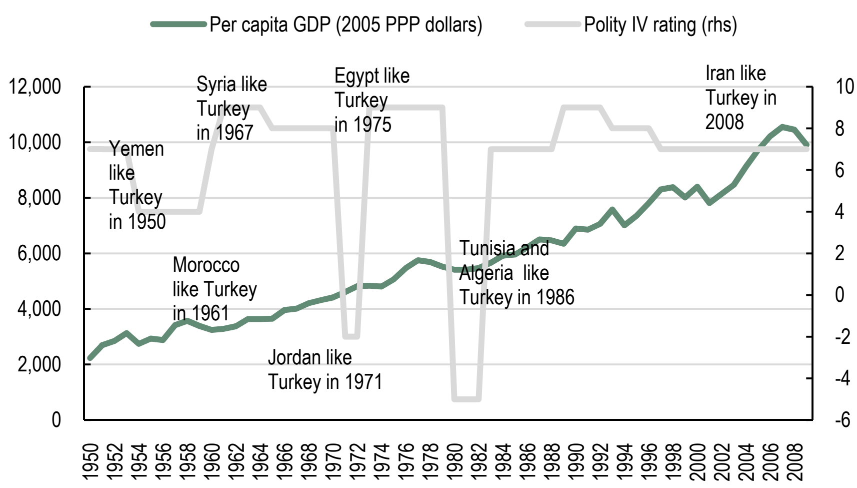
Nonetheless, the richest Arab states seem the most secure

So with the benefit of five whole months of hindsight, the fact that Tunisia, which was at maximum risk of democratisation, should have sparked demonstrations across the Arab world does make sense. We admit that this was not our initial assessment in January. Then, we argued that Tunisia's revolution was unlikely to lead to democracy elsewhere as energy exporting nations tend not to become democracies, and we also argued that countries poorer than Tunisia had less chance of transitioning successfully to democracy. On this basis, we may have got it wrong with oil exporting Libya, as well as the poorer states of Syria, Egypt and Yemen. However, as it stands today, Libya is experiencing a civil war, Syria may be heading towards one and Yemen may have just avoided one; none of these can yet be said to have become democracies. The richer regimes of Qatar, the UAE, Saudi Arabia and Kuwait have avoided serious demonstrations, while the regimes of Bahrain, Oman and Algeria seem relatively secure for now.

Using Turkey as a template, Tunisia probably has the best chance of making democracy work without interruption

Despite a great many events, democracy has not advanced very far in the Arab world, but it could advance further. While Tunisia has just had to delay its elections to October 2011, its per capita income level is so high that it will immediately join the nearly immortal democracy stage after those elections. After successful democratic elections, the risk of a reversion to an autocratic regime in Tunisia is less than 1% pa. Tunisia may well become another beacon for democracy in the Muslim world as Turkey was in the late 1980s.

Figure 11: Islamic democratisation



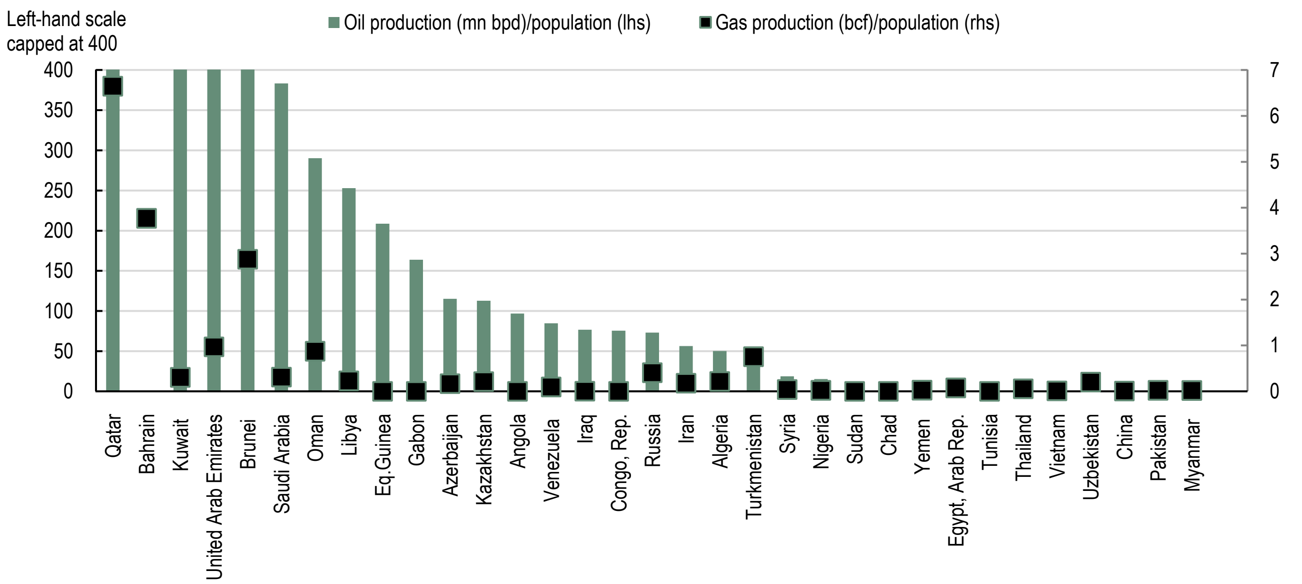
Source: Polity IV Project and the Center for Systemic Peace, Penn World Table, World Bank

Egypt, with lower income levels, has more similarities to Turkey in the 1970s, which means progress may be more volatile

Egypt is not so safe. Assuming elections are held, its per capita GDP of $5,000 means it will join Armenia, Georgia, Namibia and Indonesia, as a country with a 3% chance of losing democracy in any given year. It is in a similar position as Tunisia was in 2003, or Turkey was in 1975. Note that Turkey did experience another coup in 1980, although this was probably connected to economic problems exacerbated by the Iranian revolution of 1979. Egypt at least has energy to export, but its high budget deficit and public debt ratios represent risks, and these may worsen as newly elected governments may not feel comfortable reducing subsidies. As in Turkey in the 1970s, any Islamic-minded government may find it hard to manage relations with a more secular military. Only now is Turkey finally moving forward in this regard. Still, overall, most countries at this income level do successfully maintain democracy, and fast growth could help reduce all these pressures.

Syria – if it becomes a democracy – would have a per capita GDP level similar to Turkey in 1967, and Turkey experienced two military coups after this. The outlook would also be concerning if Morocco or Yemen were to achieve democracy. However, we repeat the point made above that growth might be faster than in the past, which would help these countries catch up.

Figure 12: Energy exports per capita

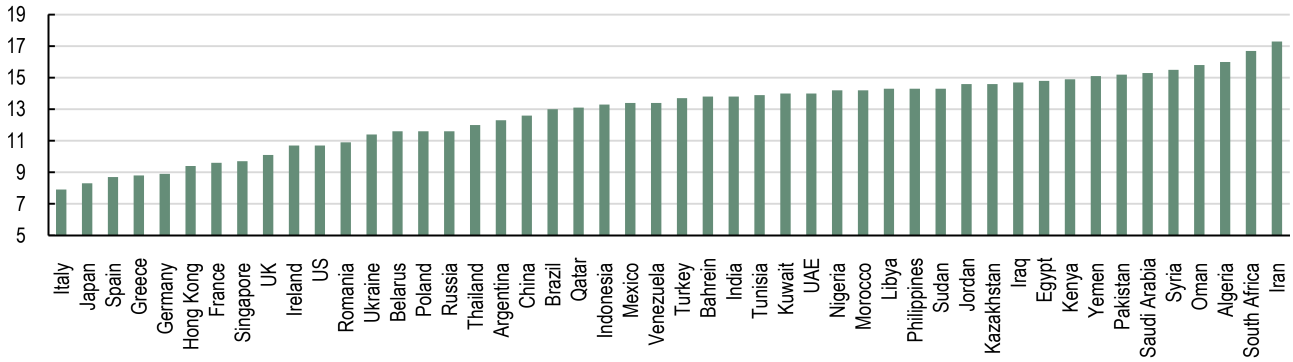


Source: BP, IMF

Iran does not export so much energy on a per capita basis, its middle class is demanding more democratic elections, and the demographics imply a revolution

Iran is the country that concerns us the most. First, on a per capita basis, its energy wealth is not as large as it looks. Iran pumps half as much oil as Kazakhstan, and less than 10% as much oil as states like Kuwait or Qatar pump. Iran's energy wealth undoubtedly helps the regime maintain power, but it does not offer the same level of security as others have. Second, Iran's per capita GDP is still around the $10,000 mark, which offers the least security to any autocracy. Third, it has lots of young men, the demographic profile that tends to cause so much difficulty for any country. Fourth, it has parliamentary elections in 2012, and these may provide an excuse for further unrest (or a crackdown) given its experiences in 2009. Lastly, and this is a regional problem, food price pressures may remain over 2011-2012. If Iran does experience a revolution, it would automatically move into the immortal democracy range based on per capita GDP, and become another Mexico or Russia.

Figure 13: Percentage of population that were young men (15-29) in 2009



Source: US Census Bureau

To conclude this Middle East section, it would appear to us that the richest energy exporters have indeed survived the first wave of the Arab Spring, which offers no guarantees for later this year, but is reassuring nonetheless. We do fear another wave of unrest, particularly if food prices rise further, and we see Iran as the most obvious candidate to provoke it.

Russia

Russia does have elements of democracy; Freedom House and Polity IV do not agree on how to classify it

We have a problem with Russia. Freedom House and Polity IV do not agree on how to categorise Russia. The former sees Russia as akin to a Gulf sultanate – a comparison we have heard made for Kazakhstan, but a comparison that is less justifiable for Russia. Polity IV argues that Russia is an anocracy – which, to our understanding, means it is a weak democracy with autocratic tendencies. This may fit better given its open internet, its radio stations like Ekho Moskvy and, most importantly, the time and money spent and the importance attached to elections by the authorities. These democratic elements are strongly counter-balanced by the lack of competitive television news and the obstacles placed in the way of those seeking political power.

Using our Polity IV database, it appears Russia has a very high chance of becoming a strong democracy

If we accept the classification of Russia as a weak democracy, we can measure the likelihood that it becomes a strong democracy. At the current per capita GDP level, there is a surprising 29% chance that it becomes a full democracy in any given year. The risk is 21% when incomes are growing and 33% if incomes are shrinking. The cases are Lebanon (1970), Spain (1977), Greece (1975), Hungary (1990), Malaysia (2008) and Russia itself in 1992 (briefly). Most of these examples are not energy exporters.

Figure 14: Weak democracy (WD) to strong democracy (SD), in any given year

Upper limit	In 2005 PPP dollars	WD changed to SD	Total WDs	Chance of WD becoming SD in given year (%)	If incomes are shrinking (WD to SD)	Income shrinking (WDs)	Chance of WD becoming SD in given year if incomes are shrinking (%)	If incomes growing (WD to SD)	Income growing (WDs)	Chance of WD changing to SD in given year if incomes are growing (%)
800	<800	10	142	7.0%	5	66	7.6%	5	69	7.2%
1,200	8,00-1,200	8	78	10.3%	4	28	14.3%	4	46	8.7%
2,000	1,200-2,000	6	79	7.6%	4	32	12.5%	2	37	5.4%
3,500	2,000-3,500	7	142	4.9%	3	34	8.8%	4	98	4.1%
6,000	3,500-6,000	8	118	6.8%	3	26	11.5%	5	86	5.8%
10,000	6,000-10,000	5	57	8.8%	0	13	0.0%	5	44	11.4%
19,000	10,000-19,000	6	21	28.6%	2	6	33.3%	3	14	21.4%
	>=19,000	0	4	0.0%	0	1	0.0%	0	3	0.0%
Total		**50**	**641**	**7.8%**	**21**	**206**	**10.19%**	**28**	**397**	**7.05%**

Source: Polity IV Project and the Center for Systemic Peace, Penn World Table, World Bank, Renaissance Capital

There is no weak democracy that is richer than Russia

If Russia gets its per capita GDP level up to above $19,000, then there is only one example of a transition from weak to a strong democracy occurring; which was Lebanon as it emerged from the conflict-ridden and split-state period of 1989-2005. Today, there is no weak democracy richer than Russia.

Weak democracies do not turn to autocracy at this income level

There is no case of a weak democracy becoming a weak autocracy at this income level. There is also no case of a weak democracy becoming a strong autocracy at this income level. The closest was the coup in Greece in 1967 at a per capita income level of $9,800 and, more interestingly, Iran in 2004 at a per capita income level of $8,476. Surprisingly therefore, Iran, with its Islamic theocracy, carries some similarities to Russia, and has similar energy exports per capita.

Russia offers scope for a positive surprise

But to conclude, most surprising to us is that these data suggest that Russia is more likely to become a strong democracy in the coming years than anything else. This is not what we expected the figures to show, but fits with the key argument we made in our report *Who is Alexey Navalny?,* published on 23 March, that there is more room for upside than downside surprise out of Russia.

For those who disagree with the basic thesis that Russia is semi-democratic, then it may be easier to lump it in with energy exporters, which have tended not to become democracies.

Conclusions

Democracies are immortal above the per capita GDP level of $10,000, which probably now includes Mexico, Brazil and Turkey, as well as all EU member states and Korea.

Autocracies have less chance of becoming democracies than vice-versa up to the $3,500 per capita GDP level. Rising income levels will lead to democracy unless the country is an energy exporter. Controversially, it would appear that trade, investment and even tourism to foster growth is a better policy option than sanctions for Western governments hoping to promote democracy in non-energy exporting states.

Ghana and Kenya probably have to get through only two more rounds of parliamentary elections (in 2012 and 2016). By the time they face a third round in

2020, democracy will be more secure as they will have halved the risk of losing democracy. Nigeria is already a low-risk democracy.

China’s Communist Party will be breaking records if per capita GDP is above $15,500 and they are still in power by 2017. The good news is that political transition in South Korean and Taiwan was achieved with no interruption to economic growth.

Tunisia will become a successful democracy, but Egypt will face a longer struggle.

Russia will become a strong democracy based on trends to date, but we do not rule out it remaining its own unique case – as it so often has been.

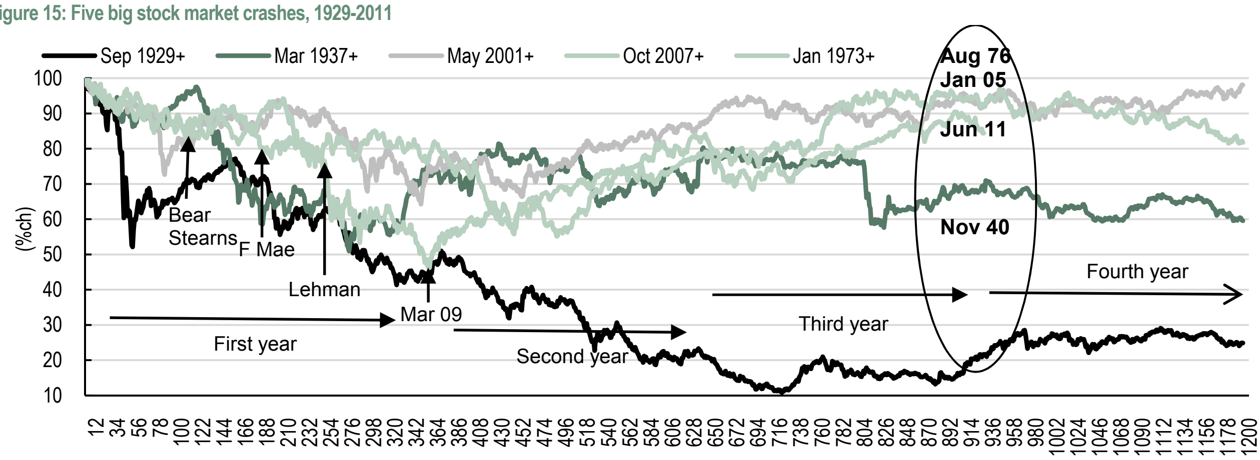
Market outlook

Market outlook – oil becomes the world's central banker?

The high oil price has cost us 1,050 points on the Dow

MENA unrest and the subsequent oil price rise seems to have cost us 1,050 points on the Dow Jones Index. The histories of the five biggest stock market crashes suggest that the Dow should now be at 13,050, but instead it rests at 12,000. As in the 1973-1977 crash: Fed and US fiscal policy are very loose, the world economy is growing, and US unemployment is high but no longer falling. The key difference is that oil prices are up 68% YoY, and this is due to the unexpected geopolitical event of MENA unrest. It could be worse. In 1940 the unexpected geopolitical event was France being conquered.

Figure 15: Five big stock market crashes, 1929-2011



Source: Bloomberg

Oil at $90/bbl would boost global confidence, and encourage investors into Turkey, Kenya and India

In our view, the market outlook now depends primarily on oil. The best-case scenario is that MENA unrest subsides and that Saudi Arabia pumps more oil, sufficient to drive the price down to $90/bbl (the average price we originally expected for 2011). A 25% fall in the oil price from current levels would lift US consumer confidence, and reduce the pressure on the current accounts (C/A) of oil importers from Turkey to India to Kenya. An improved mood in the US would mean that suggestions of QE3 could come off the agenda, which might then ease fears over US inflation, pave the way for a dollar rally and allow for a gentle decline in dollar-denominated commodity prices. US growth prospects would pick up and the Fed would be able to consider following the European Central Bank (ECB) into rate hiking mode by early 2012. We would expect a 10% rally in the stock market to get the Dow and S&P500 back to where we think they 'should' be at this stage in the economic recovery.

But Mr Oil may have become the world's unfriendly central banker, which could force the Fed to respond with QE3

A considerably more pessimistic scenario is possible, however. Mr Oil has arguably become the world's central banker – in the mould of the 1951-1970 US Fed chairman William Martin who said that the Fed's job is to take away the punchbowl just as the party gets going. With the US insisting on loose monetary policy and China maintaining its weak currency policy, the two core drivers of the world economy were growing strongly as we entered 2011, and without restraint. Oil, and commodities in general, may now have become that restraint because the world appears to have limited spare capacity, and prices may need to rise until the world economy slows. Some argue for oil prices to head to $130/bbl or higher in 2011-2012, which we assume would send US growth to sub-2% levels and prompt QE3.

Our base-case scenario is, unsurprisingly, in the middle. We assume oil will average $110/bbl over 2011 and 2012. With oil currently around $115/bbl, our base case does suggest a more than 5% sell-off from current levels and, therefore, some upside to US and global equities, putting the Dow at around 12,500.

We'd like to see oil at $90/bbl, but in this report we assume it will be $110/bbl over 2011-12

Looking further out to mid-2012, it is harder to pick out a bullish scenario for US equities. At this stage in the cycle, we see no upside. If growth does strengthen, fiscal and monetary policy should tighten. The credit boom of 2005-2007 did at least help after the smallest (tech) crash of the big five we consider, but re-running that scenario is improbable. What the late 1970s tell us is that EMs will outperform DMs, led by just a few very strong performing countries. We recommend exposure across the EM world and to those markets that offer the best absolute value, ranging from Russia to Africa.

The outlook in 2012 is not great for the US market either

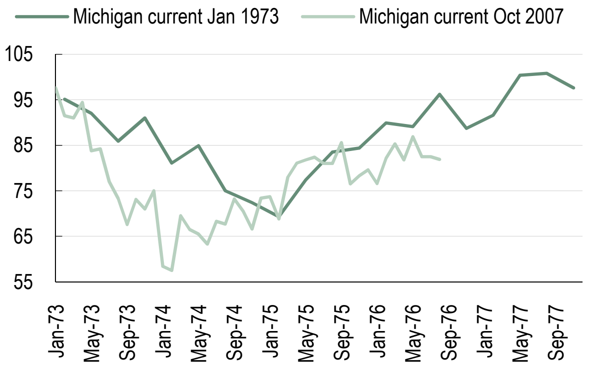
Global outlook

There are three major macro themes (US double-dip/QE3; eurozone debt; China's housing situation) preoccupying the markets at present, and two important commodity themes (oil; agriculture). The latter are potentially so problematic that we will be watching for potential DM action to push down prices, or at least make it harder to invest in commodities as a basket. The French president proposed anti-market measures to control commodity prices in the 1970s (the US rejected the idea) and a French president is using similar language again today.

Is the US so weak that QE3 is required?

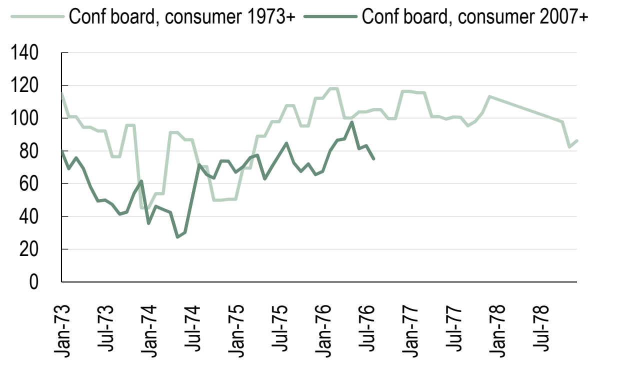
The US recovery at this stage in the cycle is usually rock solid. But the oil price jump this time has hurt consumer confidence. We cut our GDP forecast for 2011 from 3.5% to 3.0% in our report *Ouch – the pain of high oil prices,* dated 3 March 2011, on the assumption that oil prices would average at $110/bbl in March-April 2011, before falling back in May. As we now assume oil will average at $110/bbl for the whole year, we now forecast just 2.5% growth this year.

Figure 16: US consumer confidence 1973-1977 and 2007-2011, Michigan consumer survey



Source: Bloomberg

Figure 17: Conference board

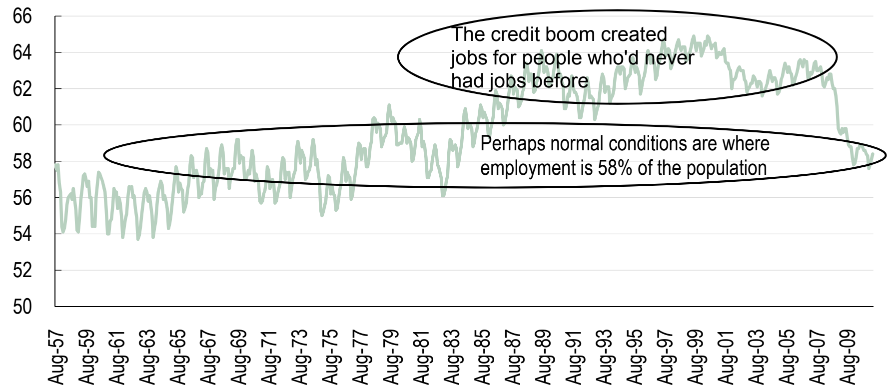


Source: Bloomberg

We have improved our US unemployment forecasts

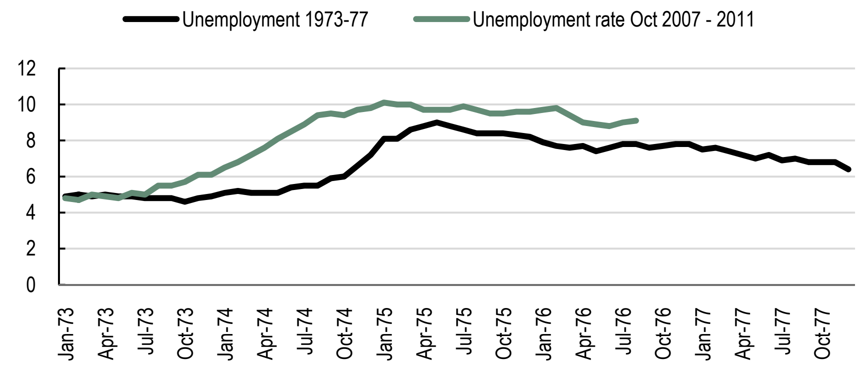
Recently, there has been considerable market focus on unemployment in the US. This is misplaced. The employment rate has dropped back to 58%, where it stood before the 1985-2005 credit boom, and may not improve from this level. In January we forecast that the unemployment rate would end 2011 at 8.9%, and only fall to 8.0% in 2012. While the market has been disappointed by US unemployment data, we have, in fact, improved our forecasts slightly, as we assume the long-term unemployed will stop looking for jobs. History tells us not to expect the unemployment rate to return to pre-crisis levels last seen in 2007 before 2031 at the earliest.

Figure 18: Employment ratio



Source: Bloomberg

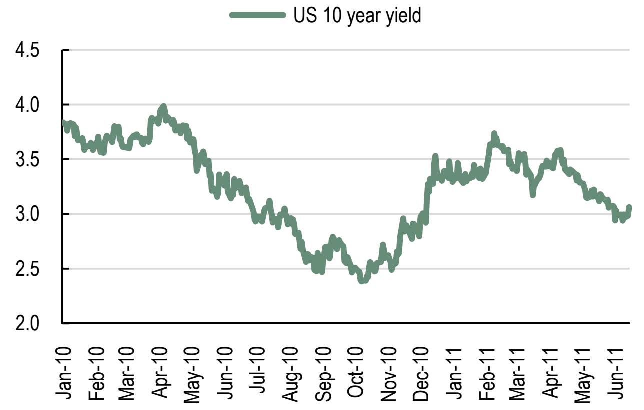
Figure 19: US unemployment rate, 1973-77, 2007-2011



Source: BLS, Bloomberg

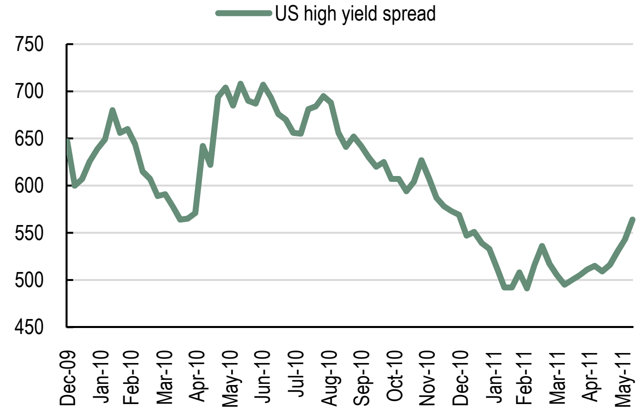
The US treasury market surprised some in 2011, but it was premature to expect a significant US bond treasury sell-off this year. US inflation at this stage in the cycle is usually contained and we agree with the Fed's argument that the current CPI rise is nothing to worry about. The fall in US government bond yields means cheaper refinancing should again be available to US households. Meanwhile, the US High Yield Index was offering 9.1% in early January and 8.6% on 9 June, suggesting that this leading indicator is not pointing to a double-dip for the US.

Figure 20: US 10 year yields, 2010-2011



Source: Bloomberg

Figure 21: US high-yield spread over US treasuries

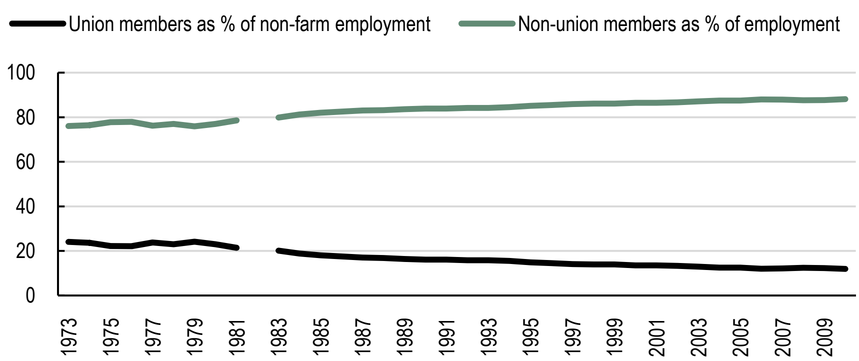


Source: Bloomberg

While a weak US dollar and rising commodity prices lift inflation, what we think really matters is whether wages can pick up. Workers will not have pricing power yet, but we suspect they will in the coming years, particularly in certain sectors such as IT (those Apple geniuses deserve pay rises in this iPad owner's opinion), and the unemployed ex-construction workers in Florida will not prevent this. Some argue that as unionisation has collapsed since the 1970s, wages won't rise – but while it's true that unionisation among non-farm workers has fallen from 22-24% in 1975-1979 to 12% over 2006-2010, it still means that, including agricultural workers, the total non-unionised part of the workforce was probably nearly 80% in the late 1970s and close to 90% now. We doubt that the one in 10 of the workforce who shifted from unions to non-unions were so important that they make all the difference to whether wages rise with inflation or not.

Longer-term inflation outlook depends on the dollar and commodity prices, but also on wage pressures, which are not yet apparent

Figure 22: Unionisation rates



Source: CPS, Barry T. Hirsch and David A. Macpherson

There are upside risks to our growth forecast if Brent oil drops to $90/bbl. If oil rises to $130/bbl or more, we expect weaker US confidence data, rising unemployment and the threat of sub-2% growth. In these circumstances, we believe the US would consider QE3. That might be expected to weaken the US dollar, and push up the oil price (so hurting the US consumer some more), but the Fed would hope that the positive impact of QE3 would be concentrated in the US, outweighing that negative effect.

US debt ceiling and fiscal worries will still be issues in 2013

Note that we recognise the coming weeks may find the markets increasingly concerned about the US debt ceiling. We see this as a short-term risk. What the 1970s tell us is that we will still be worrying about the size of the US fiscal deficit in 2013, and we would be surprised if this timetable is brought forward.

Eurozone debt and the rise of DM political risk

Governments to consistently lose elections in peripheral Europe

We outlined our core views in our report *Eurozone debt and the rise of DM political risk* published on 26 May 2011, in which we focused on Greek public debt and Spanish/Irish/Portuguese private sector debt. We believe Ireland's open economy gives it the greatest chance of growing out of its debt problems, but that Greece, Spain and Portugal will struggle to grow unless they leave the eurozone. We see government electoral defeats in Spain, Ireland and Portugal as the first wave of voter anger, which will be followed by a second wave in subsequent elections as incoming governments fail to improve living standards, putting continued euro membership in doubt for Greece, Portugal and Spain.

Figure 23: Eurozone elections

Ireland - parliamentary	2007	2011
Fine Gael	27	36
Fianna Fail (incumbent)	42	17
Labour	10	19

Portugal - parliamentary	2009	2011
Socialist	37	28
Social Democrats	29	39

Spain - local elections	2007	2011
Socialists	35	28
People's Party	36	38

Source: Thomson Reuters, Wikipedia

We assume Greek banks will be bailed out, limiting the impact on Bulgaria, Romania and Serbia

There is considerable market concern about the contagion impact when Greek debt is restructured. While we offer no revelations on how dangerous this may be, we do assume that Greek banks will be recapitalised and that this will limit the negative impact on Romania, Serbia and Greece, where Greek banks represent 20% or more of banking assets.

Some countries are still likely to join the euro

Meanwhile, we assume that fixed exchange rate countries like Latvia, Lithuania and, perhaps, Bulgaria might still want to join the eurozone, while we see no strong reason for Poland, the Czech Republic, Hungary or Romania to sacrifice floating exchange rates for the euro.

German manufacturing still strong but is on a weakening trend

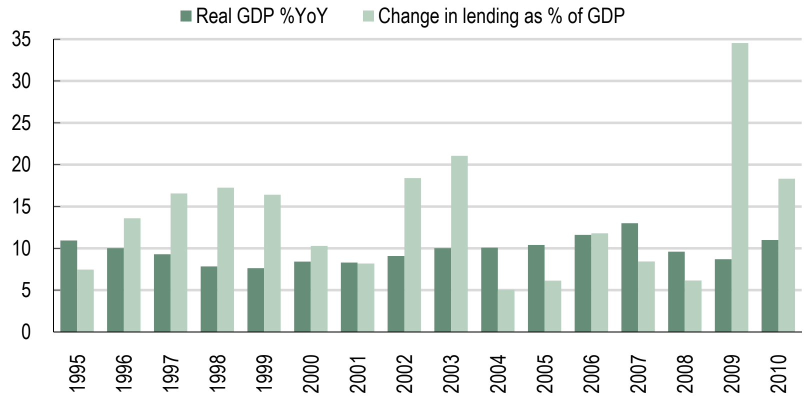
On the macro side, German IFO strength is obviously still very impressive, but is on a weakening trend. Given lag effects, the current high levels are very positive for Central Europe, in our view. The ECB is expected to raise rates from 1.25% to 1.5% in July and then again later in the year.

China – the Japanese model, housing and inflation

Worrying about China is a sensible thing to do

Forecasting a crisis in China is cyclical, and given the high level of debt in China, there is always good reason to do so. The surge in bank lending in China that takes place during every period of global economic weakness always appears excessive, and none more so than the lending boom of 2009-2011. Such a rise in bank lending tends to be associated with a rise in asset prices, and in this boom this was seen in the housing market. The market understandably fears a collapse in the Chinese housing market, which would lead to a slump in demand for commodities and take away the world economy's greatest growth motor.

Figure 24: China



Source: IMF

But arguably there is too little (low-end) housing

Chinese officials claim there is a shortage of affordable housing, and are following policies that aim to double wages by 2015, suggesting to us that domestic demand will in fact remain strong, even if there is weakness in high-end housing in the major cities.

Japan's experience suggests China will rise until private sector debt hits 200% of GDP, asset prices are way too high and inflation is a problem – i.e. 2025

Our view on China comes via the prism of Japan's post-war boom; a boom that was characterised by periodic bouts of market anxiety that the country had over-invested, was overly dependent on exports, had too little domestic demand, had too much in the way of savings and had an excessively weak currency. Yet Japan continued to grow until private sector debt reached 200% of GDP in 1990, and what blew the model apart was inflation, manifested most obviously in Tokyo land prices.

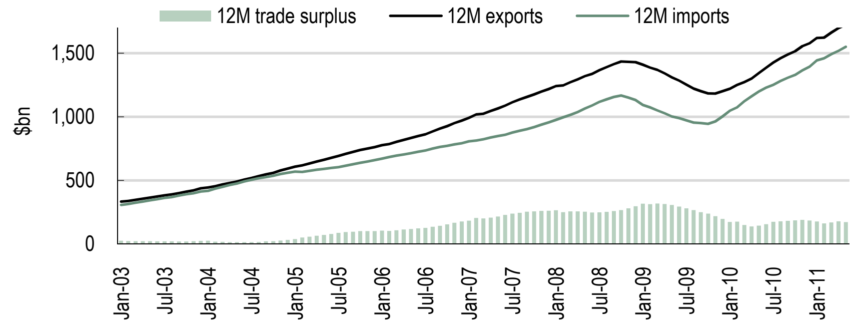
The Imperial Palace was said to be worth more than California in 1989; Beijing is not there yet

China's private sector debt ratio is just 130% of GDP, the Forbidden City is not yet worth as much as all of the land in California put together, China's banks have about the best loan-to-deposit ratio in the world, suggesting they can inject $2trn into the economy tomorrow if a slump is threatened, and the authorities have over $3trn in FX reserves to bail out its banks when non-performing loans (NPL) become problematic.

Inflation is the problem

But we are concerned about Chinese inflation. The authorities see inflation as rooted in the C/A surplus, which pushes up money supply and eventually prices. Their solution is to continue spraying the economy with over $1trn in new loans each year, hike wages by 25% and cut income tax requirements such that a billion Chinese people would pay no income tax later this year. These policies should boost domestic demand, shrink the trade surplus, get the US off China's back and, not coincidentally, might boost support for the Communist Party ahead of the political transition in 2012.

Figure 25: Chinese 12-month rolling trade data



Source: Bloomberg

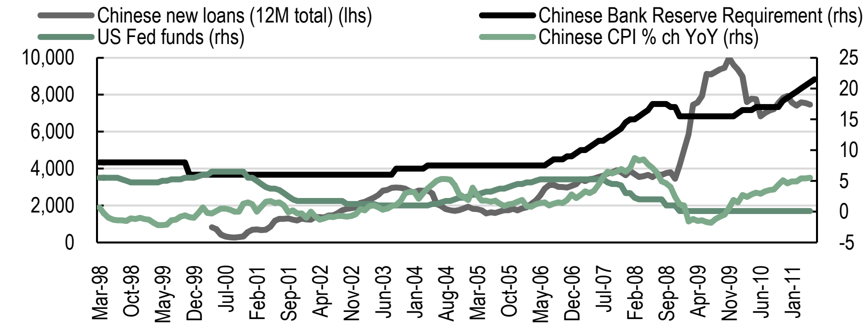
High inflation is hurting domestic savings; perhaps rising wages will offset popular anger

The risk we foresee is that rising demand fuels inflation, in part as this should lead to more demand for commodities, meaning China is bidding against itself (as the US might be if it entered into QE3). This is a particular problem for China as, unlike the US or UK where the population hedges itself against rising inflation via equities and housing, the Chinese authorities try to dampen investment in these hedges and keep Chinese savings in low-yielding (2-3%) accounts in the banks. With over 60% of GDP in deposits, inflation of 5.5% is reducing domestic savings. Presumably, the government is gambling that rising wages will mitigate popular anger about this.

China has an ace to play – currency appreciation

China still has an ace to play – currency appreciation. While there is a view, erroneous in our opinion, that FX appreciation would risk a rerun of Japan's post-Plaza accord experience from 1985-1990, in fact China is far more similar to Japan in the 1970s (see our report *Irresistible*, published 27 January 2011). We think it can afford a far stronger currency to counter inflation. For this reason, while we have scaled back our currency appreciation forecast from CNY5.4/$1 to CNY5.7/$1 in 2012, given China's alternative policy choices, we still see this as a plausible solution to the likely inflation problem that may continue into 2012.

Figure 26: Chinese lending vs Fed funds



Source: Bloomberg

An alternative policy would be to slash new loans – less market friendly

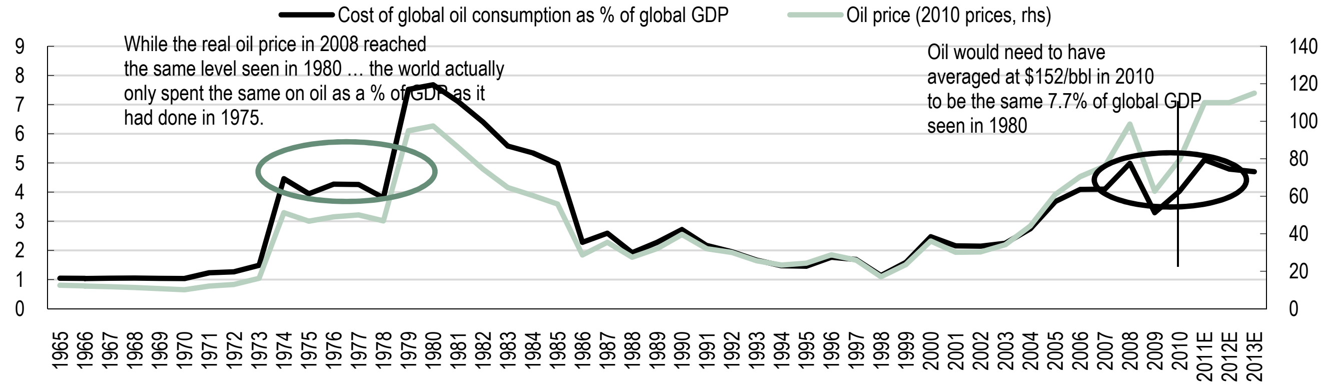
The key indicator we recommend watching is the new loans figure. We believe the least market-friendly alternative policy would be to slash new loans, as China did in 2004; although, even that did not stop the commodity price surge of 2004-2008. The latest new loans figure for May 2012 was a 12% fall YoY, but the cumulative total remains on track to be a very significant CNY7.2-7.5trn over the year. Our base case is that China avoids a crash.

What oil price can the world afford?

From 1973-1974 the oil price soared from $3/bbl to $12/bbl, stabilised in 1975 before rising an additional 10% in both 1976 and 1977, then spiked again in 1979 from $14/bbl to $32/bbl. That first rise saw the total oil bill quadruple from 1% to around 4% of global GDP, which contributed to the 1973-1974 stock market crash noted earlier. The second Iranian-revolution-inspired rise saw the oil bill peak at 7.7% of global GDP in 1980. Together with Fed funds rising from an average 8% rate in 1978 to 13.5% in 1980 (when inflation averaged 13.6%), this did grievous damage to the world economy.

Oil equivalent to $150/bbl with Fed funds at 13.5% (real rates 0%) did terrible damage to the world economy in 1980

Figure 27: The oil bill as % of global GDP (LHS) and oil prices in constant 2010 prices (RHS)



Source: BP

The oil price spike in 2008 saw average oil reach $98/bbl in 2010 prices – similar to the $97/bbl reached in 1980 – but the world oil bill reached only 5.0% of global GDP, closer to 1974 levels. In 2010, with oil averaging at $79.5/bbl, it was back down to 4.0% of GDP, similar to the 1974-1978 level.

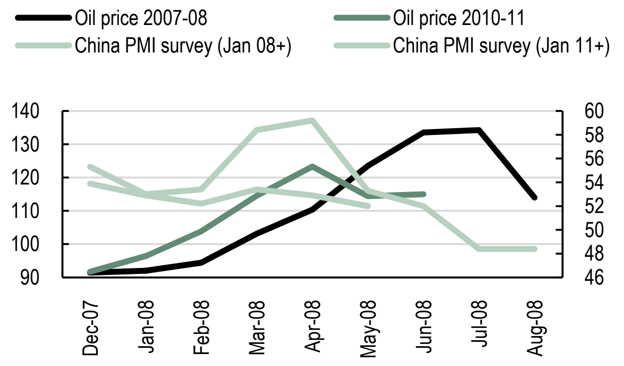
To experience the pain of 1980 again, we would need to have seen oil average at $152/bbl in 2010, and for Fed funds to be considerably higher than now. This implies to us that the world can manage oil at $110/bbl this year, assuming no change in oil consumption, as this would again be equivalent to 5.1% of GDP. Even $130/bbl would be just 6.0% of GDP and still not as damaging as the figure we saw in 1980.

Oil at $130/bbl would be a global bill of 6% of GDP, and too high for comfort

That it is not as bad as 1980 is not very reassuring. In terms of US unemployment, which peaked at 10.8% in 1982, that recession was the worst since the Great Depression. Indeed, even the much lower average oil price seen in 2008 was probably a significant factor in the collapse of Chinese and German industrial confidence in that year. Chinese PMI numbers fell below 50 for the first time as the price of a barrel of oil soared from around the $90s to average at $135/bbl in June-July 2008, while German IFO expectations clearly signalled a recession was coming. Bizarrely, the ECB hiked rates in July 2008 even as the eurozone's biggest economy threatened recession.

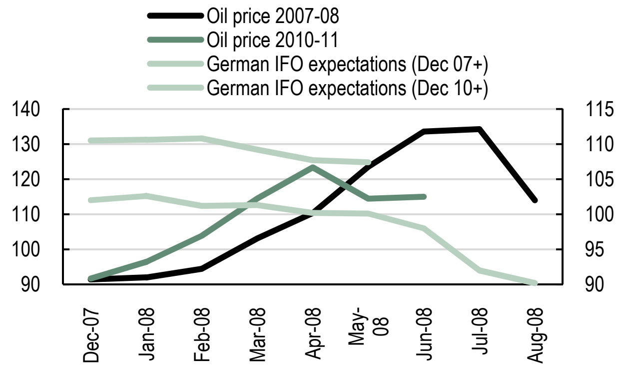
The last time we saw oil at $130-140/bbl, Chinese and German data both signalled acute weakness

Figure 28: Chinese industrial confidence (PMI; RHS) and the price of oil ($/bbl; LHS)



Source: Bloomberg

Figure 29: German industrial confidence (IFO; RHS) and the price of oil ($/bbl; LHS)



Source: Bloomberg

This time, Chinese PMI figures are starting from a much lower base, the German IFO is starting from a higher base and we've had some respite from rising oil prices during May at least. But yes, the ECB is again hiking as the German economy slows.

Nigeria and Kazakhstan are more sensitive than Russia to different oil price scenarios

For Russia, Kazakhstan and Nigeria, evidently, high oil prices help. Below we outline our risk-case analysis for these economies with different oil scenarios for 2011 and 2012, against our base-case numbers detailed in the country sections.

Figure 30: Key economic indicators under different oil price scenarios

	2011		2012	
Average oil price, $/bbl	95	125	80	140
Russia				
Real GDP (YoY), %	4.1	5.0	3.5	5.2
Nominal GDP, RUBbn	49,231	49,657	54,786	55,686
Nominal GDP, $bn	1739	1773	1740	2134
Budget balance, % GDP	-2.3	0.5	-3.7	3.3
Exchange rate, RUB/$	28.3	28.0	31.5	26.1
Current account, $bn	75.6	93.3	45.3	110
Current account, % GDP	4.3	5.3	2.6	5.2
Kazakhstan				
Real GDP (YoY), %	5.3	7.1	4.4	7.2
Nominal GDP, KZTbn	24,172	24,585	26,825	28,015
Nominal GDP, $bn	167	176	179	212
Budget balance, % GDP	-2.9	-0.5	-3.1	1.5
Exchange rate, KZT/$	145.0	140.0	150.0	132.0
Current account, $bn	2.5	7.0	2.0	12.7
Current account, % GDP	1.5	4.0	1.1	6.0
Nigeria				
Real GDP (YoY), %	6.3	8.9	5.8	8.0
Nominal GDP, NGNbn	37,189	41,519	39,790	44,655
Nominal GDP, $bn	225	297	234	308
Budget balance, % GDP	-6.0	1.0	-6.3	-0.2
Exchange rate, NGN/$	165	140	170	145
Current account, $bn	12.0	32.0	13.0	35.6
Current account, % GDP	5.3	10.8	5.6	11.6

Source: Renaissance Capital estimates

Agriculture – rising food risk for 2011-2012

Poor growing conditions could mean disappointing wheat production in August 2011

Our greatest concern is that world harvests will disappoint over 2011-2012, particularly the northern hemisphere's harvest of August 2011, when the biggest producers in the world, the US, Europe and China, bring in the bulk of their annual production. We are worried because: 1) global corn stocks are near record lows; 2) drought conditions have been reported in China and parts of Europe and, most importantly; 3) because central banks globally have been looking through the past year of rising food prices assuming they are temporary. Another year of rising prices would push up headline inflation, but would also likely spill over into other areas. Within Europe, only Russia and probably Ukraine should be exempt, as we expect their harvests will be good.

Below, we have repeated a sample of the key charts from our full report on this subject, *Food prices: A threat for 2011-2012*, published on 16 May 2011.

MENA is a big importer of all cereals

First, we detail the key producers and consumers, to highlight that it is the harvests of North America, the EU and China which are key for corn and wheat. But this table also highlights that MENA has a massive short position in all food products, making it the most vulnerable to global food price rises.

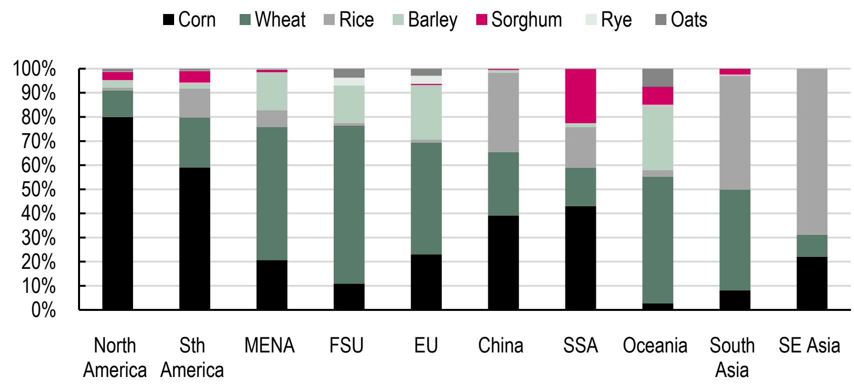
Figure 31: 2010 production, consumption and net change for key cereal by region or country (mn tpa)

	Corn			Wheat			Rice (milled)			Barley			Sorghum		
	Production	Consumption	Net change	Production	Consumption	Net change	Production	Consumption	Net change	Production	Consumption	Net change	Production	Consumption	Net change
North America	350	337	13	87	47	41	8	5	2	12	13	-1	16	15	1
EU	55	61	-5	136	122	14	2	3	-1	53	60	-6	1	1	-1
Other Europe	10	8	2	4	5	-1	0	0	0	1	2	0	0	0	0
China	168	162	6	115	109	6	139	136	3	2	5	-2	2	2	0
FSU	19	14	5	81	83	-2	1	1	0	21	20	1	0	0	0
South America	85	72	13	25	25	-1	16	15	2	3	3	0	6	6	1
SSA	54	52	2	6	19	-14	12	21	-8	2	2	0	27	27	0
MENA	13	35	-22	56	94	-38	6	12	-6	17	27	-10	2	2	0
South Asia	26	23	3	111	119	-8	138	133	4	2	2	0	7	7	0
SE Asia	28	32	-4	0	13	-13	112	101	12	0	0	0	0	0	0
Oceania	1	1	0	26	10	16	1	1	0	10	5	5	2	1	1
Other	7	43	-36	1	15	-14	16	19	-3	0	2	-2	3	4	-1
Total	**815**	**839**	**-24**	**647**	**661**	**-14**	**451**	**446**	**5**	**124**	**138**	**-14**	**65**	**65**	**1**

Source: USDA

Second, we show that Africa has the most diversified cereal demand, and that contrary to most expectations, China is as dependent on corn and wheat as the EU.

Figure 32: Demand for cereals in 2010

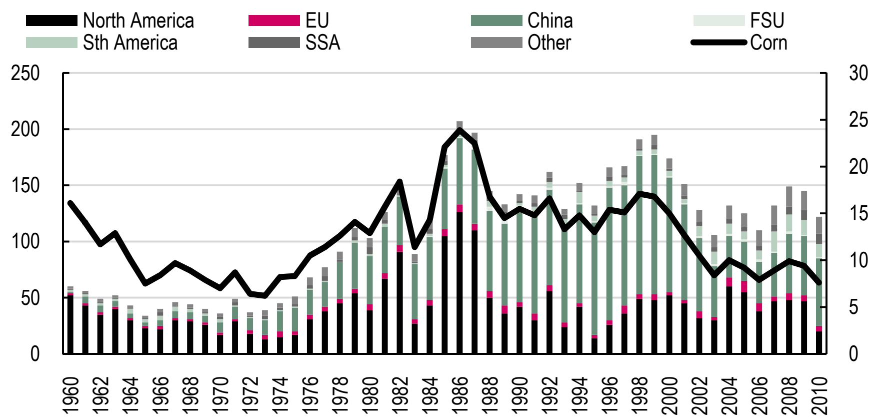


Source: USDA

Stock levels, and changes in stocks, drive prices. At these low levels, price changes can be dramatic

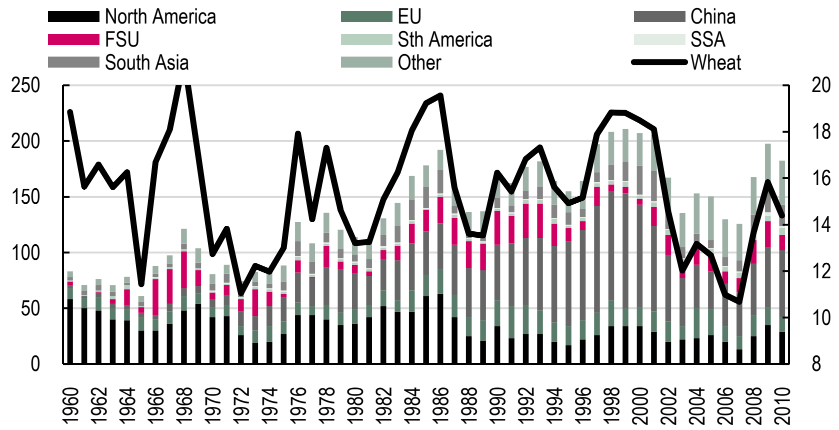
Third, we show the global decline in corn stocks to near record lows. The situation is better for wheat, but that is a smaller harvest than corn, and wheat stocks may end up falling if corn stocks decline.

Figure 33: Corn stocks by region (mnt; LHS) and in terms of weeks of consumption (RHS)



Source: USDA

Figure 34: Wheat stocks by region (mnt; LHS) and in terms of weeks of consumption (RHS)



Source: USDA

USDA's stock level forecasts are close to our own

Finally, we outline the forecasts and assumptions we made in May 2011 compared with those of the USDA released on 9 June. They are very similar. The only change to our forecast is an increased chance of a bad wheat harvest, from a minimal 5% to 15%, as we think two consecutive poor harvests may be recorded for the first time in 50 years.

Figure 35: 2011-2012 agriculture forecasts

	Corn supply	Corn demand	Net balance	Price impact
Good scenario (20%)	895	850	45	-40%
Base scenario (60%)	**840**	**850**	**-10**	**35%**
Negative scenario (25%)	790	850	-60	100%
USDA June 2011	**866**	**872**	**-6**	
USDA May 2011	868	861	7	
Actual 2010-2011	815	839	-23	
Actual 2009-2010	813	817	-4	

	Wheat supply	Wheat demand	Net balance	Price impact
Good scenario (20%)	707	650	57	-30%
Base scenario (65%)	**650**	**650**	**0**	**25%**
Negative scenario (15%)	615	650	-35	40%
USDA June 2011	**664**	**667**	**-3**	
USDA May 2011	670	670	-1	
Actual 2010-2011	648	662	-14	
Actual 2009-2010	684	654	30	

	Rice supply	Rice demand	Net balance
Good scenario (20%)			
Base scenario (65%)	**450**	**455**	**-5**
Negative scenario (15%)			
USDA June 2011	**456**	**458**	**-2**
USDA May 2011	458	459	-1
Actual 2010-2011	452	448	3
Actual 2009-2010	440	438	2

Source: USDA, Renaissance Capital estimates

In terms of the impact on the markets, we see Russia and Ukraine as being the least impacted, but elsewhere a rise in CPI of at least a few percentage points is plausible, as food tends to represent 20-50% of the CPI baskets of EMs. We see scope for rises in Poland (drought), Mexico (corn), Zimbabwe (a food importer) and Kenya (drought), as well as others.

Figure 36: Weight of CPI baskets

Year of index	Mexico 2005	Brazil 2009	Hungary 2010	Poland 2011	Czech Rep 2005+	Romania 2008	Bulgaria 2010	Russia 2011	Ukraine 2008	Kenya 2009	Nigeria 2009	Turkey 2011	Egypt 2000*	South Africa 2009	Germany 2009	US 2008
Food product	19.9	22.8	19.4	24	16.3	36.9	35.4	30.7	53.1	36	51.8	26.8	38.9	15.7	12.3	8.2
Alcohol, tobacco	2.8	1.7	8.1	5.7	8.2	6.2	5.6	6.1	4.6	2.1	1.1	5.9	2.8	5.6	4.5	1.9
Clothing	5.6	6.5	4.3	5.2	5.2	7	3.7	10.7	7.2	7.4	7.7	7.2	10.4	4.1	5.3	3.7
Housing, utilities	22.9	10.2	20.8	20.7	24.8	18.9	17.4	11.1	12.6	18.3	16.7	16.5	11.7	22.6	23.6	36.3
Household items (furniture, appliances, etc)	4.9	4.2	5.7	4.9	5.8	4.3	4.4	6.1	3.2	6.2	5	6.9	4.9	5.9	6.1	4.8
Healthcare	8.6	10.8	3.9	4.9	1.8	3	6.5	3.5	2.8	3.1	3	2.4	4.6	1.5	4.4	6.4
Transportation	13.4	19.7	14	9.1	11.4	7.8	7.3	12.1	3.9	8.7	6.5	15.2	5.6	18.8	14	15.3
Communications	3.6	5.9	4.4	4.5	3.9	5.4	5.4	3.6	3.2	3.8	0.7	4.6	2	3.2	3	3.2
Leisure, recreation and culture	5.4	5.3	8.2	7.8	9.9	4.7	4.1	6.2	2.7	2.3	0.7	2.7	5.9	4.2	12.2	5.7
Education	5.2	7.2	1	1.2	0.6	0.9	0.6	1.7	1.7	3.1	3.9	2.3	5.7	2.2	1	3.1
Accommodation/catering	0.9	0.3	5.8	6.8	5.8	1.9	5.9	2.7	2.7	4.5	1.2	5.9	2.5	2.8	5.2	8.8
Other goods and services	6.9	5.4	4.3	5.2	6.3	3.1	3.8	5.6	2.2	4.5	1.7	3.6	5	13.6	8.4	2.6

Source: National sources

The market implications are, obviously, to be wary of bonds, but perhaps to expect currency appreciation as a temporary measure to deal with a temporary food price problem. Potash and other fertiliser companies, as well as integrated agricultural stocks, should all benefit. Russian local currency bonds could outperform, but the rouble may not need the appreciation kicker required elsewhere.

A poor harvest would be negative for EM local currency bonds but positive for currencies

Overall, we advise not ruling out government interference in agricultural markets if prices rise further, perhaps by limiting investment opportunities in commodity baskets; although, that is not our base case.

Watch out for official efforts to interfere in the agricultural market

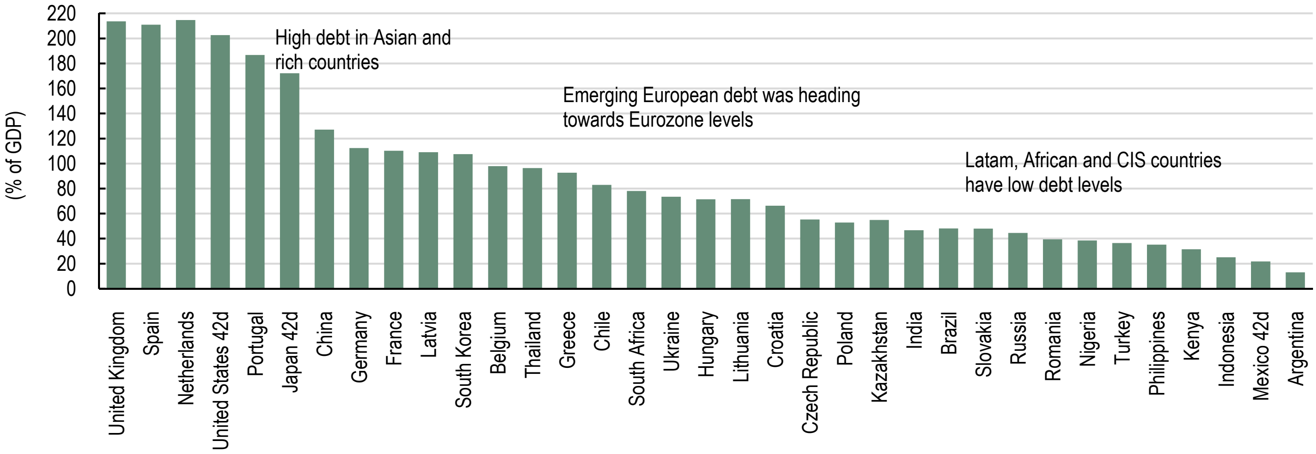
A love affair with EMs

Below we outline some of the EM themes we have addressed previously, including rising debt, currencies, and external and local debt, as well as the equity outlook.

The EM borrowing boom

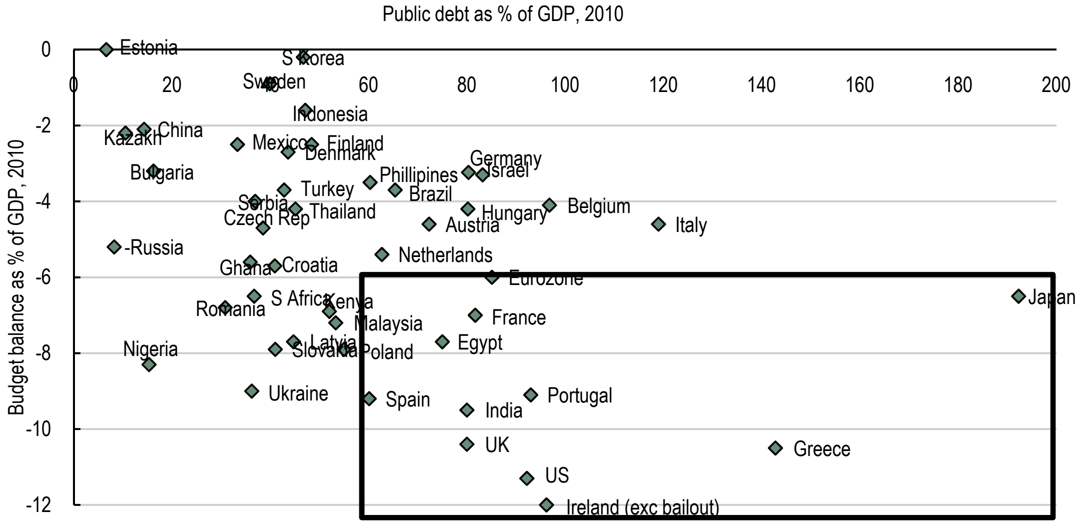
One of our long-running themes is that (nearly) bankrupt DMs are overburdened with private sector and public debt, while EMs are underleveraged in terms of private sector debt, public debt and external debt. We believe this will lead to a flood of money from DMs to EMs as we saw in the 1970s (as discussed in our report *Irresistible*).

Figure 37: Household and corporate debt as % of GDP, 2009



Source: IMF – 32d series or 42d series

Figure 38: Budget balance (LHS) vs public debt (horizontal) as % of GDP in 2010

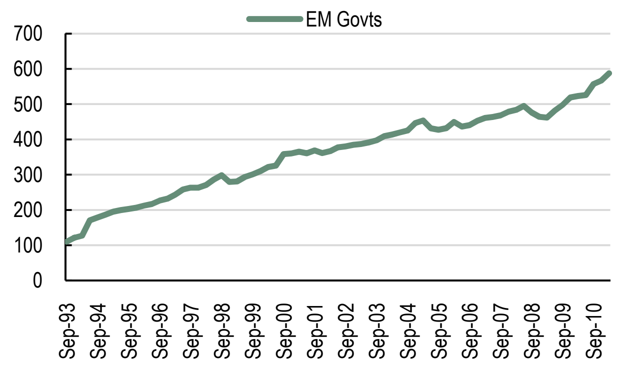


Source: Eurostat, IIF, Renaissance Capital estimates

EM private sector is borrowing heavily from international debt markets

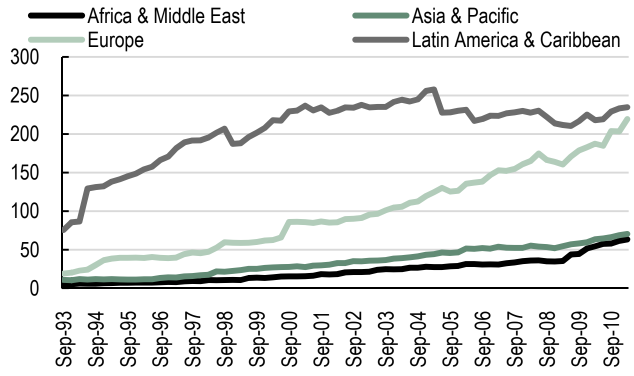
The main difference between now and the 1970s is that it was governments borrowing at that time – and mostly dictatorial governments, while now it will be the private sector seeking external funding, via external and local bond or equity issuances. While updating our market size data (see below), we discovered the following Bank for International Settlements (BIS) figures on international borrowing by emerging and frontier markets, through the issuance of international debt securities (eurobonds).

Figure 39: EM governments, $bn



Source: BIS

Figure 40: EM governments' international debt, $bn

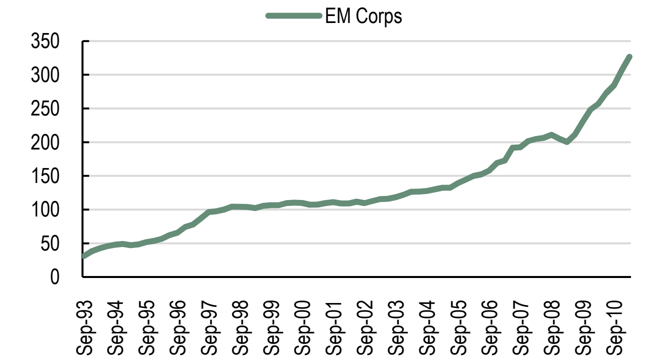


Source: BIS

EM governments borrowed $65bn in the year to March 2011

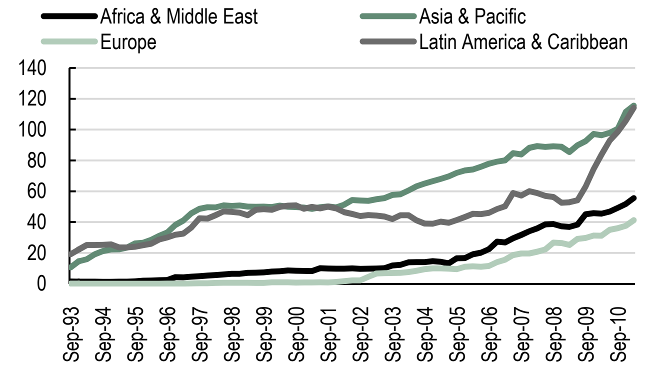
EM governments are borrowing from the international bond markets, with their total stock of issuances now having reached $588bn, from $110bn back in 1993. Half of the $65bn borrowed in the past 12 months has been by Europe, of which Russia, Turkey and Poland borrowed roughly $5bn each.

Figure 41: EM corporations, $bn



Source: BIS

Figure 42: EM corporations borrowing by region, $bn

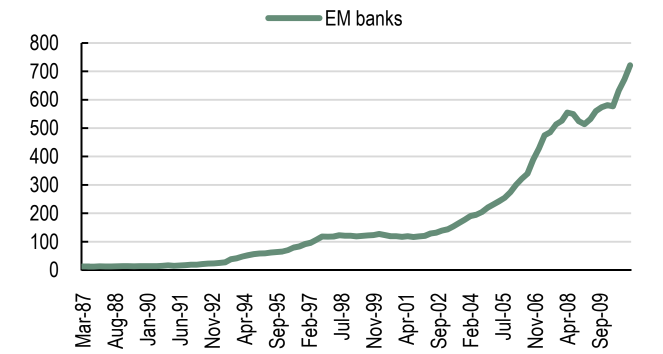


Source: BIS

EM corporates have borrowed $127bn over the past two years

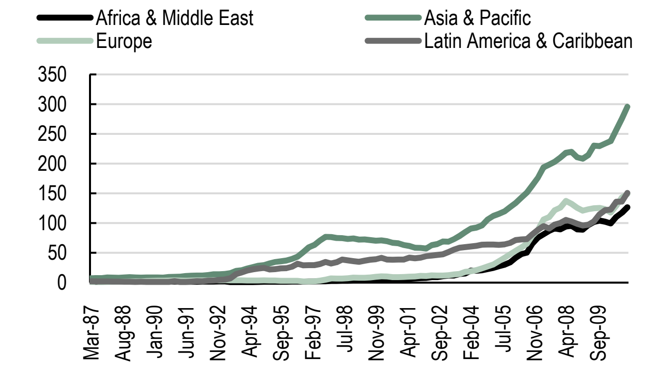
The rise in borrowing by EM corporates has been more rapid from March 2009-March 2011, as they upped their stock of issuances by 64% from $200bn to $327bn. Here, it is Latin American corporates who have been most eager to tap international markets, with Mexico borrowing $25bn and Brazil $14bn. SA corporates have not been shy either, doubling their issuances from $6bn to $13bn.

Figure 43: EM banks corporations, $bn



Source: BIS

Figure 44: EM banks borrowing by region, $bn



Source: BIS

EM banks borrowed $208bn over the past two years; more than sovereigns

Most dramatic of all has been borrowing by EM banks. Their stock of issuances has risen from $12bn in 1987 to $721bn in March 2011. This is worth repeating. EM banks are bigger borrowers in the global market than EM sovereigns. They have borrowed $208bn in the past two years. China accounts for $35bn, South Korea $25bn, Russia $19bn and India just $7bn, but Brazil pips them all with issuances of $53bn.

One reason for this explosion in issuances of international debt securities is that syndicated loans became much rarer in the aftermath of the global financial crisis. But it is notable that in the eurobond arena, demand for this huge increase in supply has been found.

We expect borrowing to spread to new markets, and to be an appreciating pressure on EM FX

We expect this demand to create markets for more African issuance, by sovereigns, banks and corporates, as well as provide room for better known borrowers in the CIS and emerging Europe to tap global bond markets. In the long run, we think this will put pressure on EM currencies to strengthen further.

Figure 45: Market size ($bn)

	Equity MktCap, (as of 20 January 2011)			Domestic debt securities		External debt (bonds and notes) (March 2011)		FX Market (daily turnover April 2010)	
	Total MktCap (Factset database)	MSCI MktCap	MSCI free float	Government (June 2010)	Corporate/FI (December 2010)	Sovereign	Corporate/FI	In local currency*	In country*
China	3,750	1,451	710	1,623	1,409	6	81	12	20
India	1,502	898	296	608	100	0	52	21	27
Indonesia	403	234	100	82	12	18	18	3	3
Kazakhstan	18	9	4.7	na	na	2	19	na	na
South Korea	1,156	971	614	475	636	7	144	38	44
Bulgaria	6.7	1.1	0.3	3	0.0	2	0.3	1	1
Czech Republic	54	49.2	16	49	26	na	na	4	5
Hungary	34	32	18.8	68	9	28	13	3	4
Poland	223	150	72.9	194	8	61	6	6	8
Romania	23	4	1.6	21	0.0	4	0.0	2	3
Russia	1,034	820	293	67	0.0	32	131	28	42
Turkey	292	193	61	228	2	47	14	10	17
Ukraine	27	7	1.1	na	na	7	8	na	0
Argentina	54	15	9	49	10	50	7	1	2
Brazil	1,507	1,097	640	829	508	51	136	9	14
Chile	340	183	66	23	38	3	15	5	6
Colombia	217	139	31	70	2	18	7	3	3
Mexico	441	329	180	247	182	45	65	17	17
Venezuela	4.3	Not in MSCI	-	61	3	30	21	na	na
Israel	189	135	86	na	na	11	14	5	10
Nigeria	51	28	8	na	na	1	1	na	na
Kenya	13	8.1	3.2	9	0	0	0	na	na
South Africa	520	449	313	125	65	11	41	11	14

Note: * In local currency refers to local currency-based FX transactions. In country refers to total FX transactions which might not be in the local currency

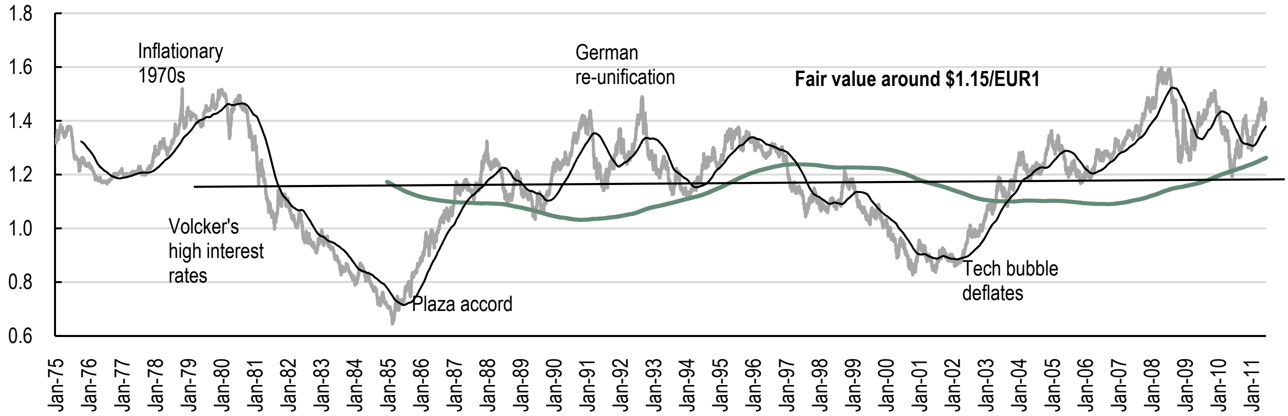
Source: Factset, MSCI, BIS, Renaissance Capital estimates

Currencies – EM is overvalued and getting more so

Key dollar resistance levels at $1.38/EUR1 (200-day average) and, more fundamentally, at $1.26/EUR1 (10-year average)

To start with, we look at the impossible to forecast dollar/euro rate. The chart below shows the dollar/euro rate since 1975. We have included a 200-day moving average, which confirms that strong resistance would be found at $1.38/EUR1 if confidence in the eurozone weakened sharply in the coming months. The 10-year moving average is now at $1.26/EUR1, and very few banks (and no major FX players) assume this will be broken in 2011-2012. For the purposes of this report, we have taken consensus Bloomberg numbers, which imply gradual dollar strength to $1.39/EUR1 in 2011, moving to $1.35/EUR1 in 2012.

Figure 46: Dollar vs euro since 1975



Source: Bloomberg

EM currencies already overvalued – except a few like China – but likely to remain so

More important than the debate about which DM currency the market hates the least, is whether EM currencies will continue to strengthen against a basket of both the euro and the dollar. We think they are already, on average, overvalued, with glaring exceptions like China, but we assume this strength will continue due to capital flows; but given high commodity prices, we have to be more nuanced.

Those currencies with high interest rates, that benefit from high commodity prices and which are attracting global capital, like the Brazilian real, are obviously still facing appreciating pressure despite being overvalued.

Within EEMEA, Russia, Kazakhstan, Nigeria and SA will all benefit from the high commodity price outlook. But of these, only Nigeria has interest rates similar to Brazilian levels, and these are needed to offset loose fiscal policy. Elsewhere, the authorities appear happier with less attractive interest rate policies, and only limited currency appreciation from this point.

Figure 47: Currency confidence

	Significant interest rate premium over DM	Attracting global capital	Keeping domestic capital in the country	Commodity beneficiary	Conclusions
Brazil	Yes	Yes	Yes	Yes	Appreciating pressure
Mexico	No	Neutral	Neutral	Yes	Neutral
Russia	No	Yes	No	Yes	Neutral
Kazakhstan	No	Yes	Neutral	Yes	Appreciating pressure
Ukraine	Yes	Yes*	Neutral	No	Neutral
Poland	No	Yes	Yes	No	Neutral
Czech	No	Yes	Yes	No	Neutral
Hungary	Yes	?	Yes	No	Appreciating pressure
Romania	Neutral	Yes*	Yes	No	Neutral
Turkey	Yes	Yes	Neutral	No	Neutral
Nigeria	Yes	No	No	Yes	Neutral
Kenya	No	Yes*	Neutral	No	Weakening pressure
South Africa	Neutral	Yes	Yes	Yes	Appreciating pressure

*Albeit IMF

Source: Renaissance Capital

Kenyan shilling suffering on most fronts

Those countries with low interest rates, that suffer from high commodity prices and are not attracting significant capital today, like Kenya, are facing depreciating pressure. Turkey is in a similar position, but it is not so acute.

Central Europe is sufficiently rich that higher commodity prices are less of an issue. In addition, C/A deficits in Central Europe look very manageable to us. The interest rate premium over the ECB is of greater importance, which is one reason why Hungary has maintained a relatively strong currency this year.

We include the Big Mac Index below, which is a useful guide for PPP valuations, along with more detail on key EM currencies from that index and from the OECD index, and lastly some of our conclusions.

Figure 48: OECD measures (undervalued is a negative sign, overvalued is a positive sign)

	Vs $	Fair value vs $	Undervaluation vs EUR	Fair value vs EUR
Turkey, TRY	-59.5%	0.99	-83.7%	1.24
Mexico, MXN	-49.2%	7.95	-71.8%	9.95
Poland, PLN	-45.1%	1.88	-67.2%	2.35
Hungary, HUF	-42.6%	129	-64.2%	161
South Korea, KRW	-32.0%	822	-52.0%	1,029

Economist's Big Mac measure (2010)

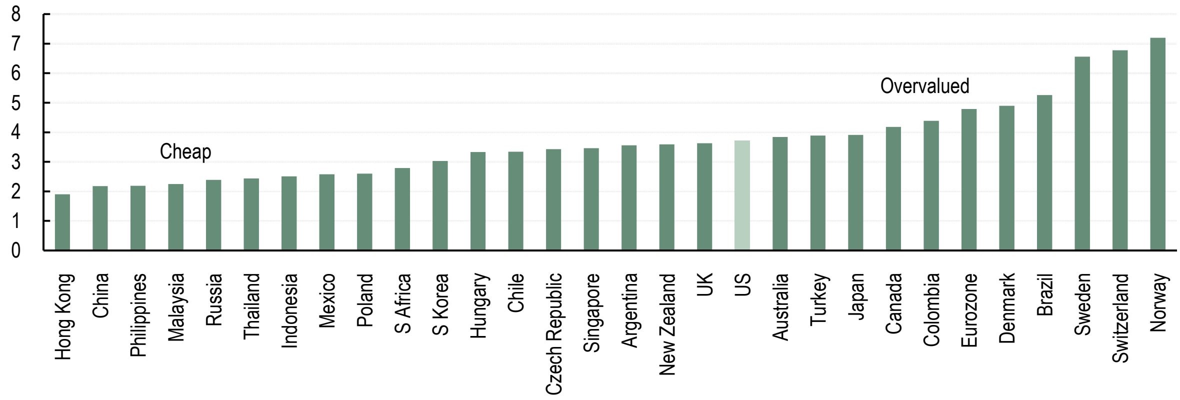
	Vs $	Fair value vs $	Undervaluation vs EUR	Fair value vs EUR
Brazil, BRL	50.8%	2.39	12.7%	2.57
Czech, CZK	9.2%	18.3	-18.4%	19.7
Hungary, HUF	8.1%	199	-19.3%	214
Turkey, TRY	2.4%	1.61	-23.5%	1.74
Chile, CLP	2.2%	478	-23.7%	515
Euro, EUR	33.9%	1.08	na	na

Renaissance Capital views

	Spot	PPP-implied long-term fair value	Reason for divergence	3M outlook
Overvalued				
Brazil vs $	1.58	2.30	High interest rates	Stronger
South Africa vs $	6.73	7.75	Commodity prices	Stronger
Turkey vs $	1.58	1.80	Local trust	Neutral
Undervalued				
Poland vs EUR	3.93	3.50	Low interest rates	Stronger
China vs $	6.48	4.50	Managed exchange rate	Stronger
Mexico vs $	11.8	10.00	Local distrust	Stronger

Source: OECD, The Economist, Bloomberg, Renaissance Capital estimates

Figure 49: The Big Mac Index – prices paid for a Big Mac in dollar equivalent



Source: The Economist, Bloomberg

We disagree that Turkey is undervalued

The OECD numbers suggest that all EM currencies are severely undervalued, most notably Turkey. We could not disagree more. Every other measure we have ever seen suggests the Turkish lira is overvalued, and countries do not run C/A deficits approaching 9-10% of GDP with an undervalued currency (just ask China). However, the OECD data do remind us that EM currencies now offer the most fundamental value against the euro.

The Economist data fit better with work we have done previously, particularly on Brazil. It highlights that the fair value for the dollar/euro rate is $1.08/EUR1 and that, again, EM currencies still offer some value against the euro.

Yuan, zloty and Mexican peso are fundamentally cheap

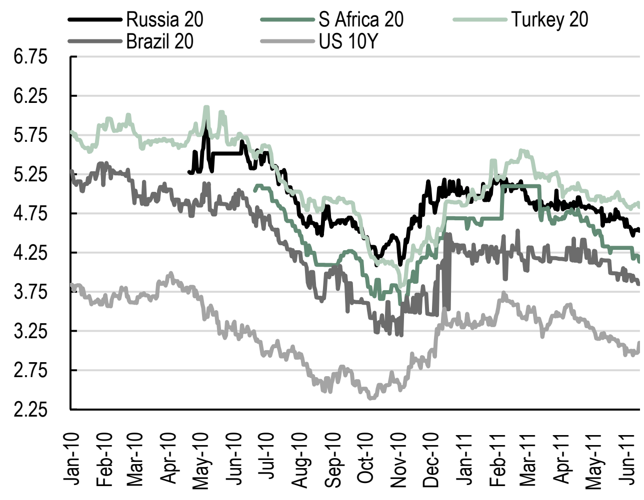
In our view, the currencies of Brazil, Turkey and SA are all overvalued, but, of these, we see the greatest weakening pressure on Turkey. We see the most undervalued currencies being, of course, China, as well Poland and Mexico. Higher inflation could deliver real currency appreciation for all three.

External and local debt markets

When Russia and Brazil offer just 4% on dollar debt, sovereign dollar debt only looks interesting in the sub-investment grade space

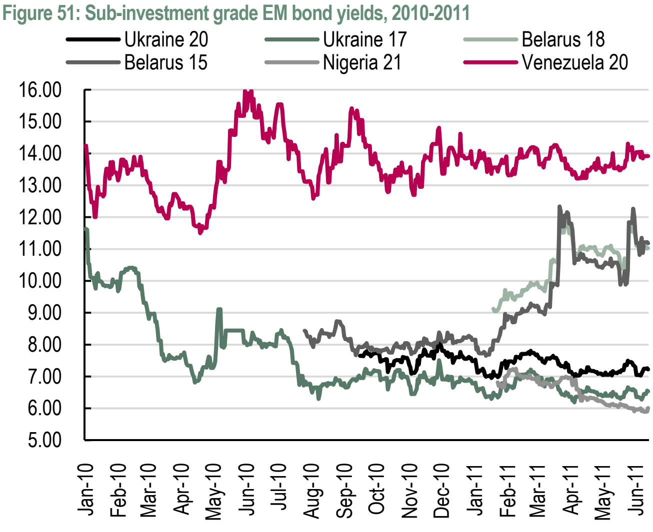
The countries with better credit ratings offer little value to investors able to pick and choose asset classes. Brazil, yielding less than 4%, may make sense given its very high levels of FX reserves exceed its external debt, with a similar argument applicable for Russia. Both could arguably see spreads tighten closer to the US in the coming year or two. Turkish spreads have widened outside of Russia due to higher oil prices, but remain tight relative to its ratings due to the high local bid.

Figure 50: Investment grade EM bond yields, 2010-2011



Source: Bloomberg

Figure 51: Sub-investment grade EM bond yields, 2010-2011



Source: Bloomberg

Nigeria and Belarus are both interesting

We see Nigeria as being relatively attractive, despite the poor performance of its FX reserves in this high oil price environment, while we also understand why the 14% yield on Venezuela attracts investors. The most interesting play among those we look at it is evidently Belarus, in our view. The obvious risk is that the state chooses to use its extremely low level of FX reserves to bolster the currency rather than repay external creditors, but choosing devaluation this year suggests that that is not its priority. Also, Belarus does have valuable assets to sell, which would go a long way to improving its FX reserves position, e.g. it is a potash producer in a world of agricultural shortages. Finally, potential political change would be destabilising in the immediate term, but could pave the way for significant external support. From current price levels, we think there is significant potential upside if an IMF deal is agreed, assets are sold or broad external support is extended after any political change.

Nigerian local yields are attractive, and Kenya/Turkey could be too if oil drops to $90/bbl

On the local debt side, we are attracted to the yields in Nigeria. We would also consider Turkey and, especially, Kenya as attractive if 1) central banks start hiking rates more significantly, and/or 2) oil prices fall significantly. Until then, we see continued currency depreciation as a key risk to unhedged foreign investments in local debt, but recognise that internal carry trades may be attractive.

Corporate/bank bonds far more appealing than sovereign debt, unless you fear Greek/US debt concerns will cause market panic

Given the low yields for so much sovereign debt, we tend to favour banks and corporates in the CIS space.

Top ideas in CIS **banks:**

Russia: Promsvyazbank 14 (PROMBK14, 500 bpts to swaps) – Well-positioned paper for buying into medium-term private Russian bank risk; a conservative strategy, solid liquidity and a reasonable funding profile; subordinated PROMBK15 (585 bpts to swaps) is also attractive on a relative value basis.

Kazakhstan: Bank CenterCredit 14 (BCCRD14, 720 bpts spread to swaps) – Low refinancing risk, strong (if excessive) cash position, adequate capitalisation and NPLs that are unlikely to increase from current levels; plus, Kookmin, an A-rated major Korean bank, is a strategic investor.

Ukraine: FUIB 14 (FIUKR14, 840 bpts spread to swaps) – The strongest medium-sized Ukrainian bank credit; on track to deliver positive 1H11 results; will potentially expand market share via merger with smaller Dongorbank; strategic support from SCM Group, one of Ukraine's largest industrial holdings.

High-yield: TCS Bank 14 (TINCRE14, 920 bpts to swaps) – A small retail specialist based on a direct sales platform; no immediate refinancing pressures and adequately capitalised; management has a good track record in execution; attractive risk-reward combination.

Top ideas in CIS **corporates**:

Evraz, Alliance Oil, Mriya and MHP all have attractive issues

Russia: Evraz 6.75% 18 (EVRAZ18, 430 bpts to swaps) – We remain positive on Evraz's and the metals and mining sector's credit fundamentals, and consider the recent widening spread as an opportunity to increase exposure to Evraz; while Severstal's spreads might be exposed to volatility following speculation of a Raspadskaya sale. We note the acquisition is not our likely short-term scenario (due to high valuations and pre-election risks), while possible proceeds are more likely to be used to enhance shareholders' returns rather than to reduce debt.

Alliance Oil 15 (VOSTOK15, 524bpts to swaps) – At current spreads, execution risks are priced in; the launch of the Kolvinskoye oilfield is expected in 3Q11, while a possible delay in the planned equalisation of export duties is supportive for 2011 results. The recently announced JV with Repsol might be credit supportive, should the JV focus more on existing assets that require additional funding (such as Kolvinskoye).

Ukraine: Mriya 16 (MRIYA16, 895 bpts spread to swaps) – Mriya's efficiency in terms of crop yields, low costs and greater transparency makes us believe that the current spreads to Avangard are unjustified (that is despite Mriya's higher leverage, at 3x in 1Q11).

MHP 15 (MHPSA15, 681 bps spread to swaps) – MHP benefits from full vertical integration and as a result is able to control costs. This, together with low labour and land costs, makes MHP one of the most efficient poultry producers in the world.

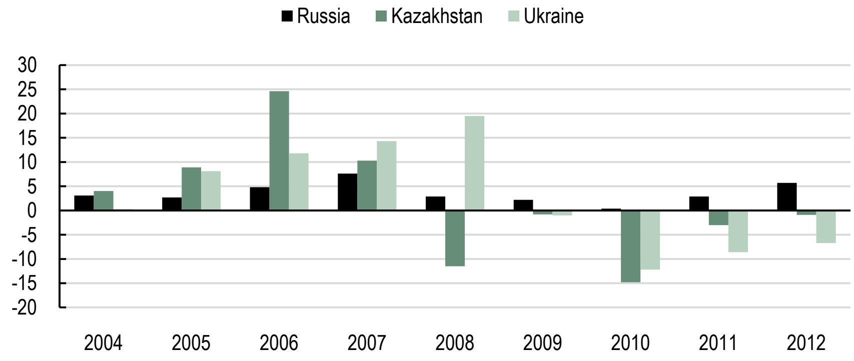
For further questions please contact Vladlen Andryushchenko at vandryushchenko@rencap.com

Equity markets – also nuanced

Russia will get the biggest domestic equity kicker from credit growth within the main CIS markets over 2011-2012

From a big picture perspective, there are just two drivers of a stock market: foreign investors or domestic investors. The big market booms in the CIS in 2006-2007 are examples of when these drivers combined. From a domestic perspective, a rise in the private sector debt-to-GDP ratio is evidently helpful in driving up asset prices, and of the big three CIS markets, we only expect this in Russia over 2011-2012. The other two markets are still in a deleveraging mode, which is positive for the long term but means their stock markets will need foreign drivers to push up prices.

Figure 52: The percentage point change in bank lending as a percentage of GDP in the CIS



Source: National sources, Renaissance Capital

Based on our current bank lending forecasts, the rise in Kenya's private sector debt will help offset foreign investor concerns in 2011; Nigeria to come back in 2012

In SSA, our bank lending data suggest that Nigeria is also deleveraging this year, meaning a good market performance will depend entirely on foreign investors, and that Kenya and Zimbabwe may get the greatest domestic support if our bank lending assumptions are correct. For 2012, we expect the debt ratio to rise across SSA, with the biggest gains from Kenya, followed by Ghana and Zambia. Nigeria's bank lending will begin to be a positive for the market rather than a negative, in our view.

Figure 53: The percentage point change in bank lending as a percentage of GDP in SSA

Source: National sources, Renaissance Capital

As noted earlier, we see EM equity markets as offering better value than their DM counterparts in the coming years, as the solution to excessive debt is either to default (in peripheral Europe) or default via inflation (as in the US or UK), and neither choice is equity positive. EM and frontier markets do not generally carry this risk. Potential contagion risk from DMs is obviously high, but it is interesting that over the past month, EM eurobonds and some currencies have begun to trade like safe havens. This behaviour may spread to other asset classes.

Among our core markets, we see the following catalysts for an improved performance:

Russian politics may be a catalyst for higher prices

For Russia, equity performance would clearly be helped by a decision on who will run for the presidency, though we may need to wait until December to see who that will be.

We see no domestic trigger for Kazakhstan, so significant investments from overseas or a rise in risk appetite will be the most likely catalysts.

Poland and Romania would probably benefit from a soothing of market nerves over the eurozone troubles. A PO victory in the parliamentary elections might also benefit the Polish market.

Improved FX reserves in Nigeria, and stronger action to control CPI and C/As in Kenya and Turkey would be helpful

In Nigeria, the catalyst we see for improved markets from a macro standpoint would be a rise in FX reserves. In Kenya and Turkey, stronger action to control inflation and counter currency weakness would probably be welcomed.

For South Africa, see Herman van Papendorp

For SA – refer to our strategy report, *Investment strategy: 2Q11 Beware bonds and bricks* dated 10 May, released by Herman van Papendorp. According to our overweight resources/underweight financials strategy, we prefer Sasol, Anglo American, Impala Platinum, Imperial, Foschini and AVI.

Among the stocks we like:

Energy: LUKOIL (**BUY**; TP $85/share) has a justifiably high discount to its peers, and we expect an operating turnaround in 2H11. Tatneft (**BUY**; TP $8.7) will be the biggest beneficiary of the forthcoming tax reform and we expect it to have the highest organic earnings growth among its peers. Sasol is also a **BUY** (TP ZAc44,000) in our view. Afren (**BUY**; TP GBp1.85) should benefit from production growth, its free cash flow and as we believe all of its negative news has already been announced. Gulf Keystone (**BUY**; TP GBp1.85) may gain credibility for its resources due to new drilling and as the government may grant it a third-party back-in right. Please contact Daniel Barcelo at dbarcello@rencap.com

Utilities/basic resources: Donbassenergo (**Not Rated**) has good potential in Ukraine, supported by new tariffs and privatisation plans in 2012. Nigeria's Lafarge Wapco (**BUY**; TP NGN55) should benefit from strong volume growth and new capacity; while, in Kenya, Athi River Mining (**BUY**; TP KES236) is set to increase volumes five-fold over the next four years, supplying eastern Africa. Please contact Derek Weaving at dweaving@rencap.com

Consumer/retail/agriculture: On the assumption that Russian food price inflation eases, we like food retailers such as Magnit (**BUY**; TP$37), X5 (**BUY**; TP $59) and O'Key (**BUY**; TP $15.7). Also, we find solid value in Synergy (**BUY**; TP $57.6), given its underperformance and low trading multiples YtD. Please contact Natalya Zagvozdina at nzagvozdina@rencap.com

Ukraine has both MHP (**BUY**; TP $22.2) and the small-cap, MCB Agricole (**BUY**; EUR3.73), as potential global food plays. Within Africa, AVI (**HOLD**; TP ZAc3,150) in SA and Feronia (**BUY**; TP CAD0.76) in the Democratic Republic of Congo (DRC) should both do well in the current global food price environment.

Telecoms: We like Rostelecom (**Under Review**), as a result of fund flows attracted by its MSCI inclusion, and the far smaller stock, Sollers (**BUY**; TP $37). Please contact Alex Kazbegi at akazbegi@rencap.com

We also see opportunity in Ukrtelecom (**Not Rated**), helped by tariff increases.

Banks: For Russia, as usual, we like Sberbank (**BUY**; TP $4.6) given the good macro backdrop, especially once a sizeable stock placement is out of the way; but also Bank St Petersburg (**BUY**; TP $6.5) which is the best in the mid-cap bank space with its strong 28% RoE and a future catalyst in the form of its GDR issuance in 2H11. Our top picks in Nigeria are Zenith Bank (**BUY**; TP NGN19.8) (40% discount to GTB) and First Bank (Nigeria's largest bank) (**BUY**; TP NGN17.8), as rising interbank and treasury rates lift margins, while we like Skye Bank (**BUY**; TP NGN10.9) as the best-in-class tier II bank in the space. It is worth being cautious on Kenyan and Turkish banks, given the macro concerns, until either inflation dips or policy makers take effective action, but KCB (**BUY**; TP KES31.3) at least is more defensive than retail-focused Equity Bank (**HOLD**; TP KES26.1). We favour ABSA (**BUY**; TP ZAc14,916) in SA, but only marginally over the others. Two Kazakh banks also stand out as good value, Kazkommertsbank (**BUY**; TP $9.1) and Halyk (**BUY**; TP $8.52). Please contact David Nangle at dnangle@rencap.com

Metals and mining: We are in a period where equity prices have detached from some of the underlying commodity prices, which is typical when set against a backdrop of weaker macro sentiment driven by falling PMI's, monetary tightening in China and the ongoing debt saga in Europe. Equities are leading falls in physical pricing. Steel names peaked in 1Q11, whereas steel prices and margins are compressing going into 3Q11. Mining names peaked in January and again in April, before also retracing 30% to their current levels. Our intuition tells us that late-June is the time to go long on the cyclical names, as we expect to see mild restocking in 3Q as well a possible easing of Chinese monetary policy, which in itself will be enough to reverse sentiment, in our view. On a risk-reward basis, we see value in Kazakhmys (**BUY**; GBP18.4) as a cheap play on copper, which remains in structural deficit and offers exposure to the troubled but undervalued ENRC. We like the high dividend yield in Mechel prefs (**BUY**; TP $14.2), with its GDR offering better liquidity. We also like NLMK (**BUY**; $4.3) and Severstal (**BUY**; TP $23) in the steel universe and Aquarius Platinum (**BUY**; TP GBp566) in the PGM sector. Please contact Rob Edwards at redwards@rencap.com

Russian outlook

Ovanes Oganisian

While Russia attracted $3.4bn of foreign inflows in 1Q11, this fell by 90% in 2Q11. The 15% rise in the RTS in 1Q11 (beaten only by Mongolia [+73%], Romania [+25%] and Hungary [+20%]) was supported by the benefit of rising oil prices and Gazprom's stock price (after the Japanese nuclear disaster). This was followed by a 9% fall in the RTS in 2Q11 due to fears about Greece, worries over Chinese tightening and concerns about global growth, as well as caps on tariff hikes. Some pre-election domestic capital flight did not help either.

Russian stocks remain the cheapest globally by almost any measure. They are trading on an average 2012E P/E multiple of 5.8x and ex-oil and gas 2012E earnings growth of 28%, vs GEM stocks' average 2012E P/E multiple of 9.8x and 13% 2012E earnings growth. Moreover, the current Brent oil price of $115/bbl implies valuations corresponding to the 2,800 level for the RTS, well above the 2,200 target we forecast for it at the beginning of 2011. The oil price assumption made by our oil and gas team for Russian oils still remains quite conservative, and was only moved up slightly to $90/bbl for 2011 from $85/bbl previously. The TP upgrades that this led to included: LUKOIL, **BUY**, upgraded to $85/share from $72/share (LUKOIL is currently trading at $65/share); and Rosneft, **BUY**, upgraded to $10.7/share from $8.5/share. These upgrades led us to upgrade our RTS target to 2,400 for 2011, implying 23% potential upside from current levels.

The key uncertainty in Russia is whether Prime Minister Vladimir Putin will run for the presidency, either in place of or against President Dmitry Medvedev. We assume a final decision will be made no later than November. Two positives for Russia would be entry into the WTO later this year, and the progress made to meet Medvedev's objectives to improve the investment climate. Infrastructure projects, which will create solid demand for Russian steel, are on track. Russia still has the 2012 Asia-Pacific Economic Cooperation (APEC) Summit, the 2014 Winter Olympics in Sochi, and the 2018 FIFA World Cup in the pipeline, as well as several major highways, including the Moscow-to-St Petersburg highway, and the second Rublyovka highway near Moscow. We expect banking sector credit will expand 20% this year in Russia. From January-May, credit growth was 6.5%; 2H credit growth customarily outpaces that of 1H. We think the beaten-up utilities sector could start pricing in post-election tariff rises from 2H11. Meanwhile, we expect inflation to decline as the summer harvest comes in.

Figure 54: Consensus country valuations

Country	P/E 2011E	% EPS growth 2011E	P/E 2012E	% EPS growth 2012E
India	14.62	1.0	12.4	18.2
Chile	17.25	7.2	15.0	15.0
Hong Kong	15.55	14.0	15.3	6.3
Malaysia	15.22	13.8	13.5	12.6
United States	13.70	17.1	12.0	13.7
Taiwan	14.18	8.6	11.7	20.1
Philippines	15.05	7.5	13.4	11.9
Morocco	15.36	9.0	14.1	8.9
Indonesia	14.63	19.4	12.6	16.1
China	11.36	15.5	9.8	15.6
Poland	11.18	18.8	10.4	7.0
Peru	11.36	43.8	10.2	5.3
South Africa	12.26	33.4	10.2	19.8
Israel	10.20	15.4	9.3	9.8
Brazil	9.84	8.7	9.0	9.3
EM	11.1	17.0	9.8	13.4
Hungary	10.09	15.8	8.5	18.4
United Kingdom	10.27	18.8	9.3	10.5
Jordan	10.24	23.9	12.1	-15.5
Thailand	12.35	16.2	10.8	10.3
Argentina	9.17	19.3	8.1	13.6
Egypt	10.13	27.2	8.5	19.6
South Korea	10.25	23.2	9.1	12.5
Turkey	10.50	-0.9	9.4	11.6
Pakistan	7.41	17.6	6.6	12.4
Lebanon	7.80	9.00	7.1	8.0
Russia	**6.20**	18.6	**5.8**	**7.0**

Source: Thomson ONE Analytics

Top picks

Our top picks at the beginning of the year included: Gazprom, +18% in dollars YtD; Transneft pref, +28% in dollars YtD; Sberbank +3.5% in dollars YtD; OGK 5, -6.5% in dollars YtD; and Magnitogorsk steel, -14% in dollars YtD; compared with the RTS, +8.7% YtD.

Gazprom (**BUY**; TP of $11.8/share; potential upside 66%) remains one of our top picks for the next six months. If the oil price stays at current levels for much longer, Gazprom will start sending gas to Europe at a price of $500/tcm. Also of interest is Gazprom's possible cooperation with China.

Transneft pref (**BUY**; TP $1,816/share; potential upside 15%) also remains one of our top picks as we think it is still cheap vs its assets. We add LUKOIL (**BUY**; TP $85/share; potential upside 37%) to our top picks on the back of current oil price dynamics. Sberbank (**BUY**; TP $4.6/share; potential upside 36%) remains a top pick and we also add Bank St Petersburg ords (**BUY**; TP $6.5/share; potential upside 21%) ahead of its GDR programme. In utilities, an unlucky sector this year, OGK 5 (**BUY**; TP $0.18/share; potential upside 118%) is a top pick and we add OGK 4 (**BUY**; TP $0.18/share; potential upside 105%) as another top pick; both companies are the most efficient gencos in Russia and are foreign owned. In steels, MMK (**BUY**; TP $18/share; potential upside 49%) remains our top pick, and we add Severstal (**BUY**; TP $23/share; potential upside 28%); both companies are good growth stories, in our view, and are exposed to infrastructure developments in Russia. We also add X5 (**BUY**; TP $59/share; potential upside 49%) as we think slower inflation in the remainder of 2011 will improve margins in retail.

Figure 55: Sector valuations (consensus)

Sector	Russia								EMs			DMs		
	P/E 2011E	Premium/ discount – Russia to EM	Premium/ discount – Russia to DM	% growth 2011E	P/E 2012E	Premium/ discount – Russia to EM	Premium/ discount – Russia to DM	% growth 2012	P/E 2011E	P/E 2012E	% growth 2012E	P/E 2011E	P/E 2011E	% growth 2012E
Consumer goods	28.1	51%	82%	31.1	21.9	38%	57.3%	28.3	18.7	15.9	17.6	15.4	13.9	10.7
Energy	5.0	-39%	-55%	13.1	4.9	-37%	-51%	2.6	8.2	7.7	6.5	11.1	9.9	11.5
Financials	12.0	10%	5.5%	56.5	6.7	-28%	-29.8%	17.3	10.9	9.4	16.1	11.4	9.6	18.7
Materials	10.1	1%	-15%	37.5	8.4	-6%	-18%	19.1	10.0	9.0	11.5	11.8	10.3	14.6
Telecom services	10.8	-4%	-14%	19.5	9.3	-11%	-19.2%	15.9	11.3	10.4	8.4	12.5	11.5	8.4
Utilities	14.6	15%	-1%	-0.3	10.3	-5%	-18%	42.4	12.7	10.8	30.0	14.7	12.6	17.2

Source: ThomsonOneAnalytics

Figure 56: Bullish/bearish scenario – domestic factors

Factor	Scenario	Comment	Bullish/bearish
Russian growth	5%	We estimate that Russia's post-crisis speed limit is around 5%, so achieving this will be a positive sign. However, Russia is not there yet, but we think the pent-up demand, in particular in investment spending, and rising oil prices will support growth over the course of this year and the next.	Bullish
Russia's credit expansion	Will rise to 20% this year	Credit growth in 2H customarily outpaces that in 1H. There have been some negative factors affecting domestic credit expansion – in particular CBR tightening, which we believe is now at an end. We expect solid credit growth in the remainder of the year.	Bullish
CBR rate	Will remain at 8.25%	The CBR hiked its rate by 25 bpts twice in 2011, achieving an overall rise of 50 bpts. We think the CBR is now on hold, as real rates are much closer to positive territory and inflation pressure is expected to fall.	Bullish
Inflation in Russia	Will remain in high single digits	Headline inflation of 9.6% YoY in May was pulled up by food inflation (+13.4% YoY). We expect two more months of relatively elevated headline numbers from an unfavourable base, but the base effect will drop off from August (last year's CPI bottom was in July, at 5.5%). Subsequently, we will see a much more pronounced decline in the inflation trajectory, and we project a year-end (December/December) print of about 7.5% YoY. This is higher than the CBR's target of 7.0%, but in line with the government's 6.5-7.5% forecast. We see this as a positive for overall inflation dynamics and the bond market. Continually rising global food prices are a threat to this scenario.	Bullish
Infrastructure investment	Will remain high	Russia's economy has been underinvested in to the tune of $1trn, and it still has to prepare for the APEC Summit in 2012, the Olympics in 2014 and the World Cup in 2018. We expect infrastructure spending is likely to be high and investment rates to be above 20% of GDP for quite a while.	Bullish
Elections	Positive for stocks	More political certainty will be positive for risk appetite as more light is shed on the outcome of the presidential elections.	Bullish
Return to improved corporate governance	CG will improve from low base	Corporate governance is at a very low level (Russia pays on average 17% of net income in dividends; the average payout globally is 35%) and we think it can only improve from this low base. The president has been supporting the move to improve corporate governance.	Bullish
WTO entry	Still possible in 2011	Russia's entry into the WTO is still possible in 2011, in our view. Medvedev has again received support from the US and European leaders for Russia to receive WTO membership in 2012.	Bullish
More populist pre-election measures	More measure ahead to contain tariff growth	While plenty of damage has been done trying to contain rising electricity prices, there is still some probability that further measures will be taken by the government to contain price rises in this pre-election year.	Bearish

Source: Renaissance Capital

Figure 57: Bullish/bearish scenario external factors

Factor	Scenario	Comment	Bullish/bearish
LIBOR rates	Will remain low	Russia is quite sensitive to global credit rates as Russian corporations have significant levels of dollar-denominated debt. However the credit environment on the international markets has been very supportive so far. LIBOR rates are at an absolute minimum and are likely to remain low for as long as rates in the US and Europe remain low. There is a small risk of a pick up in rates if the outlook is exacerbated by the Greek problems, if global inflation rises or if major CBR rates start rising. We think the probability that rates will remain low is over 70%. It is bullish for stocks.	Bullish
Brent oil price	Will remain above $100/bbl	The oil price is the second most important factor for stock price levels. We assume oil will average at $110/bbl in both 2011 and 2012.	Bullish
Global growth	4.30%	The recovery remains quite fragile. As many economies shifted to export sectors as a source of growth, the economic recovery became quite volatile. But, nevertheless, the IMF is expecting solid growth for the global economy. It is expecting 2.2% growth for developed economies and 6.4% growth for emerging economies.	Bullish
European debt problems	Will continue to be a headache in the remainder of 2011	Europe’s debt problems are far from resolved and we think it is likely to follow the path that South America took in the 1980s, meaning a long period of time from crisis to solution.	Bearish
China – hard-landing fears	Chinese growth will remain high, implying a potential bust scenario	A Chinese hard-landing would have a major destabilising effect on the markets. More talk of that happening in 2013 is likely to emerge in 2H11. This will negatively affect 2012 earnings expectations.	Bearish
Dollar levels	The dollar could become popular again	On the back of fragile growth data, European debt problems and fears of a Chinese bust – the dollar could again become the asset of choice. This will negatively affect risk appetite and commodity prices.	Bearish
US rates	Will the US start tightening?	Given the latest series of US data disappointments, we think it is very unlikely that the US will starts tightening sooner than the spring of 2012. But this would be negative for risk.	Bearish

Source: Renaissance Capital

Global GDP rankings and trade ties

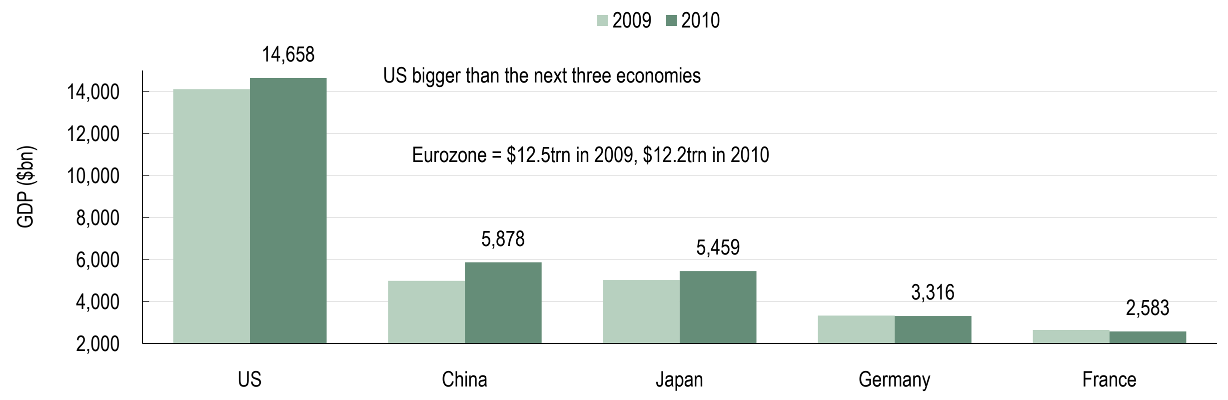
Brazil could overtake the UK to become the 6th biggest economy in 2011, while Russia may displace Canada and India to take 9th place

The table below shows the actual size of economies based on GDP estimates in current dollars for 2010, using exchange rates provided to the IMF by national authorities. Last year, China overtook Japan and Brazil overtook Italy, while India and Russia overtook Spain. We believe Russia may overtake both India and Canada in 2011 to become the ninth largest economy, while Brazil may overtake the UK to become the sixth largest. Africa was already larger than Canada, Russia and India in 2010 and, based on IMF data, will be a $2.5trn economy by 2015, and larger then than Italy.

Nigeria may leap-frog Malaysia, Hong Kong and Singapore in 2011, while ‘Nollywood’ could replace California in the very long term

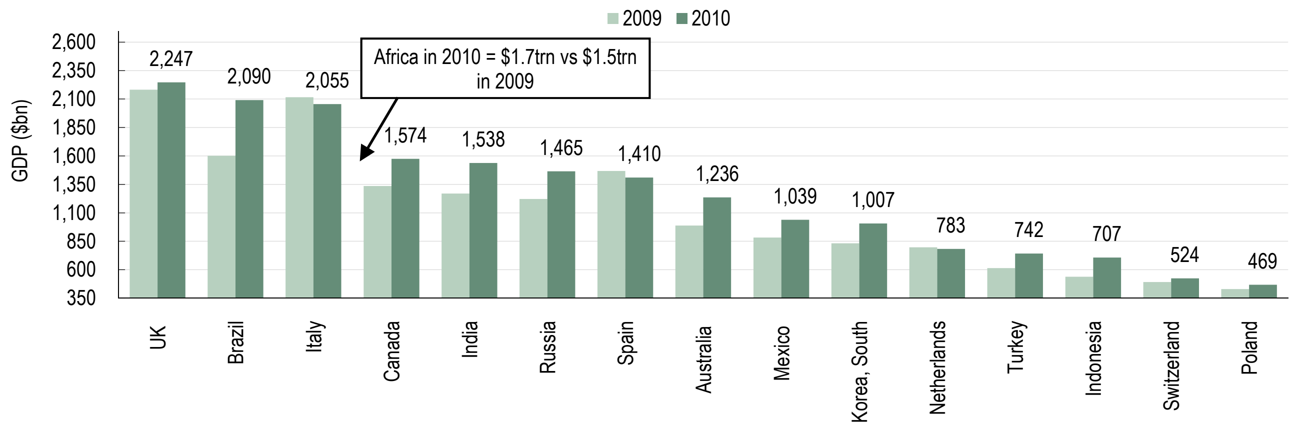
We include recently released US state GDP for 2010 which highlights that Florida ($738bn) is larger than Greece, Portugal and Ireland combined, while an independent California would have been the ninth largest economy in the world. Built on oil and gold but now thriving thanks to films and IT, it shows where Nigeria could be heading in the coming century; in the shorter-term Nigeria may leapfrog Malaysia, Hong Kong and Singapore in 2011.

Figure 58: The five largest economies in 2009 and 2010, $bn



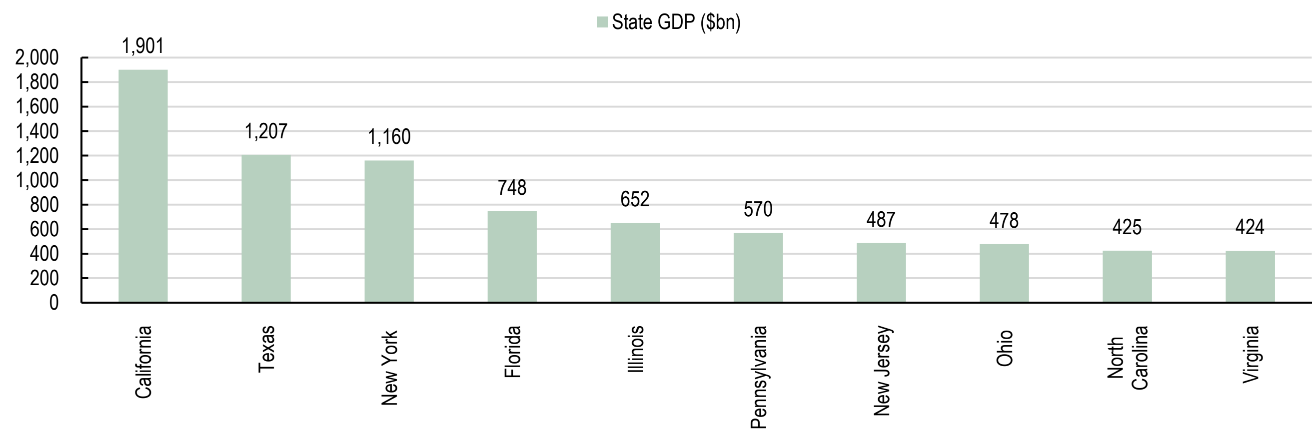
Source: IMF

Figure 59: The sixth to 20th largest economies ranked by 2010 GDP, $bn



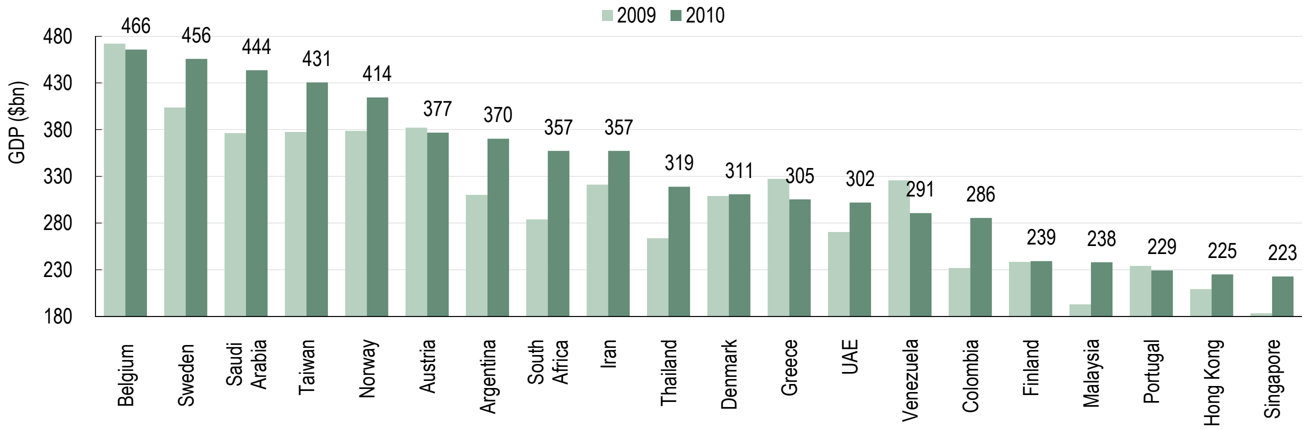
Source: IMF, Renaissance Capital estimates

Figure 60: US State GDP 2010, $bn



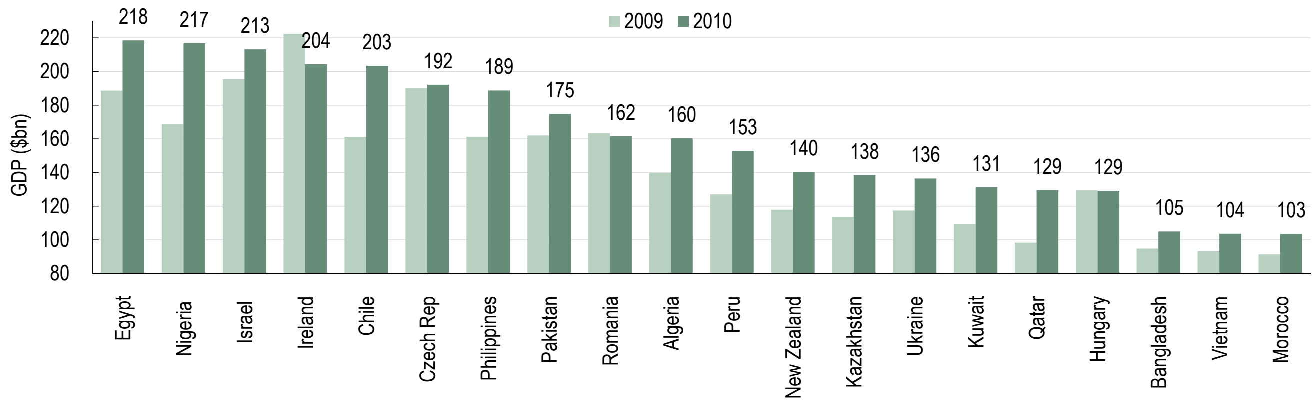
Source: BEA

Figure 61: The 21st to 40th largest economies ranked by 2010 GDP, $bn



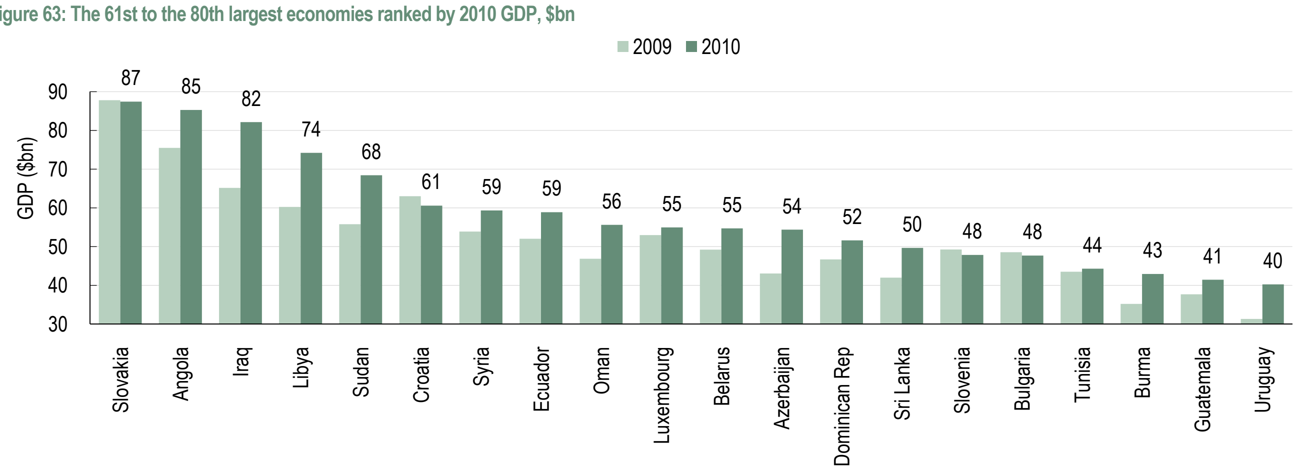
Source: IMF

Figure 62: The 41st to the 60th largest economies ranked by 2010 GDP, $bn



Source: IMF

Figure 63: The 61st to the 80th largest economies ranked by 2010 GDP, $bn



Source: IMF

Figure 64: Trade ties

2009 data, unless stated otherwise	Exports/ GDP (%)	US (%)	EU (%)	Other significant	Main exports
Argentina	18	6	18	Brazil 20%, China 7%, Chile 8%, Uruguay 3%	Feeding products, beverages and tobacco 21%, Vegetable origin 13%, Mineral products 13%, transport 11%, live animals 7%, industrial products 7%, metals 5%
Brazil	11	10	22	China 13%, Argentina 8%, other Latam 12%	Soy beans 11%, iron ore 9%, transport material 8%, oil and derivatives 8%, metals 7%, meats 7%, sugar 6%
Chile (2010)	35	10	19	China 25%, Japan 10%, Brazil 6%, Italy 4%, Netherlands 4%	Copper 56%, other minerals 6%, industry 28%
Colombia	14	39	14	Ecuador 5%, Venezuela 4%, Peru 3%	Petroleum and derivatives 31%, coal 17%, chemicals 9%, coffee 5%, ferro-nickel 2%
Mexico	27	81	5 (1)	Canada 4%, China 1%, Japan 1%	Cars and parts 23%, machinery/equip 19%, oil and other mining 18% (2008 breakdown)
Peru	21	17	22	China 15%, Switzerland 15%, Canada 9%, Japan 5%	Minerals 61% (mainly copper and gold), petrol and natural gas 7%, fish products 8%, agriculture 11%, textiles 5.5%, chemicals 3%
Uruguay	17	3	20	Brazil 20%, China 4%, Argentina 6%, Venezuela 3%	Frozen meat/food 23%, agriculture 16%, milling products 9%, dairy products 7%, chemicals 6%, timber 5%, textiles 3%
Venezuela	18	20	Approx 13	Colombia 18%, China 13%, Mexico 8%, Brazil 4%, Holland 4%	Oil 96%, metals 2%, chemicals 0.4%
Bulgaria	35	2	64 (12)	Turkey 7%, Serbia 4%, Russia 3%	Machinery equip. 17%, iron/steel 14%, food 14%, petrol. products 10%, clothing and footwear 10%
Croatia	20	2	61 (1)	Bosnia and Herzegovina 13%, Asia 7%	Mach. and transport equip. 30%, mineral fuels and lubricants 13%, chemicals 10%, food 10%
Czech Republic	58	2	85 (2)	Russia 2%, Switzerland 1%, Ukraine 1%, China 1%, Turkey 1%	Mach. and elec. equip. 36%, road vehicles 17%, misc. manf. articles 6%, manufactures of metals 5%, iron/steel 3%
Estonia	46	4	70 (1)	Russia 9%, Norway 3%	Machinery and transport equip 26%, food 7%, chemicals 6.5%
Hungary	65	3	79	New EU member states (EU-12) 20%	Machinery and transport 60%, manufactured goods 27%, food 7%, fuels and electric energy 3%, crude materials 2%
Kazakhstan	35	1	49	CIS 16%, China 14%, Switzerland 6%, Canada 3%	Mineral products 74%, base metals 13%, chemicals 5%, vegetable products 3%
Latvia	28	2	72 (2)	CIS 14%	Machinery, electronic and transport equip. 21%, wood 17%, base metals 12%
Lithuania	44	3	64	Russia 13%, Other CIS 10%, Norway 3%	Petroleum and petroleum prod. 20%, food/agric 18%, chemicals 11%
Poland	32	2	80	Russia 4%, Ukraine 3%, Switzerland 2%, China 1%, Turkey 1%	Machinery and transport equip 36%, manufactured goods 17%, chemicals 14%, mineral fuels and derivatives 9.4%, food and live animals 7%
Romania	25	1	74 (6)	Turkey 5%	Machinery/equip. 26%, metals 15%, transport equip. 17%, textiles 10%, metals 10%
Russia (2010)	27	4	53	China 10%, Belarus 6%, Ukraine 5%, Turkey 5%	Crude oil 31%, oil products 16%, natural gas 13%, metals 9%, fuel oil 7%, gas oil 6%, machinery 4%
Serbia	20	1	50 (2)	Bosnia and Herzegovina 12%, Montenegro 12%, Russia 5%	Machinery and transport equip. 17%, food 14%, iron/steel 12, chemicals 10%
Slovakia	63	1	86 (3)	Russia 4%, Turkey 2%, China 1%, Switzerland 1%	Machinery/elec equip. 36%, vehicles 21%, base metals 11%
Turkey	17	3	46 (5)	Iraq 5%, Switzerland 4%, Russia 3%, UAE 3%	Motor vehicles 12%, machinery 8%, iron/steel 8%, knitted clothing 7%, elec. machinery 7%
Ukraine (2010)	37	2	26	Russia 26%, Turkey 6%, Belarus 4%, Poland 3.5%	Metals 34%, mineral products 13%, machinery and equipment 11%, crops 8%
Egypt	11	21	35 (8)	Asia 13%, Arab countries 18%	Fuel products 45%, textiles 5%, pharmaceuticals 2%, fertilisers 2%
Israel	25	35	26 (3)	Hong Kong 7%, India 4%, Turkey 2%	Diamonds etc. 25%, elec. machinery 12%, pharma 9%
Ghana (2010)	25	4	40	Ukraine 6%, India 4%	Gold 44%, cocoa and related products 32%, timber 3% (2008 data)
Kenya (2010)	17	6	28	Uganda 9% Tanzania 9%, Egypt 4%, DRC 4%	Tea 24%, horticulture 14%, manufactured goods 12%, re-exports 5%, coffee 4% (year to August 2010)
Morocco	15	3	66	India 5%, Brazil 2%, Switzerland 2%	Manufacturers 65%, agriculture 23%, fuels and mining products 12%
Nigeria (2010)	35	34	25	India 10%, Brazil 9%, SA 4%, Cote D'Ivoire 3%	Oil 96%
Rwanda (2010)	5	5	11	Kenya 37%, China 9%, Swaziland 6%, Pakistan 5%, Hong Kong 4%, (2010)	Ores 41%, coffee 38%
South Africa (2010)	22	9	24	China 10%, Japan 8%	Platinum 12%, gold 11%, iron ore 7%, coal 7%, motor cars 5%
Tunisia	41	2	75	Libya 5%, India 3% (2008)	Machinery/elec. equip 26%, clothing 26%, energy/lubricants 17% (2008)
Zambia (2010)	46	0	4	Switzerland 39%, China 27%, SA 10%, DRC 5%, UAE 3%	Copper 75%, ores 7%

Figure 64: Trade ties

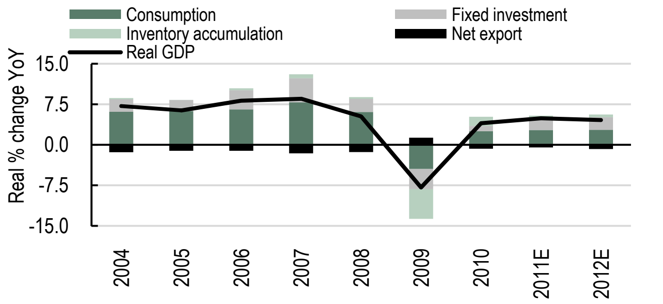
2009 data, unless stated otherwise	Exports/ GDP (%)	US (%)	EU (%)	Other significant	Main exports
Zimbabwe (2010)	45	2	20	DRC 15%, SA 14%, Botswana 14%, China 10%, Zambia 4%	Mineral 47%, tobacco 13%, agricultural goods 18%, manf. goods 16%, horticulture 6%
China	24	17	18 (2)	Hong Kong 13%, Japan 8%, South Korea 4%, ASEAN 8%, Latam 4%	Mechanical and electrical products 57%, hi-tech products 29%, clothing 11% (2006)
Hong Kong	151 (incl. re-exp)	12	13	China 51%, Japan 4%, Australia 2%	Apparel and clothes 39%, electrical machinery 10%, jewellery 6%, textile yarn 2% (2006)
India (2009/2010)	13	11	21	UAE 13%, China 6%, Singapore 4%, Hong Kong 4%	Jewellery 16%, petrol products 16 %, machinery 11%, chemicals and pharmaceuticals 9%,
Indonesia	22	10	12	Japan 16%, China 10%, Singapore 9%, South Korea 7%, India 7%, Malaysia 6%	Manufactured goods 15%, machine and transport equip. 14%, fats and oils 10%, raw materials 9%, food and live animals 6%, fuel and Lubricant 28%, chemicals 5%
Malaysia	82	11	11	Singapore 14%, China 12%, Japan 10%, Hong Kong 5%	Electrical 41%, chemical 6%, crude petroleum 5%
Pakistan	11	13	19	UAE 6%, Afghanistan 4%, China 4%	Clothing/apparel 33%, cotton 17%, rice 11%, chemicals 5%, leather 4%
Philippines	24	18	21	Japan 16%, Hong Kong 8%, China 8%	Electronic products 58%, apparel 4%, furniture and woodcraft 3%, wiring 2%, cathodes 2%
Singapore	75 or 154 (re-exp)	7	10	Malaysia 12%, Hong Kong 12%, China 10%, Indonesia 10%, Japan 5%, Korea 5%	Machinery and transport 38%, oil 29%, chemicals 18%
South Korea (2010)	47	11	Approx 9	China 25%, Japan 6%, Hong Kong 5%, Singapore 3%	Manufacturers 89%, fuels and mining 8%, agriculture 2% (2009)
Thailand	58	11	12	China 11%, Hong Kong 6%, Australia 6%, Middle East 6%	Machinery 14%, circuit apparatus 9%, vehicles 8%, agriculture 8%, computers 7%, electrical appliances 7%, textiles 3%, fishery 2%
Vietnam	61	20	16	Japan 11%, Australia approx 10%, China 9%, Singapore 4%, Switzerland 4%, South Korea 4%, , Malaysia 3%	Light industrial and handcraft 43%, heavy industrial products and minerals 30%, agriculture 16%, aquatic 7%

Source: Bloomberg, ING, IMF, National sources (central banks and statistical offices) * 2009 data , World Trade Organization (EU bracketed data includes peripheral Europe)

The countries

Russia

Figure 65: Growth is set to pick up in 2H

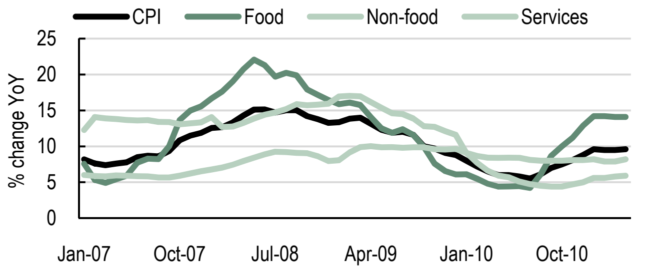


Source: Rosstat, Renaissance Capital

Growth is set to pick up in 2H

The growth performance in 1Q11 was subdued, with GDP expanding by a below-consensus 4.1% YoY. Fixed investment data were particularly disappointing, falling by 1.5% YoY, while real consumption indicators provided evidence of only a modest boost to growth. This was mainly due, in our view, to some temporary factors, which will dissipate over the course of the year. At the same time, some forward-looking microeconomic indicators suggest to us that Russia's overall economic performance may have stronger legs. Construction, the production of cement and bricks, and the import of machinery have performed very well, pointing to potential upside for economic momentum over the rest of the year. We forecast an above-consensus 4.9% of GDP growth for the year, with contributions from consumption and investment leading the way. At the same time, the balance of risks seems skewed to the downside, with the political cycle drawing near and uncertainty about global growth.

Figure 66: Inflation has crested

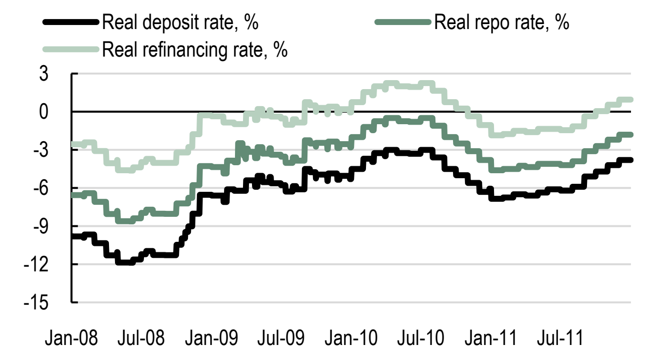


Source: Rosstat

Inflation has crested

Although inflation continues to be the key cyclical issue, we think that the underlying macroeconomic picture will not result in the further acceleration of price growth. We estimate that about 95% of the pick-up in inflation from July 2010 to April 2011 can be accounted for by food price inflation related to the past summer's drought. If the Ministry of Agriculture's estimates for the grain harvest materialise (80-85mnt in 2011 vs 60mnt in 2010 and 90mnt during the peak harvest of 2009), we expect food inflation will moderate in 2H11, bringing headline inflation to about 7.3% YoY in December. This is above the Central Bank of Russia's (CBR) target of 7.0%, but below the Ministry of Economy's projections of 7.5%. We foresee two key risks to our baseline scenario that may provide upside pressure to prices: 1) a substantial topping up of public sector wages and pensions in the run-up to the parliamentary and presidential elections; and 2) the expected lifting of the grain export ban from 1 July.

Figure 67: CBR to pause in its interest rate decisions

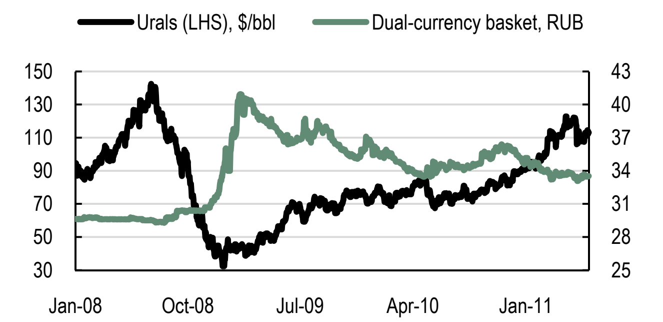


Source: CBR

CBR to pause in its interest rate decisions

Over the past couple of months the CBR has raised interest rates and increased reserve requirements in an attempt to limit price pressures. In our view, the CBR will now pause to evaluate the effect of these moves. This is driven by our expectations of a moderation of price growth, mixed overall macroeconomic data and declining excess liquidity in the banking sector, as well as the lack of evidence of strong wage pressures in the economy. At its latest policy meeting in May, the CBR held the key refinancing and repo rates unchanged at 8.25% and 5.50%, respectively, but raised the bottom of the interest rate corridor of the overnight deposit rate by 25 bpts to 3.50%. While this was a surprise to us and the market, the CBR introduced a key change in the accompanying policy statement, arguing that the current level of interest rates ensures that growth and inflation risks are finely balanced over the next couple of months. We interpret this to mean that the CBR will maintain the current rate levels for a while.

Figure 68: Rouble risks are finely balanced



Source: Bloomberg

Rouble risks are finely balanced

We think that the rouble at its current levels is roughly at equilibrium, and we forecast a broadly constant evolution for the currency until year-end. We foresee the dual-currency basket at 33.4 and the dollar at RUB28.4/$1 at the end of the year. While the rouble may have underperformed when compared with the rally in the price of oil, we see a number of factors that argue against a stronger rouble. We expect the deceleration of inflation to bring an end to policy hikes, hurting currency prospects. The fragile economic recovery should also detract from the rouble's attractiveness, while excess liquidity has been on a declining trend. In addition, the end of QE2 may be associated with an increase in US yields and, by implication, a less favourable interest rate differential for the rouble. Even if the end of QE2 does not lead to a marked rise in US yields, it may still engender heightened global volatility, thus impinging on high-beta currencies, including the rouble. Therefore, we expect to see range-bound rouble behaviour by year-end.

Russia: Key economic forecasts

Ratings (M/S&P/F): Baa1/BBB/BBB

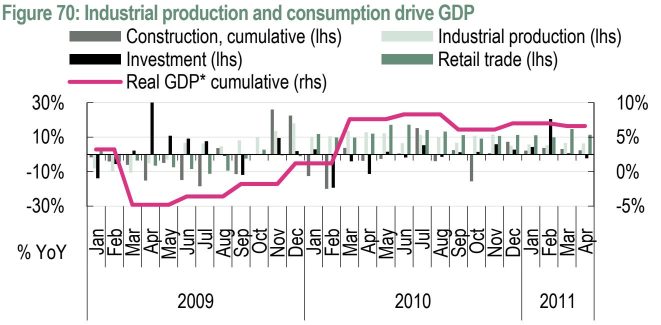
Figure 69: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	10.0	5.1	4.4	7.3	7.2	6.4	8.2	8.5	5.2	-7.9	3.8	4.9	4.6
Private consumption (% YoY)	7.3	9.5	8.4	7.7	12.5	12.2	12.2	14.3	10.6	-4.9	4.1	4.5	4.6
Government consumption (% YoY)	2.0	-0.8	4.1	2.4	2.1	1.4	2.3	2.7	3.4	-0.5	0.7	0.5	1.0
Investment (% YoY)	17.4	10.0	2.8	12.8	12.6	10.6	18.0	21.1	10.3	-17.0	4.3	8.0	10.0
Industrial production (% YoY)	8.7	2.9	3.1	8.9	8.3	4.0	3.9	6.3	2.1	-10.8	8.2	3.9	4.8
Unemployment rate year-end (%)	10.5	9.1	8.1	8.6	8.0	7.7	6.1	6.1	7.7	8.2	7.2	6.5	6.3
Nominal GDP (RUBbn)	7,306	8,944	10,818	13,243	17,048	21,625	26,904	33,114	41,540	39,016	44,075	49,619	55,377
Nominal GDP ($bn)	260	306	345	432	592	764	990	1,295	1,669	1,229	1,451	1,747	2,030
Population (mn)	145	144	145	144	143	143	142	142	142	142	142	142	142
GDP per capita ($)	1,792	2,127	2,378	2,995	4,126	5,356	6,963	9,121	11,759	8,662	10,234	12,311	14,305
Gross domestic saving (% of GDP)	37.0	32.1	28.0	29.1	31.9	33.5	34.0	33.5	35.1	22.5	26.5	26.7	27.3
Loans to non-banking sector (RUBbn)	808	1,286	1,755	2,733	4,035	5,700	8,402	12,841	17,338	17,121	19,513	23,416	29,270
Stock of bank credit to corporate/household sector (% of GDP)	11.1	14.4	16.2	20.6	23.7	26.4	31.2	38.8	41.7	43.9	44.3	47.2	52.9
Deposits (RUBbn)	1,124	1,525	2,165	3,027	4,772	6,664	9,684	13,551	16,961	19,816	20,852	24,397	28,788
Loan-to-deposit ratio	71.9	84.3	81.1	90.3	84.5	85.5	86.8	94.8	102.2	86.4	93.6	96.0	101.7
Prices													
CPI (average % YoY)	21.0	21.6	15.8	13.7	10.9	12.7	9.7	9.0	14.1	11.7	6.9	9.1	7.1
CPI (year-end % YoY)	20.2	18.6	15.1	12.0	11.7	10.9	9.0	11.9	13.3	8.8	8.8	7.3	6.7
PPI (average % YoY)	na	18.6	10.3	16.6	22.0	18.6	12.2	12.0	22.1	-4.0	15.5	20.0	10.0
Nominal wages, RUB	2,223	3,240	4,360	5,499	6,740	8,555	10,634	13,593	17,290	18,638	21,134	23,605	26,673
Wage rates (% YoY, nominal)	46.0	45.7	34.6	26.1	22.6	26.9	24.3	27.8	27.2	7.8	13.4	11.7	13.0
Fiscal balance													
Consolidated government balance (% of GDP)	2.4	3.0	1.4	1.7	4.3	7.5	7.4	5.4	4.1	-5.9	-4.0	-1.2	-1.1
Total public debt (% of GDP)	57.2	42.2	36.5	29.8	22.5	14.8	8.9	7.1	5.2	9.4	12.7	10.1	9.2
External balance													
Exports ($bn)	105	102	107	136	183	244	304	354	469	270	398	511	531
Imports ($bn)	44.9	53.8	61.0	76.1	97.4	125	164	223	293	170	249	324	388
Trade balance ($bn)	60.2	48.1	46.3	59.9	85.8	118	139	131	177	99	149	188	143
Trade balance (% of GDP)	23.2	15.7	13.4	13.9	14.5	15.5	14.1	10.1	10.6	8.1	10.3	10.7	7.0
Current account balance ($bn)	46.8	33.9	29.1	35.4	59.5	84.6	94.7	77.8	103.7	49.4	72.6	87.0	68.5
Current account balance (% of GDP)	18.0	11.1	8.4	8.2	10.1	11.1	9.6	6.0	6.2	4.0	5.0	5.0	3.4
Net FDI ($bn)	4.4	4.0	4.0	6.8	9.4	13.1	13.7	27.8	27.0	15.9	11.0	17.0	21.0
Net FDI (% of GDP)	1.7	1.3	1.2	1.6	1.6	1.7	1.4	2.1	1.6	1.3	0.8	1.0	1.0
Current account balance plus FDI (% of GDP)	19.8	12.4	9.6	9.8	11.6	12.8	10.9	8.2	7.8	5.3	5.8	6.0	4.4
Exports (% YoY, value)	39.0	-3.0	5.3	26.7	34.8	33.1	24.5	16.8	32.3	-42.5	47.7	28.4	3.9
Imports (% YoY, value)	13.5	19.8	13.4	24.8	28.0	28.8	31.0	36.0	30.9	-41.8	46.2	30.1	20.0
Foreign exchange reserves (ex. gold, $bn)	28.0	36.6	47.8	76.9	125	182	304	479	427	439	479	550	590
Import cover (months of merchandise imports)	7.5	8.2	9.4	12.1	15.3	17.4	22.2	25.7	17.5	31.0	23.1	20.4	18.2
Debt indicators													
Gross external debt ($bn) year-end	160	146	152	186	213	257	313	464	481	467	483	540	590
Gross external debt (% of GDP)	61.7	47.8	44.2	43.1	36.1	33.6	31.6	35.8	28.8	38.0	33.3	30.9	29.1
Gross external debt (% of exports)	152	144	142	137	117	105	103	131	102	173	121	106	111
Total debt service ($bn)	22.1	23.7	29.4	28.4	44.3	58.7	85.2	107	148	87.0	100	98.7	106
Total debt service (% of GDP)	8.5	7.7	8.5	6.6	7.5	7.7	8.6	8.2	8.9	7.1	6.9	5.7	5.2
Total debt service (% of exports)	21.1	23.3	27.4	20.9	24.2	24.1	28.1	30.1	31.6	32.3	25.2	19.3	20.0
Interest and exchange rates													
Broad money supply (%YoY)	61.5	39.7	32.4	50.5	35.8	38.6	48.8	47.5	1.7	16.3	27.6	14.7	13.0
Three-month interest rate (MosPrime average %)	15.7	15.2	14.0	7.8	7.2	4.9	5.1	5.9	9.8	13.7	4.3	4.1	4.8
Three-month rates minus EURIBOR	11.3	10.9	10.7	5.5	5.1	2.7	2.0	1.6	5.1	12.5	3.5	3.8	3.6
Three-year yield (average %)	na	na	na	na	na	na	na	6.1	7.5	10.7	6.8	7.3	7.8
Exchange rate (RUB/$) year-end	28.2	30.5	31.8	29.5	27.7	28.8	26.3	24.5	29.4	30.0	30.5	28.4	27.7
Exchange rate (RUB/$) annual average	28.2	29.2	31.4	30.7	28.8	28.3	27.2	25.6	24.9	31.7	30.4	28.4	27.3
Exchange rate (RUB/EUR) year-end	26.8	27.1	33.5	36.8	37.6	34.1	34.7	35.9	42.7	43.3	40.8	39.5	37.3
Exchange rate (RUB/EUR) annual average	26.0	26.2	29.7	34.7	35.8	35.2	34.1	35.0	36.5	44.1	40.3	40.2	37.0
Exchange rate (RUB/basket) year-end	27.6	29.0	32.6	32.8	32.2	31.2	30.1	29.7	35.4	36.0	35.2	33.4	32.0

Source: National sources, Renaissance Capital estimates

Kazakhstan

Figure 70: Industrial production and consumption drive GDP



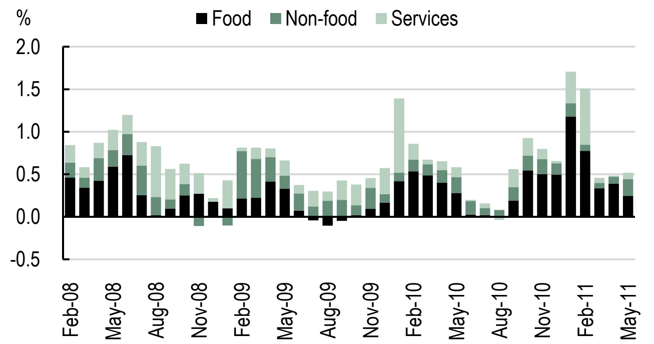
Source: Statistics Agency of Kazakhstan, Renaissance Capital estimates

GDP to grow 6.5% in 2011E and 6% in 2012E

We except the economy will continue to exhibit high growth rates, growing 6.5% in 2011E and 6% in 2012E (vs government forecasts of 7% and 6.9%, respectively). We upgraded our 2011 GDP real growth forecast on the back of the stronger economic performance in 1Q11 and the faster-than-expected revival in domestic consumption. We think the current favourable prices of oil and commodities will continue to support industrial production (+6.1% in January-April 2011). Consumption is another important factor driving the economy in 2011, as retail trade continues to be supported by buoyant real wages (+9% YoY in 1Q11).

Investments and construction will remain a relative drag for the economy, and we project only moderate growth for each sector, based on subdued bank lending. The government plans to almost double GDP per capita to $17k by 2016 from $9k in 2010, as a result of its plan to maintain average annual GDP growth of 7% in 2011-2016.

Figure 71: Food prices account for half of inflation

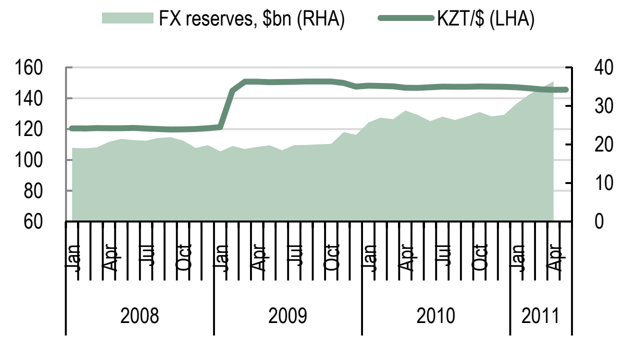


Source: Statistics Agency of Kazakhstan, Renaissance Capital estimates

Inflation to pick up on the back of food prices; we forecast inflation of 8.4% in 2011

We forecast inflation to reach 8.4% by YE11, compared with 7.8% in 2010 (vs the government's forecast range of 6-8% and the market consensus of 9.2%). After it peaked in January-February 2011, mostly due to global food prices, inflation has decelerated on the back of a seasonal decline in food prices and administrative measures taken by the government. Consumer prices remain dependant on global food and fuel prices, as well as on Russia's export prices, as Russia accounts for half of Kazakhstan's imports. As a result, the contribution to overall inflation from food grew to 65% YtD in April 2011 vs 53% in 2010. We see structural problems, including a lack of competition and the existence of trade barriers, as providing sustainable support for high inflation rates. Hence, only efforts to alleviate these issues will have an enduring impact on attempts to bring inflation rates down to low single digits, in our view.

Figure 72: Tenge appreciation trend halted

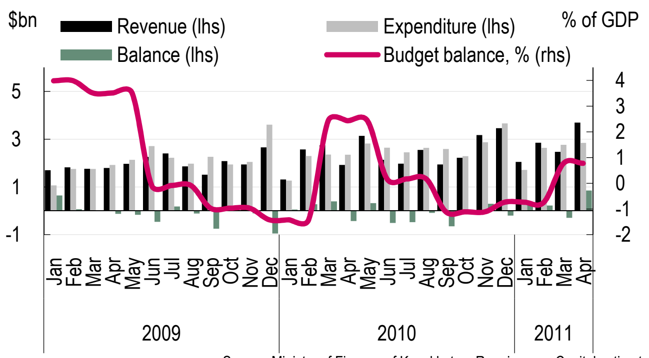


Source: National Bank of Kazakhstan, Renaissance Capital estimates

Tenge to appreciate gradually to KZT142/$1 by YE11

We expect the exchange rate to be broadly stable throughout 2011, gradually appreciating to KZT142.4/$1 by YE11 and then to KZT139.1/$1 in 2012. In the first four months of the year the tenge appreciated in real terms by 3.6% YtD (vs 7.6% in 2010). The National Bank of Kazakhstan has pursued a stable tenge policy, despite expectations that it would allow faster appreciation earlier in the year. The C/A surplus was $4.8bn in 1Q, and we forecast this will rise to $5bn by YE11 (3% of GDP). FX reserves (currently at $34bn; 12 months of imports) will continue to build, in our view. In conjunction with the assets of the National Fund ($36bn), we think the combined reserves will account for almost half of GDP in 2011. We expect the current policy of gradual tenge appreciation will provide producers with additional support as they face increased competition within the Customs Union, and will sustain domestic demand growth.

Figure 73: State budget to remain balanced



Source: Ministry of Finance of Kazakhstan, Renaissance Capital estimates

Further fiscal tightening; government forecasts budget deficit at 2.9% of GDP in 2011 and 2.5% of GDP in 2012

The government plans to lower the budget deficit in 2011 and 2012 (the planned deficit in 2010 was 4.1% of GDP, but was actually 2.5% of GDP). We think the government's forecast is conservative as it is based on an average Brent oil price of $80/bbl in 2011 and $70/bbl in 2012. In addition, strong economic growth backed by high global commodities prices should further improve the government's fiscal position. One-third of the budget expenditure in 2011 is to go on the implementation of the industrial innovation plan, in an effort to diversify the economy away from oil. The tax burden is gradually being shifted to the minerals sector (the oil export tax in 2011 doubled from $20/tonne) in order to promote the development of manufacturing and SMEs. As a result, the government expects to reduce its non-oil deficit to 4.8% of GDP in 2014 from 14.7% of GDP in 2010.

Kazakhstan: Key economic forecasts

Ratings (M/S&P/F): Baa2/BBB/BBB-

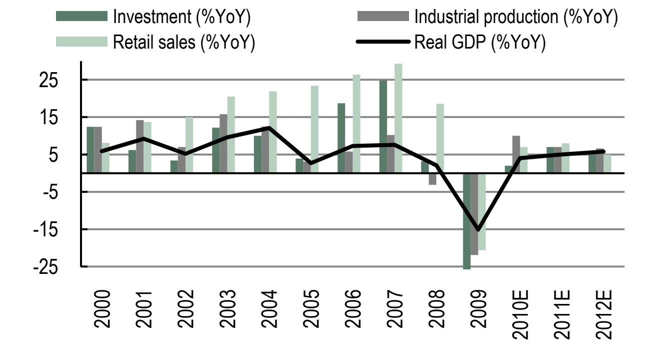
Figure 74: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	9.8	13.5	9.8	9.3	9.6	9.7	10.6	8.9	3.3	1.2	7.0	6.5	6.0
Private consumption (% YoY)	0.9	8.1	12.3	7.4	9.2	11.1	12.7	10.9	3.7	0.6	10.9	8.7	7.4
Government consumption (% YoY)	15.0	19.2	-7.5	8.9	10.6	10.8	7.3	14.7	4.3	1.0	2.7	2.9	3.1
Investment (% YoY)	16.1	25.3	10.0	8.0	22.5	28.1	29.7	17.3	1.7	-0.8	3.8	4.1	5.4
Industrial production (% YoY)	15.5	13.8	10.5	9.1	10.4	4.8	7.2	4.5	2.1	1.7	10.0	6.5	5.0
Unemployment rate year-end (%)	12.8	10.4	9.3	8.8	8.4	8.1	7.8	7.3	6.6	6.5	5.5	5.4	5.2
Nominal GDP (KZTbn)	2,590	3,158	3,776	4,612	5,870	7,591	10,214	12,850	16,053	17,008	21,648	24,447	27,546
Nominal GDP (EURbn)	19.7	24.0	26.0	27.2	34.7	45.9	64.7	76.5	90.7	82.7	111	119	144
Nominal GDP ($bn)	18.2	21.5	24.6	30.8	43.2	57.1	81.3	105	133	115	147	169	196
Population (mn)	14.9	14.9	14.9	15.0	15.1	15.2	15.4	15.6	15.8	16.1	16.4	16.6	16.8
GDP per capita ($)	1,226	1,449	1,657	2,062	2,863	3,753	5,278	6,736	8,457	7,162	8,958	10,164	11,649
Gross domestic saving (% of GDP)	18.1	26.9	27.3	25.6	26.3	31.0	33.9	35.6	27.6	30.5	26.4	32.0	35.0
Loans to non-banking sector (KZTbn)	275	477	672	978	1,479	2,588	5,992	8,868	9,238	9,639	9,066	9,519	10,471
Stock of bank credit to corporate/ household sector (% of GDP)	10.6	15.1	17.8	21.2	25.2	34.1	58.7	69.0	57.5	56.7	41.9	38.9	38.0
Deposits (KZTbn)	290	433	604	733	1,268	1,655	3,888	4,034	4,588	5,889	6,825	7,849	9,262
Loan-to-deposit ratio	0.95	1.10	1.11	1.33	1.17	1.56	1.54	2.20	2.01	1.64	1.33	1.21	1.13
Prices													
CPI (average % YoY)	13.8	8.1	5.8	6.5	7.1	7.5	8.6	10.8	17.1	7.3	6.7	8.6	6.9
CPI (year-end % YoY)	9.8	6.4	6.6	6.8	6.7	7.6	8.4	18.8	9.5	6.2	7.8	8.4	7.2
PPI (average % YoY)	19.4	-14.1	11.9	9.3	16.9	23.7	18.4	22.7	36.8	-22.0	25.2	20.0	15.0
Wage rates (% YoY, nominal)	21.2	20.4	17.5	13.8	22.5	20.2	19.8	28.7	15.9	10.7	15.7	15.0	12.0
Fiscal balance													
Consolidated government balance (% of GDP)	-0.1	-0.4	-0.3	0.0	-0.3	0.6	0.8	-1.7	-2.1	-3.1	-2.5	-2.1	-1.8
Total public debt (% of GDP)	21.7	21.0	17.7	15.0	18.3	10.3	12.0	7.7	9.8	16.5	17.5	13.0	11.0
External balance													
Exports ($bn)	9.3	8.9	10.0	13.2	20.6	28.3	38.8	48.4	72.0	44.0	60.8	70.0	70.0
Imports ($bn)	7.1	7.9	8.0	9.6	13.8	18.0	24.1	33.3	38.5	28.8	32.0	40.0	50.0
Trade balance ($bn)	2.2	1.0	2.0	3.7	6.8	10.3	14.6	15.1	33.5	15.2	28.9	30.0	20.0
Trade balance (% of GDP)	11.9	4.6	8.1	11.9	15.7	18.1	18.0	14.4	25.1	13.1	19.7	17.8	10.2
Current account balance ($bn)	0.4	-1.4	-1.0	-0.3	0.3	-1.1	-2.0	-8.3	6.3	-4.2	4.3	5.0	4.0
Current account balance (% of GDP)	2.0	-6.5	-4.2	-0.9	0.8	-1.8	-2.5	-7.9	4.7	-3.7	2.9	3.0	2.0
Net FDI ($bn)	1.3	2.9	2.2	2.2	8.3	6.6	10.6	8.0	14.8	9.5	4.7	9.0	12.0
Net FDI (% of GDP)	7.0	13.3	8.8	7.2	19.2	11.6	13.0	7.6	11.1	8.2	3.2	5.3	6.1
Current account balance plus FDI (% of GDP)	9.0	6.8	4.6	6.3	20.0	9.7	10.6	-0.3	15.8	4.6	6.1	8.3	8.2
Exports (% YoY, value)	55	-4	12	32	56	37	37	25	49	-39	38	45	0
Imports (% YoY, value)	26	12	1	19	45	30	34	38	16	-25	11	20	25
Foreign exchange reserves (ex. gold, $bn)	2.1	2.5	3.1	5.0	9.3	7.1	19.1	17.6	19.8	22.5	27.3	36.0	40.0
Import cover (months of merchandise imports)	3.5	3.8	4.7	6.2	8.1	4.7	9.5	6.4	6.2	9.4	10.2	10.8	9.6
Debt indicators													
Gross external debt ($bn)	12.7	15.2	18.2	22.9	32.7	43.4	74.0	96.9	108	113	119	128	157
Gross external debt (% of GDP)	70	70	74	74	76	76	91	92	81	98	81	76	80
Gross external debt (% of exports)	137	170	181	173	159	153	191	200	150	258	196	183	224
Total debt service ($bn)	3.3	3.8	4.1	5.3	8.2	11.1	11.8	25.4	31.8	30.4	19.9	16.9	11.6
Total debt service (% of GDP)	18	18	17	17	19	19	15	24	24	26	14	10	6
Total debt service (% of exports)	35	43	41	40	40	39	31	53	44	69	33	24	17
Interest and exchange rates													
Broad money supply (% YoY)	23.3	18.5	44.5	39.1	68.1	30.2	85.7	25.5	30.5	15.5	24.0	25.0	25.0
Three-month interest rate (KIBOR average %)	5.3	4.5	4.7	3.2	4.7	3.6	4.5	8.7	10.4	10.1	3.4	1.5	3.0
Three-month interest rate spread over EURIBOR (ppts)	0.9	0.2	1.3	0.8	2.6	1.4	1.4	4.4	5.7	8.9	2.7	1.2	1.8
One-year yield (average %)	16.1	10.5	6.3	6.4	5.1	3.6	2.8	8.5	7.8	6.6	3.2	2.0	3.0
10-year yield (average %)	17.0	14.8	11.8	9.0	6.6	6.1	4.8	5.1	6.0	7.1	6.9	6.0	5.0
Exchange rate (KZT/$) year-end	145	150	156	144	130	134	127	121	121	148	147	142	139
Exchange rate (KZT/$) annual average	142	147	153	150	136	133	126	123	120	148	147	145	141
Exchange rate (KZT/EUR) year-end	136	134	163	181	176	158	167	176	169	212	197	198	188
Exchange rate (KZT/EUR) annual average	131	131	145	169	169	165	158	168	177	206	195	205	191

Source: National sources, Renaissance Capital estimates

Ukraine

Figure 75: Key components of GDP

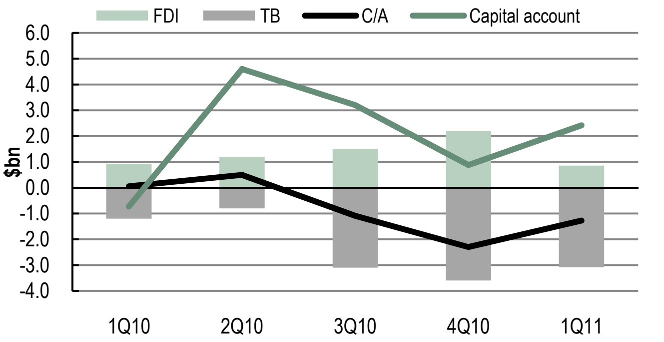


Source: Ukrainian Statistics Committee, Renaissance Capital estimates

GDP growth boosted by high steel prices

All of the main GDP components posted notable growth in 1Q11. Industrial production grew 9.7% YoY for January-March, mostly driven by increases in global steel prices. The outlook for the next six months is also positive – assuming there is no sharp Chinese slowdown – and we have revised our 2011 forecast for industrial production growth to 7% from 5%. Consequently, we have upgraded our GDP outlook for the year to 5% from 4.2%. Domestic consumption and capital investment, which we expect to be the main drivers of GDP growth this year, also posted solid performances. In 1Q11; capital investments and retail sales grew 12.0% YoY and 12.3% YoY, respectively.

Figure 76: The C/A deficit has widened since 2H10

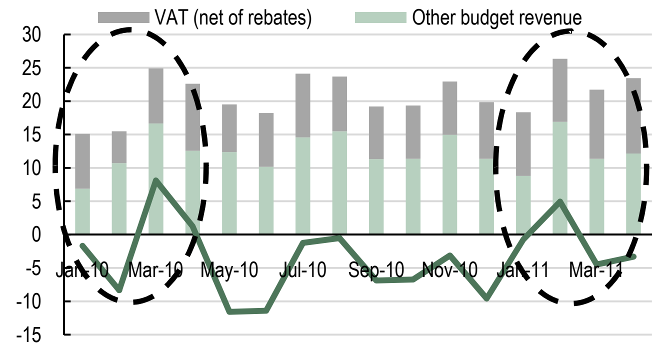


Source: The National Bank of Ukraine

C/A deficit covered, but an IMF loan is still needed

The C/A deficit amounted to $1.6bn for January-April 2011 and $4.7bn over the past 12 months (or approximately 3.2% of GDP). The growth of the deficit has mostly been driven by a recovery in imports of transport vehicles and equipment. The expected increase in the import price of gas in 2H will weigh on the C/A; we forecast a FY deficit of $4.5bn. Capital flows have more than offset the C/A deficit, increasing official reserves so they are near to historical record levels ($37.9bn as of 1 June 2011). However, with sizable debt redemptions in the public and banking sector falling due, we forecast a FY capital account surplus of $2.5bn (without the IMF funding). This gap may be easily covered by foreign reserves, but we believe the heavy redemption schedule in 2012 will require continual cooperation with the IMF. The government has already given some indication that it finally intends to proceed with tabling a crucial pension bill (which will raise the retirement age for women) in parliament before the end of its summer session.

Figure 77: Revenue growth exceeds expectations, UAHbn

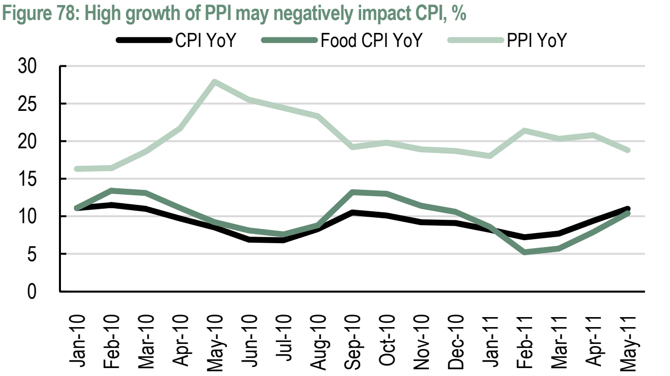


Source: Ministry of Finance of Ukraine

Notable improvement in budget performance

Budget performance has notably improved in 2011. Budget revenue was 20.9% higher YoY in January-April 2011 and it already comprises 30% of the annual plan. The 18.6% YoY growth of budget expenditure to UAH93.4bn ($11.8bn) for the first four months was broadly in line with that of the growth in revenues. The budget deficit reached UAH3.5bn as at the beginning of May, vs UAH35bn (or 2.7% of GDP) planned for FY11. Therefore, we think there is a high probability that Ukraine will meet the IMF requirement of a consolidated budget deficit of 3.5% of GDP this year, on the back of the higher-than-expected revenues and limited growth in expenditure. The government has already adopted changes to the budget, reducing the general government deficit in order to allow for a higher deficit for Naftogas (0.8% of GDP vs 2% of GDP in 2010), which may arise if the planned gas price increase is not fully implemented this year. Parliament also adopted the pension reform in the first reading as well as other less crucial legislation, which together seem to us to be the right steps to take to renew cooperation with the IMF.

Figure 78: High growth of PPI may negatively impact CPI, %



Source: Ukrainian Statistics Committee

Inflation remains a risk

Ukrainian CPI grew 11% YoY in May. The growth in consumer prices was mostly driven by a recovery in consumer demand, with a hike in utility tariffs the second most important contributory factor. The government initially projected headline inflation of 8.9% YoY, but we see this as difficult to manage for the government in light of the high growth in prices of global commodities– Ukrainian PPI stood at 18.8% YoY in May. To offset this effect the government is trying to negotiate with the IMF to further delay the planned increase in gas tariffs. It is currently unclear whether the fund will accept this or not, as it was one the IMF's most crucial requirements. Therefore, we maintain our initial 2011 forecast for inflation of 11.3% YoY, as we foresee some upside risks from the requirement to increase gas tariffs.

We have assumed the hryvnia will be stable against the dollar, and will maintain its export competitiveness. But any dollar weakness will push up the price of euro- or rouble-denominated imports in Ukraine.

Ukraine: Key economic forecasts

Ratings (M/S&P/F): B2/B+/B

Figure 79: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	5.9	9.2	5.2	9.6	12.1	2.7	7.3	7.6	2.1	-15.1	4.2	5.0	5.8
Private consumption (% YoY)	2.5	9.6	9.5	11.5	13.5	20.6	14.4	17.1	9.8	-14.1	7.0	6.0	7.0
Government consumption (% YoY)	1.0	10.3	-6.7	16.0	10.0	2.9	4.8	2.8	4.5	-9.2	2.7	2.5	2.0
Investment (% YoY)	12.4	6.2	3.4	12.2	10.0	3.9	18.7	24.8	3.2	-48.1	4.9	10.0	6.0
Industrial production (% YoY)	12.4	14.2	7.0	15.8	12.5	3.1	5.8	10.2	-3.1	-21.9	11.0	6.0	6.6
Unemployment rate year-end (% of labour force)	12.4	11.7	10.3	9.7	9.2	7.8	7.4	6.9	6.8	9.6	9.3	9.7	10.3
Nominal GDP (UAHbn)	170	204	226	264	345	425	538	713	925	915	1,095	1,279	1,478
Nominal GDP (EURbn)	33.8	42.4	43.8	43.7	52.2	67.0	86.3	104	123	84.0	185	222	246
Nominal GDP ($bn)	31.3	38.0	42.4	49.5	64.9	82.3	103	141	179	113	139	160	182
Population (mn)	49.1	48.7	48.2	47.8	47.4	47.1	46.7	46.5	46.2	46.0	45.8	45.5	45.3
GDP per capita ($)	637	780	880	1,036	1,369	1,747	2,206	3,037	3,881	2,454	3,025	3,514	4,028
Gross domestic saving (% of GDP)	24.8	23.4	27.8	27.9	31.8	25.6	23.2	22.7	25.0	24.2	25.4	26.0	26.3
Stock of bank loans (UAHbn)	14.6	26.9	36.7	67.0	88.6	143	245	427	734	718	725	737	752
Stock of bank deposits (UAHbn)	10.7	19.0	27.1	60.4	83.1	133	184	280	358	328	414	474	554
Stock of bank credit to corporate/household sector (% of GDP)	8.6	13.2	16.3	25.4	25.7	33.8	45.6	59.9	79.4	78.4	66.2	57.6	50.9
Loan to deposit ratio	136	142	135	111	107	108	133	152	205	219	175	155	136
Prices													
CPI (average % YoY)	28.2	12.0	0.8	5.2	9.0	13.5	9.1	12.8	25.3	15.9	9.4	11.3	9.2
CPI (year-end % YoY)	25.8	6.1	-0.6	8.2	12.3	10.3	11.6	16.6	22.5	12.6	9.1	10.0	8.3
PPI (average % YoY)	20.9	8.6	3.1	7.8	20.4	16.8	9.5	19.5	36.6	6.5	20.9	18.0	7.5
Real average wage growth (% YoY)	-0.9	19.3	18.2	15.2	23.8	20.3	18.3	12.5	6.3	-9.2	18.7	10.0	13.0
Fiscal balance													
Consolidated government balance (% of GDP)	0.6	-0.3	0.7	-0.2	-3.2	-1.8	-0.7	-1.1	-1.3	-10.5	-6.5	-3.5	-2.0
Total public debt (% of GDP)	45.3	36.5	33.5	29.0	24.8	17.9	14.8	12.1	20.0	34.7	42.5	42.0	40.0
External balance													
Exports of goods ($bn)	15.7	17.1	18.7	23.7	33.4	35.0	38.9	49.8	67.7	40.4	52.1	61.0	77.0
Imports of goods ($bn)	14.9	16.9	18.0	23.2	29.7	36.2	44.1	60.4	83.8	44.7	60.2	75.6	92.0
Goods trade balance ($bn)	0.8	0.2	0.7	0.5	3.7	-1.2	-5.2	-10.6	-16.1	-4.3	-8.1	-14.6	-15.0
Goods trade balance (% of GDP)	2.6	0.5	1.7	1.0	5.7	-1.5	-5.0	-7.5	-9.0	-3.8	-5.8	-9.1	-8.2
Current account balance ($bn)	1.5	1.4	3.2	2.9	6.9	2.5	-1.6	-5.3	-12.8	-1.7	-2.0	-4.5	-6.0
Current account balance (% of GDP)	4.8	3.7	7.5	5.9	10.6	3.0	-1.6	-3.8	-7.1	-1.5	-1.4	-2.8	-3.3
Net FDI ($bn)	0.6	0.8	0.7	1.4	1.7	7.5	5.7	9.2	9.9	4.7	5.2	7.0	8.5
Net FDI (% of GDP)	1.9	2.1	1.7	2.8	2.6	9.1	5.5	6.5	5.5	4.2	3.8	4.4	4.7
Current account balance plus FDI (% of GDP)	6.7	5.8	9.2	8.7	13.3	12.2	4.0	2.8	-1.6	2.7	2.3	1.6	1.4
Exports of goods (% YoY, value)	22.0	8.9	9.4	26.7	40.9	4.8	11.1	28.0	35.9	-40.3	29.0	17.1	26.2
Imports of goods (% YoY, value)	24.0	13.4	6.5	28.9	28.0	21.9	21.8	37.0	38.7	-46.7	34.7	25.6	21.7
Foreign exchange reserves (ex. gold, $bn)	3.3	3.4	4.4	6.7	9.5	18.9	21.8	31.8	30.8	25.6	33.3	37.0	35.0
Import cover (months of merchandise imports)	2.7	2.4	2.9	3.5	3.8	6.3	5.9	6.3	4.4	6.9	6.6	5.9	4.6
Debt indicators													
Gross external debt ($bn)	19.1	20.4	21.6	23.8	30.6	39.6	54.5	80.0	102	115	125	140	148
Gross external debt (% of GDP)	61.0	53.7	50.9	48.1	47.1	48.1	52.9	56.7	56.7	101.9	89.9	87.6	81.1
Gross external debt (% of exports)	122	119	116	100	92	113	140	161	150	285	239	230	192
Total debt service ($bn)	2.7	2.7	2.9	2.8	3.0	3.2	3.5	4.5	9.0	28.5	30.2	33.5	35.0
Total debt service (% of GDP)	8.6	7.1	6.8	5.7	4.6	3.9	3.4	3.2	5.0	25.2	21.8	21.0	19.2
Total debt service (% of exports)	17.2	15.8	15.5	11.8	9.0	9.1	9.0	9.0	13.3	70.5	58.0	54.9	45.5
Interest and exchange rates													
Broad money supply (% YoY)	46.1	41.9	41.8	46.4	32.4	54.3	34.3	50.8	29.9	-5.5	22.0	15.0	12.0
Three-month interest rate (local government bonds average %)	21.0	15.7	10.0	6.4	6.5	6.0	6.5	7.0	30.0	24.5	10.5	8.0	10.0
Three-month interest rate spread over $-LIBOR (ppts)	14.5	11.9	8.2	5.2	4.9	2.4	1.3	1.7	27.1	23.8	10.2	7.7	8.8
One-year yield (local government bonds average %)	N/A	16.7	10.8	9.4	9.5	7.6	10.0	8.0	30.0	28.0	14.0	11.0	11.0
Exchange rate (UAH/$) year-end	5.4	5.3	5.3	5.3	5.3	5.1	5.3	5.1	7.7	8.1	8.0	8.1	8.1
Exchange rate (UAH/$) annual average	5.4	5.4	5.3	5.3	5.3	5.2	5.2	5.0	5.2	8.1	7.9	8.0	8.1
Exchange rate (UAH/EUR) year-end	5.1	4.7	5.5	6.7	7.2	6.0	6.7	7.4	10.8	11.5	10.7	11.3	10.9
Exchange rate (UAH/EUR) annual average	5.0	4.8	5.0	6.0	6.6	6.3	6.3	6.9	7.8	10.9	10.5	11.3	11.0

Source: UkrStat, National Bank of Ukraine, Renaissance Capital estimates

Czech Republic

Ratings (M/S&P/F): A1/A/A+

Figure 80: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY average)	3.7	2.4	1.9	3.6	4.5	6.3	6.8	6.1	2.5	-4.2	2.3	2.5	4.5
Private consumption (% YoY)	1.3	2.3	2.2	6.0	2.9	2.5	5.0	4.9	3.6	-0.3	-0.1	1.5	3.0
Government consumption (% YoY)	0.6	3.6	6.7	7.1	-3.5	2.9	1.2	0.5	1.0	2.7	-0.1	1.5	2.5
Investment (% YoY)	5.1	6.6	5.1	0.5	3.9	1.8	6.0	10.8	-1.5	-7.9	-3.1	4.0	6.0
Industrial production (% YoY)	5.4	7.6	4.1	2.0	10.2	3.7	8.2	10.6	-1.6	-13.1	10.3	9.0	7.0
Unemployment rate year-end (%)	8.8	8.9	9.8	10.3	9.5	8.9	7.7	6.0	6.0	9.2	9.6	8.5	7.5
Nominal GDP (CZKbn)	2,189	2,352	2,464	2,577	2,815	2,984	3,222	3,536	3,689	3,626	3,668	3,836	4,105
Nominal GDP (EURbn)	61.5	69.1	80.0	80.9	88.3	100	114	127	148	137	145	159	175
Nominal GDP ($bn)	56.7	61.9	75.4	91.4	110	125	143	174	216	191	192	225	238
Population (mn)	10.3	10.2	10.2	10.2	10.2	10.3	10.3	10.4	10.5	10.5	10.5	10.6	10.6
GDP per capita ($)	5,517	6,029	7,350	8,921	10,701	12,159	13,948	17,035	21,146	18,656	18,823	21,347	22,505
Prices													
CPI (average % YoY)	3.9	4.7	1.8	0.1	2.8	1.9	2.5	2.8	6.4	1.1	1.5	2.1	2.5
CPI (year-end % YoY)	4.0	4.1	0.6	1.0	2.8	2.2	1.7	5.4	3.6	1.0	2.3	3.0	2.0
PPI (average % YoY) ex. construction	5.0	2.9	-0.5	-0.3	5.7	3.1	1.6	4.1	4.5	-3.1	1.3	5.0	4.5
Wage Rates (% YoY nominal)	3.2	8.7	8.0	5.8	6.3	5.0	6.5	7.2	7.9	3.4	1.9	3.0	5.0
Fiscal balance													
Consolidated government balance % GDP (ESA-95 from 2006) (% of GDP)	-0.4	-1.0	-1.1	-2.5	-1.5	-0.1	-2.6	-0.7	-2.7	-5.9	-4.7	-4.2	-3.8
Total public debt (ESA-95 from 2003) (% of GDP)	18.2	26.3	28.5	29.8	30.1	29.7	29.4	29.0	30.0	35.3	38.5	41.0	42.0
External balance													
Exports ($bn)	29.0	33.4	38.5	48.7	67.2	78.0	95.1	123	146	108	127	147	165
Imports ($bn)	32.1	36.5	40.7	51.2	67.7	75.5	92.3	117	140	103	124	146	166
Trade balance ($bn)	-3.1	-3.1	-2.2	-2.5	-0.5	2.5	2.8	5.9	6.3	4.3	2.9	1.0	-0.5
Trade balance (% of GDP)	-11.3	-16.7	-4.8	-2.8	-0.5	2.0	2.0	3.4	2.9	2.2	1.5	0.4	-0.2
Current account balance ($bn)	-2.7	-3.3	-4.3	-5.8	-5.8	-1.6	-3.5	-5.7	-1.3	-6.3	-7.1	-10.0	-10.0
Current account balance (% of GDP)	-4.8	-5.3	-5.7	-6.4	-5.3	-1.3	-2.5	-3.3	-0.6	-3.3	-3.7	-4.4	-4.2
Net FDI ($bn)	4.9	5.5	8.3	1.8	3.9	11.7	4.0	8.8	2.1	2.0	5.1	4.0	4.5
Net FDI (% of GDP)	8.6	8.9	11.0	2.0	3.6	9.4	2.8	5.1	1.0	1.0	2.6	1.8	1.9
Current account balance plus FDI (% of GDP)	3.9	3.6	5.3	-4.4	-1.7	8.1	0.3	1.8	0.4	-2.3	-1.0	-2.7	-2.3
Exports (% YoY, value)	na	15.0	15.4	26.5	37.9	16.1	22.0	29.0	19.3	-26.5	17.6	16.1	12.2
Imports (% YoY, value)	na	13.7	11.5	25.9	32.2	11.4	22.3	26.6	19.9	-26.2	19.7	18.0	13.4
Foreign exchange reserves (ex. gold, $bn) year end	12.6	13.3	19.6	25.2	26.8	28.7	30.3	32.1	36.5	38.5	40.1	45.0	50.0
Import cover (months of merchandise imports)	4.7	4.4	5.8	5.9	4.7	4.6	3.9	3.3	3.1	4.5	3.9	3.7	3.6
Debt indicators													
Gross external debt ($bn)	22	22	27	35	45	46	57	76	83	89	95	100	110
Gross external debt (% of GDP)	38	36	36	38	41	37	40	44	38	47	50	44	46
Gross external debt (% of exports)	75	67	70	72	67	60	60	627	57	83	75	68	67
Interest and exchange rates													
Broad money supply (% YoY) year-end	5.6	13.0	3.2	7.2	4.4	8.0	9.9	13.2	6.5	4.3	3.3	1.5	5.5
Three-month interest rate (PRIBOR average %)	5.3	5.1	3.4	2.2	2.3	1.9	2.2	3.0	3.9	2.0	1.0	1.2	2.5
Three-month interest rate spread over EURIBOR (ppts)	0.9	0.8	0.1	-0.2	0.1	-0.3	-0.9	-1.3	-0.8	0.8	0.2	-0.3	0.5
Three-month interest rate spread over $-LIBOR (ppts)	-1.2	1.3	1.6	0.9	0.6	-1.7	-3.0	-2.3	1.0	1.3	0.7	0.9	1.3
Three-year yield (average %)	6.1	5.5	3.9	2.8	3.4	2.5	3.1	3.7	4.1	3.1	2.1	na	na
10-year yield (average %)	7.1	6.2	4.9	4.2	4.8	3.6	3.8	4.3	4.6	4.7	3.9	na	na
Exchange rate (CZK/$) year-end	37.3	35.6	30.1	25.7	22.4	24.6	20.9	18.1	18.9	18.4	18.7	17.1	17.0
Exchange rate (CZK/$) annual average	38.6	38.0	32.7	28.2	25.7	24.0	22.6	20.3	17.1	19.0	19.1	17.0	17.2
Exchange rate (CZK/EUR) year-end	35.1	31.7	31.5	32.4	30.4	29.1	27.5	26.6	26.6	26.4	25.0	23.7	23.0
Exchange rate (CZK/EUR) annual average	35.6	34.1	30.8	31.9	31.9	29.8	28.3	27.8	25.0	26.4	25.3	24.1	23.4

Source: National sources, Bloomberg, Renaissance Capital estimates

Hungary

Ratings (M/S&P/F): Baa3/BBB-/BBB-

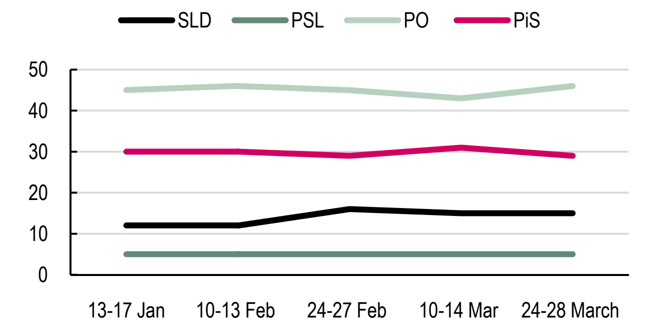
Figure 81: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E
Activity												
Real GDP (% YoY)	4.9	3.8	4.1	4.0	4.5	3.2	3.6	0.8	0.8	-6.7	1.2	2.3
Private consumption (% YoY)	3.7	6.2	10.0	8.2	3.1	3.4	2.1	-1.7	0.6	-6.8	-2.2	2.2
Government consumption (% YoY)	7.5	0.9	5.5	4.1	-0.1	-0.1	4.7	-4.2	0.1	2.2	-0.6	1.0
Investment (% YoY)	7.2	4.7	10.5	2.1	7.9	5.7	-3.2	1.7	2.9	-8.0	-5.6	3.0
Industrial production (% YoY)	17.4	2.7	2.1	6.5	6.7	7.1	10.3	8.4	-2.8	-17.8	10.5	3.5
Unemployment rate year-end (%)	6.1	5.7	6.0	5.7	6.4	7.4	7.6	7.9	8.2	10.7	11.2	11.3
Nominal GDP (HUFbn)	13,369	15,307	17,231	18,838	20,822	21,971	23,730	25,322	26,754	26,054	27,120	28,896
Nominal GDP (EURbn)	51.3	59.6	70.6	74.1	82.6	88.4	89.7	100	106	92.4	98.2	102
Nominal GDP ($bn)	47.4	53.4	66.8	83.9	103	110	113	138	156	129	130	145
Population (mn)	10.2	10.2	10.1	10.1	10.1	10.1	10.1	10.0	10.0	10.0	10.0	10.0
GDP per capita ($)	4,643	5,250	6,585	8,297	10,177	10,920	11,199	13,713	15,525	12,864	13,047	14,526
Prices												
CPI (average % YoY)	9.8	9.2	5.3	4.7	6.8	3.6	3.9	8.0	6.1	4.2	4.9	4.3
CPI (year-end % YoY)	10.1	6.8	4.8	5.7	5.5	3.3	6.5	7.4	3.5	5.6	4.7	4.2
PPI (average % YoY)	11.6	5.2	-0.8	2.7	4.0	3.1	6.6	0.3	5.0	4.9	4.5	3.5
Wage rates (% YoY, nominal)	12.7	7.6	1.6	2.7	4.2	3.4	5.0	9.1	10.5	4.2	4.0	4.0
Fiscal balance												
Consolidated government balance (% of GDP)	-3.4	-3.2	-9.4	-5.6	-6.2	-4.5	-9.3	-5.0	-3.7	-4.5	-4.2	1.6
Consolidated primary balance (% of GDP)	1.7	-0.1	-5.3	-3.5	-2.4	-4.1	-5.4	-0.9	0.5	0.1	-0.1	5.5
Total public debt	54.7	50.7	54.0	58.3	59.1	61.8	65.7	66.1	72.3	78.4	80.2	75.2
External balance												
Exports ($bn)	28.7	30.5	34.5	43.0	55.5	61.7	74.1	94.6	108	82.7	94.7	109
Imports ($bn)	31.6	33.6	37.8	47.9	60.4	65.4	77.0	94.8	108	77.3	87.4	103
Trade balance ($bn)	-2.9	-3.2	-3.2	-4.9	-4.9	-3.7	-3.0	-0.2	-0.5	5.4	7.3	6.0
Trade balance (% of GDP)	-6.1	-6.0	-4.9	-5.8	-4.7	-3.4	-2.7	-0.1	-0.3	4.2	5.6	4.1
Current account balance ($bn)	-4.0	-3.2	-4.6	-6.7	-8.6	-8.4	-8.6	-9.5	-11.4	0.4	2.0	1.0
Current account balance (% of GDP)	-8.5	-6.0	-7.0	-8.0	-8.4	-7.6	-7.6	-6.9	-7.3	0.3	1.6	0.7
Net FDI ($bn)	1.8	2.0	2.7	-0.4	3.1	4.7	-0.1	1.0	3.5	2.9	4.5	4.0
Net FDI (% of GDP)	3.7	3.7	4.1	-0.4	3.0	4.3	-0.1	0.7	2.2	2.3	3.5	2.8
Current account balance plus FDI (% of GDP)	-4.7	-2.3	-2.8	-8.4	-5.3	-3.3	-7.7	-6.2	-5.1	2.6	5.0	3.4
Exports (% YoY, value)	12.2	6.0	13.4	24.4	29.2	11.2	20.0	27.7	14.1	-23.4	14.6	15.1
Imports (% YoY, value)	14.0	6.3	12.3	26.7	26.2	8.3	17.8	23.0	14.4	-28.7	13.1	17.8
Foreign exchange reserves (ex. gold, $bn)	11.2	10.7	10.3	12.8	15.9	18.6	21.6	24.0	33.8	44.1	45.0	47.0
Import cover (months of merchandise imports)	4.2	3.8	3.3	3.2	3.2	3.4	3.4	3.0	3.7	6.8	6.2	5.5
Debt indicators												
Gross external debt ($bn)	30.7	33.3	40.5	58.0	75.4	79.5	114	153	174	196	183	195
Gross external debt (% of GDP)	64.8	62.3	60.6	69.1	73.4	72.2	101	111	112	152	140	135
Gross external debt (% of exports)	107	109	117	135	136	129	154	162	161	237	193	179
Total debt service ($bn)	6.0	6.1	7.7	10.2	12.0	11.5	14.5	18.0	13.1	20.7	24.0	27.0
Total debt service (% of GDP)	12.7	11.4	11.5	12.2	11.7	10.4	12.9	13.0	8.4	16.0	18.4	18.6
Total debt service (% of exports)	21.0	20.1	22.2	23.8	21.7	18.6	19.6	19.0	12.1	25.0	25.4	24.8
Interest and exchange rates												
Broad money supply (% YoY year-end)	12.1	16.8	13.8	13.6	9.9	13.0	11.8	8.6	10.2	0.8	-1.0	0.0
Three-month interest rate (BUBOR average %)	11.4	11.0	9.1	8.4	11.3	7.1	7.0	7.7	8.9	8.6	5.5	6.0
Three-month interest rate spread over EURIBOR (ppts)	7.0	6.7	5.8	6.1	9.2	4.9	3.9	3.5	4.2	7.4	4.7	4.6
Three-month interest rate spread over $-LIBOR (ppts)	4.9	7.2	7.3	7.2	9.7	3.5	1.8	2.5	5.9	8.0	5.2	5.7
Three-year yield (average %)	9.8	9.1	8.4	7.8	10.0	6.9	7.6	7.2	9.4	9.3	6.7	na
10-year yield (average %)	8.6	8.0	7.1	6.8	8.2	6.6	7.1	6.7	8.2	9.1	7.3	na
Exchange rate (HUF/$) year-end	285	279	225	208	180	214	192	173	188	188	209	190
Exchange rate (HUF/$) annual average	282	287	258	224	203	200	211	184	172	202	208	199
Exchange rate (HUF/EUR) year-end	265	246	236	262	246	253	252	253	265	271	279	264
Exchange rate (HUF/EUR) annual average	260	257	243	254	252	248	264	251	251	281	275	282

Source: National sources, Bloomberg, Renaissance Capital estimates

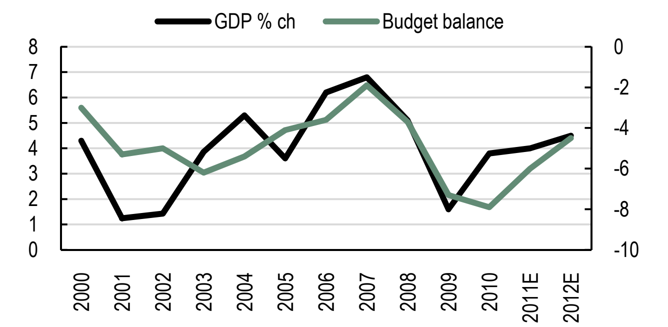
Poland

Figure 82: PO – cruising to victory (% support in opinion polls)



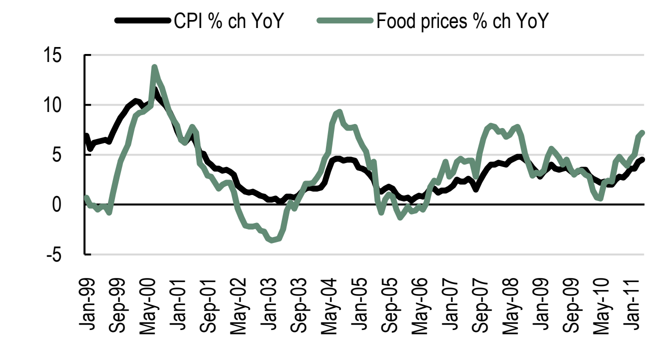
Source: CEE Marketwatch

Figure 83: Budget improvements (% of GDP; RHS) dependent on growth (% change YoY; LHS)



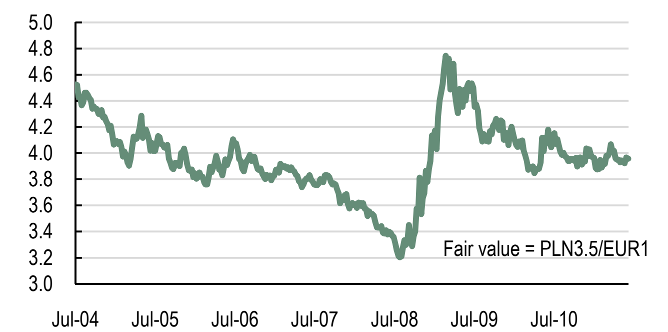
Source: EU Commission, Bloomberg, Renaissance Capital estimates

Figure 84: Polish inflation and food prices



Source: Bloomberg

Figure 85: Zloty still offers absolute value



Source: Bloomberg

Elections may let the PO finally deliver

To describe chaos in Dutch, you might refer to a "polska diet", a phrase rooted in Warsaw's chaotic political system of 500 years ago. It was still a fair description in the 1990s, when the country flip-flopped between the 'right-wing' Solidarity trade unionists, battling for political dominance, the left-wing ex-communist SLD and the agricultural left-wing PSL. The right then fractured into the strongly anti-communist Law and Justice (PiS) party and the more liberal Civic Platform (PO) party. This year we think the PO might finally be able to deliver a strong, united government for Poland. Having won the 2007 parliamentary elections and taken the presidency from the PiS in 2010, we see a re-election of the PO-led government this year as potentially allowing reforms to advance. Until now, the PO has failed to fully deliver on the hopes invested in it by middle-class Poles, arguing that the former PiS president and the prospect of parliamentary elections in 2011 have made it politically difficult. We should find out later this year whether faster reform, structural and fiscal, will be achievable.

The fiscal problem

Despite, or perhaps because of, the fluid political backdrop of the 1990s, Poland's 1997 constitution imposes limits on the budget as gross debt approaches the thresholds of 50%, 55% and 60% of GDP. At 60% of GDP it becomes impermissible to borrow money. Today, Poland is officially at 55% of GDP, though various one-off measures have helped achieve this. While Poland's public debt is well below eurozone levels, the market is likely to punish Poland if the current measures are not sustained, as much of the improvement in the budget can be attributed to faster growth. The good news is we expect credit growth to support GDP, progress has been made in planning the 2011-2012 budgets and the EU expects the deficit to halve to 3.6% of GDP in 2012 from 7.9% of GDP in 2010 as expenditure falls to 44% in 2012 from 46% of GDP in 2011 and taxes rise modestly. The negative side of this, however, is that GDP in Poland did not decline during the global financial crisis, so there is not as much justification for such a wide deficit, in our view.

First breach of 5% CPI since 2001?

Poland's inflation record since 2001 has been excellent by EM standards after the central bank adopted Austrian school economic theories to reduce excess in the economy. Faced with food price-led inflation that peaked at 10% in 2000, and a large C/A deficit of 6% of GDP, interest rates were hiked to 19%, causing a painful surge in unemployment to 20% by 2002. The economy has never looked back. GDP has risen every year, per capita GDP has trebled and inflation has not been above 5% since 2001.

The risk, of course, is complacency. Headline CPI picked up to 4.5% in April 2011 from 2% in August 2010, and poor rainfall this spring means further food price pressures are possible. The economy is growing and the bond market sold off earlier this year due to fears that the National Bank of Poland (NBP) was behind the curve. Even now, the central bank policy rate is just 4.5%. Further hikes are very likely, in our view, but Poland does at least have the prospect of tighter fiscal policy and a stronger currency to help the NBP limit a CPI overshoot.

Rouble risks are finely balanced

In our view, there are few emerging or converging market currencies that offer absolute value over the long term, but the zloty is one of them. Poland's C/A deficit is small by EU standards and largely covered by FDI. Its nominal interest rates offer little additional return over the eurozone's, and real interest rates offer no support at all; but at least nominal rates may become more attractive in the coming months. All PPP measures suggest to us that the zloty should be considerably stronger than it is now. Only a few people use REER measures, erroneously in our view, to suggest otherwise – REER calculations fail to account for the huge economic changes we have seen in EMs.

We think the long-term fair value of the zloty is probably around PLN3.50/EUR1, but believe an overshoot on the strong side is likely over the long term. We would not be surprised to see PL3.2/EUR1 by 2013-2014.

Note the PO was a euro-enthusiastic government, but since 2010 we have seen little sign that euro entry is now a priority.

Poland: Key economic forecasts

Ratings (M/S&P/F): A2/A-/A-

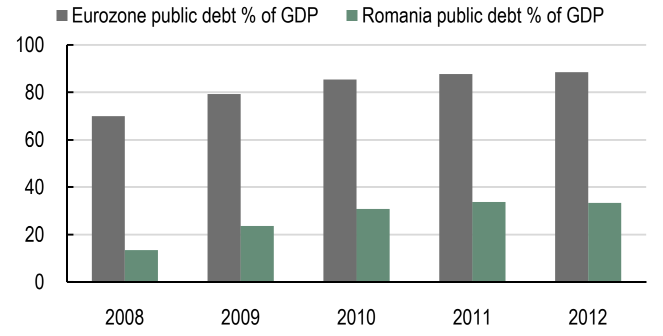
Figure 86: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.8	4.0	4.5
Private consumption (% YoY)	4.9	2.3	3.4	2.1	4.3	1.9	4.7	4.9	5.8	2.1	3.2	3.2	3.0
Government consumption (% YoY)	3.7	2.7	1.4	4.9	3.1	5.3	5.1	3.7	7.4	2.1	3.9	3.4	2.5
Investment (% YoY)	17.6	-9.7	-6.3	-0.1	5.9	5.4	16.5	18.6	11.0	-1.6	-2.2	7.0	8.0
Industrial production (% YoY)	6.8	0.4	1.5	8.7	12.7	4.3	13.3	9.4	3.5	-3.4	11.0	8.0	8.0
Unemployment rate year-end (%)	16.1	18.3	19.9	19.7	19.0	17.6	14.8	11.2	9.5	12.1	12.3	11.5	10.5
Nominal GDP (PLNbn)	744	780	809	843	923	981	1,059	1,174	1,274	1,346	1,415	1,500	1,635
Nominal GDP (EURbn)	185	213	210	191	203	244	272	309	359	310	354	374	461
Nominal GDP ($bn)	171	190	198	217	253	303	341	424	529	432	469	530	627
Population (mn)	38.6	38.6	38.3	38.2	38.2	38.2	38.1	38.1	38.1	38.2	38.2	38.2	38.2
GDP per capita ($)	4,431	4,928	5,180	5,676	6,617	7,948	8,953	11,128	13,871	11,321	12,289	13,868	16,402
Prices													
CPI (average % YoY)	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.5	4.2	3.5	2.6	4.0	4.5
CPI (year-end % YoY)	8.5	3.6	0.8	1.7	4.4	0.7	1.4	4.0	3.3	3.5	3.1	5.5	3.5
PPI (average % YoY)	7.9	1.7	1.0	2.6	7.0	0.7	2.3	2.3	2.6	3.3	2.1	8.0	4.5
Wage rates (% YoY, nominal)	12.7	7.62	1.61	2.69	4.19	3.36	5.00	9.13	10.5	4.20	4.00	6.0	6.0
Fiscal balance													
Consolidated government balance (% of GDP)	-3.0	-5.3	-5.0	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7	-7.3	-7.9	-6.0	-4.5
Consolidated primary balance (% of GDP)	0.0	-2.0	-2.1	-3.3	-2.9	-1.3	-1.0	0.4	-1.4	-4.5	-4.2	-3.8	na
Total public debt (% of GDP)	36.8	37.6	42.2	47.1	45.7	47.1	47.7	45.0	47.1	50.9	55.0	57.0	59.0
External balance													
Exports ($bn)	36.1	41.7	46.7	61.0	81.9	96.6	117	145	178	142	162	184	210
Imports ($bn)	48.4	49.4	54.0	66.7	87.6	99.4	124	162	204	146	170	194	220
Trade balance ($bn)	-12.3	-7.7	-7.3	-5.7	-5.7	-2.8	-7.0	-17.0	-26.1	-4.3	-8.0	-10.1	-10.0
Trade balance (% of GDP)	-7.2	-4.0	-3.7	-2.7	-2.2	-0.9	-2.0	-4.0	-4.9	-1.0	-1.7	-1.9	-1.6
Current account balance ($bn)	-10.3	-6.0	-5.6	-5.5	-10.1	-3.7	-9.4	-20.2	-25.5	-9.5	-15.9	-25.0	-25.0
Current account balance (% of GDP)	-6.0	-3.1	-2.8	-2.5	-4.0	-1.2	-2.7	-4.8	-4.8	-2.2	-3.4	-4.7	-4.0
Net FDI ($bn)	9.3	5.8	3.9	4.3	11.8	7.0	10.7	18.0	10.4	8.7	10.2	12.3	15.0
Net FDI (% of GDP)	5.4	3.0	2.0	2.0	4.7	2.3	3.1	4.2	2.0	2.0	2.2	2.3	2.4
Current account balance plus FDI (% of GDP)	-0.6	-0.1	-0.9	-0.6	0.6	1.1	0.4	-0.5	-2.9	-0.2	-1.2	-2.4	-1.6
Exports (% YoY, value)	20	16	12	31	34	18	22	24	23	-20	15	13	14
Imports (% YoY, value)	7	2	9	24	31	13	25	30	26	-28	17	14	13
Foreign exchange reserves (ex. gold, $bn)	25.2	26.8	27.2	31.2	35.2	39.6	45.0	54.3	71.1	68.0	86.8	90.0	100
Import cover (months of merchandise imports)	6.3	6.5	6.1	5.6	4.8	4.8	4.3	4.0	4.2	5.6	6.1	5.6	5.5
Debt indicators													
Gross external debt ($bn)	69.5	72.0	84.9	107	130	133	170	234	243	280	252	297	330
Gross external debt (% of GDP)	40.6	37.8	42.8	49.5	51.4	43.8	49.7	55.2	46.0	64.7	53.8	56.1	52.7
Gross external debt (% of exports)	193	173	182	176	159	138	145	161	137	197	155	162	157
Total debt service ($bn)	9.52	14.5	12.5	18.6	34.9	34.7	37.0	47.9	36.0	32.0	28.0	27.0	30.0
Total debt service (% of GDP)	5.56	7.62	6.30	8.56	13.8	11.4	10.8	11.3	6.80	7.40	5.96	5.10	4.79
Total debt service (% of exports)	26.4	34.8	26.8	30.5	42.6	35.9	31.5	33.0	20.2	22.5	17.2	14.7	14.3
Interest and exchange rates													
Broad money supply (% YoY)	11.8	9.7	-1.6	5.7	7.5	12.6	15.9	14.2	20.2	8.3	8.3	9.5	8.5
Three-month interest rate (WIBOR average %)	18.5	15.8	8.8	5.6	6.1	5.2	4.1	4.6	6.3	4.3	3.8	4.6	5.5
Three-month interest rate spread over EURIBOR (ppts)	14.1	11.5	5.5	3.3	4.0	3.0	1.0	0.4	1.6	3.1	3.0	3.2	3.5
Three-month interest rate spread over $-LIBOR (ppts)	12.0	12.0	7.0	4.4	4.5	1.6	-1.1	-0.7	3.3	3.6	3.5	4.3	4.3
Three-year yield (average %)	16.3	13.6	8.0	5.5	7.0	5.1	4.8	5.2	6.3	5.4	4.9	na	na
10-year yield (average %)	12.1	10.9	5.8	5.8	6.9	5.2	5.3	5.5	6.1	6.1	5.8	na	na
Exchange rate (PLN/$) year-end	4.14	3.99	3.84	3.74	2.99	3.26	2.91	2.44	2.96	2.85	2.96	2.70	2.52
Exchange rate (PLN/$) annual average	4.35	4.09	4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	3.02	2.83	2.61
Exchange rate (PLN/EUR) year-end	3.89	3.52	4.02	4.72	4.08	3.86	3.83	3.58	4.17	4.11	3.96	3.75	3.40
Exchange rate (PLN/EUR) annual average	4.01	3.67	3.86	4.40	4.53	4.03	3.90	3.78	3.52	4.33	3.99	4.01	3.54

Source: Bloomberg, EU Commission, Renaissance Capital estimates

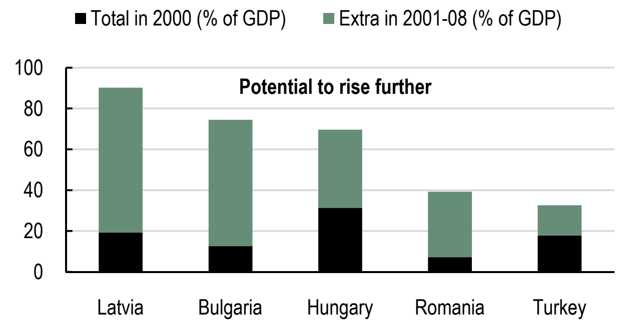
Romania

Figure 87: Public debt as % of GDP



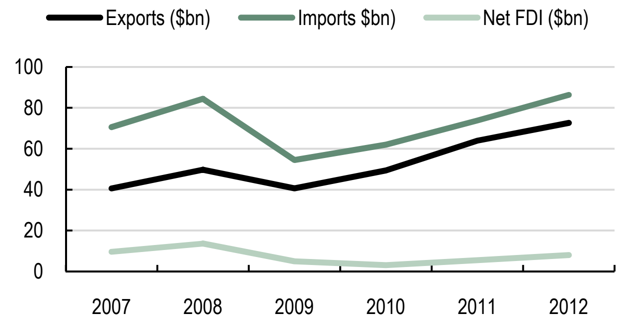
Source: EU Commission

Figure 88: Household and corporate debt as % of GDP – room to rise



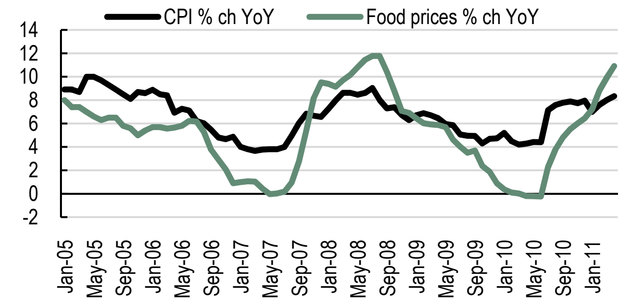
Source: IMF

Figure 89: Exports close the gap



Source: Bloomberg, Renaissance Capital estimates

Figure 90: Hard to imagine overheating in 2011



Source: Bloomberg

Support of IMF/EU policies improves budget

The impressive enactments of the IMF- and EU-endorsed policies have made a significant difference to the twin deficits that burdened Romania over 2008-2010. The government is aiming to have cut the budget deficit to 3% of GDP in 2012 from 8.5% of GDP in 2009, helping to stabilise the public debt ratio at around 35-40% of GDP, well below the levels seen across most of Europe. Deep cuts in the public sector wage bill – the removal of the 13th month holiday wage and the 14th month Christmas bonus – as well as far greater caution on the part of the banking sector, have meant that domestic demand has been reined back sharply.

We are not convinced it matters greatly if the budget deficit misses the target by too much in 2012. It is an election year, with local elections in June 2012 followed by parliamentary elections in late-2012, and some public sector pay increases are likely. As all the major parties have endorsed euro entry, they will need to maintain their tightening stances into 2013-2014. Romania may well win back investment grade ratings over the coming year, in our view.

Over-banked yet underpenetrated

The private sector borrowed significantly during 2005-2008 and at a rate that would have been sustainable only in the most benign of global environments. Virtually no one is taking on debt today. Indeed, so many leu loans are being repaid that the share of FX loans may have increased as a proportion of total debt (which is one reason why the central bank is still reluctant to allow the leu to weaken beyond RON4.30/EUR1). Yet total leverage is actually low at 40% of GDP, and we believe this may rise in 2012 or 2013.

There are fears in the banking system about the health of the Greek banks, which represent roughly 20% of Romania's banking assets; their subsidiaries in Romania were particularly aggressive lenders over 2007-2008. In our view, first, any Greek default might be managed sufficiently well that the banks are re-capitalised; second, the Greek parent banks may sell their Romanian subsidiaries, which might limit any collateral damage; and third, while Romania is underpenetrated, it is arguably over-banked. We think there are plenty of other lenders if the Greek banks pulled out.

EU funds to boost infrastructure

It is little wonder that the C/A deficit has shrunk to 4% of GDP in 2010 from 10-14% over 2006-2008, given the government's budget cuts and the lack of bank lending. The consensus assumption is for a deficit of around 4-5% of GDP this year, but we think it could be even smaller at just 2% of GDP, particularly if oil prices drop back to $90/bbl. Exports are, after all, performing well, with good demand for low-cost Renault/Dacia-branded vehicles, while Ford has set up a large new factory and Continental and Nokia are already well established in the country.

Romania continues to have an advantage that many other EMs (let alone frontier markets) do not; the EU is still prepared to inject 4% of GDP in grants, not loans, to improve the country's infrastructure, which we think provides a big incentive for foreign direct investors to favour this country of roughly 20mn people. Admittedly, the EU does require the money to be spent, and Romania (like other new EU entrants in the 1980s) has been slow to get projects approved. Co-financing of such projects is the one expenditure item in the 2012 budget that we think is certain to grow.

Inflation, interest rates and the leu

We doubt our forecasts for these three variables are particularly controversial. Low domestic demand means that Romania, like the UK, Russia and others hit hard by the global financial crisis, can afford to be relatively relaxed about inflation and, therefore, maintain relatively low interest rates. It is very hard for us to imagine overheating in the Romanian economy in 2011, and probably not in 2012 either. In terms of the currency, our long-term fair value estimate for the lue is around RON4.0/EUR1, based on various PPP measures. We expect the National Bank of Romania (NBR) to continue to resist any significant appreciation beyond this point, while also working to prevent any sustained weakness beyond RON4.30/EUR1 (e.g. if a Greek default scares the markets).

We are unconvinced that Romania will join the euro as planned in 2015, which would require ERM-2 entry in 2012; but we believe the ambition to join could help keep fiscal policy within reasonable limits over the medium term.

Romania: Key economic forecasts

Ratings (M/S&P/F): Baa3/BB+/BB+

Figure 91: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	2.4	5.6	5.0	5.3	8.5	4.1	7.9	6.3	7.4	-7.1	-1.3	1.6	5.1
Private consumption (% YoY)	1.2	8.4	5.3	8.4	13.6	9.7	12.0	10.9	9.0	-9.6	-1.8	0.0	3.5
Government consumption (% YoY)	0.8	-9.6	-6.6	10.5	-9.9	2.2	-11.5	2.4	6.3	1.2	-3.2	1.5	3.0
Investment (% YoY)	6.3	9.9	8.9	8.7	11.0	15.3	19.9	30.3	15.6	-25.3	-13.1	6.5	12.0
Industrial production (% YoY)	n/a	3.9	-0.4	-0.8	2.7	-3.1	9.3	10.3	2.7	-5.5	5.5	8.0	7.0
Unemployment rate year-end (%)	10.5	8.8	8.4	7.4	6.3	5.9	5.2	4.0	4.4	7.8	6.9	6.0	5.2
Nominal GDP (RONbn)	81.0	118	152	197	247	289	345	416	515	498	514	555	606
Nominal GDP (EURbn)	40.4	45.3	48.6	52.5	60.9	79.7	97.7	116	130	118	120	137	152
Nominal GDP ($bn)	37.3	40.6	46.0	59.5	75.8	99.2	123	171	204	163	162	191	205
Population (mn)	22.5	22.4	21.8	21.8	21.7	21.7	21.6	21.6	21.5	21.5	21.5	21.4	21.4
GDP per capita ($)	1,661	1,809	2,106	2,731	3,491	4,579	5,678	7,912	9,491	7,595	7,526	8,911	9,567
Household and corporate credit (% of GDP)	7.1	8.6	10.1	13.7	15.6	19.9	25.9	34.8	37.7	39.4	40.2	40	41
Prices													
CPI (average % YoY)	45.7	34.5	22.5	15.3	11.9	9.1	6.6	4.9	7.9	5.6	6.1	6.5	4.1
CPI (year-end % YoY)	40.7	30.3	17.8	14.1	9.3	8.7	4.9	6.7	6.4	4.7	7.9	4.6	4.5
PPI (average % YoY)	53.4	40.3	24.5	19.6	19.3	8.2	9.6	7.6	15.3	1.9	6.3	9.2	4.2
Wage rates (% YoY, nominal)	47.0	48.9	27.3	23.7	22.6	16.9	19.0	21.9	24.3	8.4	2.0	2.5	7.5
Fiscal balance													
Consolidated government balance (% of GDP; ESA-95)	-4.7	-3.5	-2.0	-1.5	-1.2	-1.2	-2.2	-2.6	-5.7	-8.5	-6.9	-5.0	-4.0
Total public debt (% of GDP; ESA-95)	22.5	25.7	24.9	21.5	18.7	15.8	12.4	12.6	13.4	23.6	30.8	33.5	34.8
External balance													
Exports ($bn)	10.4	11.4	13.9	17.7	23.5	27.6	32.5	40.6	49.7	40.7	49.4	64.0	72.7
Imports ($bn)	12.1	14.4	16.5	24.1	32.7	40.3	51.3	70.6	84.4	54.5	62.0	73.8	86.3
Trade balance ($bn)	-1.7	-3.0	-2.6	-6.4	-9.2	-12.7	-18.9	-30.0	-34.7	-13.8	-12.6	-9.9	-13.6
Trade balance (% of GDP)	-4.5	-7.3	-5.7	-10.8	-12.1	-12.8	-15.4	-17.6	-17.0	-8.5	-7.8	-5.2	-6.7
Current account balance ($bn)	-1.4	-2.2	-1.5	-3.3	-6.4	-8.6	-12.8	-23.1	-23.7	-7.0	-6.7	-4.2	-7.6
Current account balance (% of GDP)	-3.6	-5.5	-3.3	-5.6	-8.4	-8.7	-10.4	-13.5	-11.6	-4.3	-4.2	-2.2	-3.8
Net FDI ($bn)	1.0	1.2	1.1	1.8	6.4	6.5	11.0	9.6	13.6	4.9	3.1	5.5	8.0
Net FDI (% of GDP)	2.8	2.9	2.5	3.0	8.4	6.6	8.9	5.7	6.7	3.0	1.9	2.9	3.9
Current account balance plus FDI (% of GDP)	-0.8	-2.6	-0.9	-2.5	0.0	-2.1	-1.5	-7.9	-4.9	-1.2	-2.2	0.7	0.2
Exports (%YoY, value)	22	10	22	28	33	17	18	25	23	-18	22	29	14
Imports (%YoY, value)	24	19	15	46	36	23	27	38	20	-35	14	19	17
Foreign exchange reserves (ex. gold, $bn)	na	na	na	na	13.5	19.9	28.1	36.8	35.3	39.8	41.8	45.0	48.0
Import cover (months of merchandise imports)	na	na	na	na	5.0	5.9	6.6	6.3	5.0	8.8	8.1	7.3	6.7
Debt indicators													
Gross external debt ($bn)	10.5	11.9	15.2	21.2	27.9	36.8	53.1	84.9	95.3	120	123	135	145
Gross external debt (% of GDP)	28.1	29.4	33.1	35.7	36.8	37.1	43.3	49.8	46.6	73.4	76.3	70.7	70.9
Gross external debt (% of exports)	101	105	110	120	118	133	164	209	191	295	250	211	200
Interest and exchange rates													
Broad money supply (%YoY)	na	na	na	na	36.5	28.1	34.0	32.0	17.3	8.3	6.2	5.5	10.0
Three-month interest rate (BUBR average %)	50.7	40.9	27.3	17.7	19.2	8.2	8.1	7.2	12.3	11.3	6.4	5.8	6.8
Three-month interest rate spread over EURIBOR (ppts)	46.3	36.7	24.0	15.4	17.1	6.0	5.0	3.0	7.6	10.0	5.6	4.4	na
Three-month interest rate spread over $-LIBOR (ppts)	44.2	37.1	25.5	16.5	17.6	4.6	2.9	1.9	9.3	10.6	6.0	5.5	na
Three-year yield (average %)	na	na	na	na	na	na	na	7.1	10.4	10.9	7.2	na	na
10-year yield (average %)	na	na	na	na	na	na	7.2	7.1	7.7	9.7	7.3	na	na
Exchange rate (RON/$) year-end	2.59	3.16	3.35	3.26	2.91	3.11	2.57	2.46	2.83	2.94	3.20	2.91	2.96
Exchange rate (RON/$) annual average	2.17	2.91	3.31	3.32	3.26	2.91	2.81	2.44	2.52	3.05	3.18	2.91	2.96
Exchange rate (RON/EUR) year-end	2.44	2.81	3.69	4.11	3.69	3.68	3.39	3.58	3.96	4.21	4.28	4.05	4.00
Exchange rate (RON/EUR) annual average	2.00	2.62	3.13	3.74	4.28	3.63	3.54	3.35	3.70	4.25	4.22	4.12	4.03

Source: National sources, Bloomberg, Renaissance Capital

Turkey

Figure 92: Another AKP victory

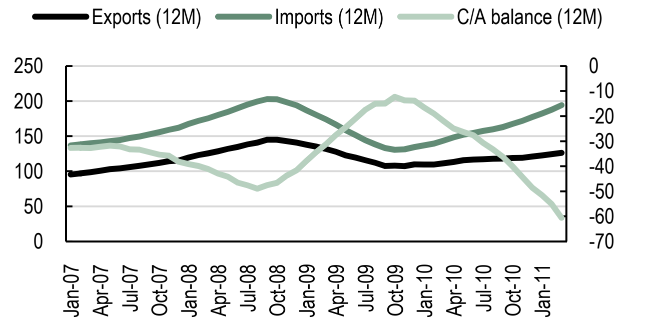
Share of vote				Seats		
	2002	2007	2011	2002	2007	2011
AKP (conservative)	34.3	46.5	49.9	363	341	326
CHP (centre-left)	19.4	20.8	25.9	178	112	135
MHP (nationalist)	8.4	14.3	13.0		71	53
GP	7.3	3.0				
DYP (centre-right)	9.7					
Independents				9	26	36
Total	**79.1**	**84.6**	**88.8**	**550**	**550**	**550**

Source: Thomson Reuters, Wikipedia

AKP priorities for 2011-2015

When the AKP first won power in 2002, Turkey was a fragile democracy, buffeted by regular economic shocks. After nine years of generally sound fiscal policies, privatisations and openness to FDI, per capita GDP has nearly trebled and the country was able to survive the global financial crisis without IMF support. Unsurprisingly, the electorate awarded the AKP with a third consecutive election victory on 12 June 2011. We expect the AKP's political priorities to include constitutional change, which might create a presidential republic that is more along the lines of the French model, with Prime Minister Recep Tayyip Erdogan seeking to fill that post in 2012. The markets would prefer the party's top priority to be a focus on reining in the C/A deficit, via fiscal and/or monetary tightening. To date, the AKP has recognised that economic success has reaped political rewards, which gives room for us to hope for sensible post-election policies.

Figure 93: Import boom widens C/A (RHS), $bn

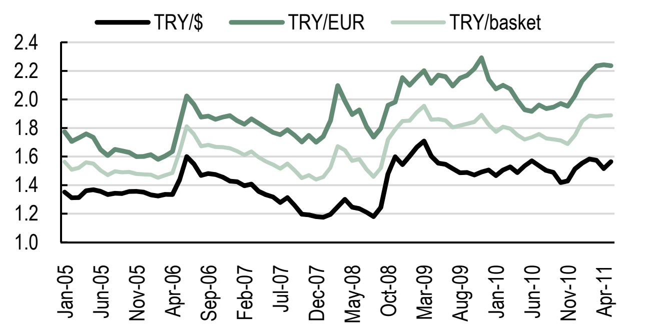


Source: Central Bank of Turkey

C/A deficit is the short-term problem

In January, we wrote that the C/A deficit was Turkey's long-term problem. Now, we see it is a serious short-term problem too. In 18 months, the rolling 12-month deficit has widened from $12bn to around $64bn and we think it could reach 9-10% of GDP in 2011, covered by rising external debt and foreign capital flows in the debt market ($15bn in January-April). Turkey's near-total dependence on foreign energy imports is partly responsible for this situation, but credit growth of 30-40% has played a large role too. The Central Bank of Turkey's (CBT) macro-prudential policies, such as higher reserve requirements, have not yet shown a strong impact. We assume a 150 bpts of interest rate hikes will be needed in 2H11. We also think the government may need to take advantage of its strong budget revenue growth to further tighten fiscal policy. Our base case is that, given the presidential elections and new CBT governor Erdem Basci's association with the current policy mix, there is more risk of Turkey doing too little than too much in 2011.

Figure 94: Successful devaluation so far, but risks are building

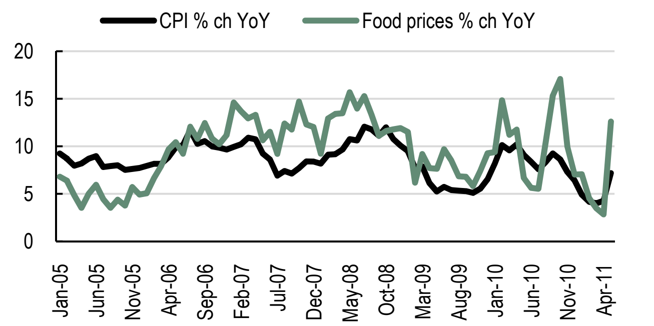


Source: Bloomberg

Finding the right currency level

Turkey probably does have an overvalued currency, as implied by the C/A deficit. Turkish exporters have been pretty vocal in their support for a weaker currency. We believe part of the reason Turkey has implemented the current monetary policy mix (6.25% policy rate plus high reserve requirements) was to allow a modest weakening of the currency. It has been a success. Against a 50/50 euro/dollar basket, the lira has weakened from around 1.70 in October 2010 to 1.94 now. As nearly 50% of Turkey's exports are to the EU, the relatively weak TRY2.3/EUR1 exchange rate should boost exports, while the more modest depreciation against the dollar has limited the inflationary impact of imported raw material prices. We think pressure may be building for further weakness. The CBT has cut the build up of its FX reserves to $200mn/week from $250mn/week. We believe a jump in the rate of inflation could weaken local demand for the lira; to maintain the lira's current exchange rate the CBT will probably need to move rates higher.

Figure 95: Inflation in Turkey



Source: Turkish statistical office

Lowering inflation is not a top priority

The current saving habits of the Turkish population suggest that low inflation at any cost is not a policy that will win widespread support. Too many savers hedge their savings with FX deposits (30% of the total), so they do not care as much if inflation is 4% (in April) or 7% (in May). In this regard, Turkey is not another Brazil, which tends to keep its policy rate around 6 ppts above headline inflation.

We forecast headline CPI will top 8% in 2011, with the risk of double-digit inflation if: 1) negative food price trends in May are sustained through the summer, 2) oil prices rise further, 3) the lira weakens, or 4) the CBT does not move rates higher.

If Turkey was Brazil, the policy rate would be doubled to 12.5%. As it is not, we simply assume that the policy rate will rise to 7.75% by YE11 and to 9.0% in 2012 (50% chance), but do not rule out the potential for FX weakness to push rates into the double digits (35% chance), with only a small chance that benign oil/food price trends result in no change (15% chance).

Turkey: Key economic forecasts

Ratings (M/S&P/F): Ba2/BB/BB+

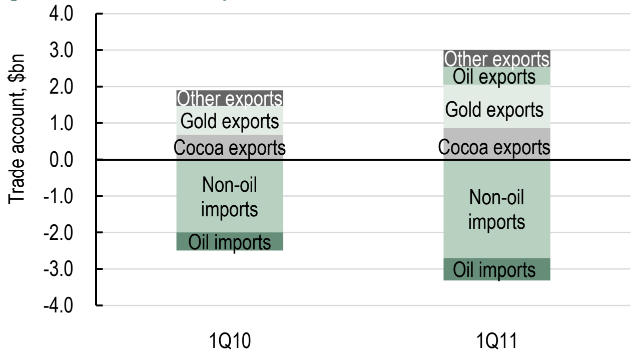
Figure 96: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	8.9	5.0	4.3
Private consumption (% YoY)	5.9	-6.6	4.7	10.2	11.0	7.9	4.6	5.5	-0.3	-2.3	6.6	5.2	4.1
Government consumption (% YoY)	5.7	-1.1	5.8	-2.6	6.0	2.5	8.4	6.5	1.7	7.8	2.0	2.8	1.8
Investment (% YoY)	17.5	-30.0	14.7	14.2	28.4	17.4	13.3	3.1	-6.2	-19.0	29.9	20.1	11.4
Industrial production (% YoY)	6.1	-7.5	9.4	8.5	9.8	-18.9	7.8	6.9	-0.9	-9.9	13.1	10.0	7.3
Unemployment rate year-end (%)	6.5	8.4	10.3	10.5	10.3	10.3	9.9	10.6	14.0	13.5	11.4	9.4	9.0
Nominal GDP (TRYbn)	167	240	350	455	559	649	758	843	951	953	1,105	1,233	1,386
Nominal GDP (EURbn)	289	219	246	268	315	389	422	473	500	442	555	549	608
Nominal GDP ($bn)	267	196	233	303	392	484	530	648	735	616	737	778	826
Population (mn)	62.8	63.8	64.9	65.9	66.9	67.9	68.1	68.9	69.7	70.5	71	72.3	73.2
GDP per capita ($)	4,247	3,071	3,585	4,599	5,861	7,128	7,778	9,404	10,554	8,729	10,312	10,755	11,277
Prices													
CPI (average % YoY)	54.9	54.4	45.0	25.3	10.7	8.2	9.6	8.8	10.4	6.3	8.6	6.6	8.1
CPI (year-end % YoY)	39.0	68.5	29.7	18.4	9.4	7.7	9.7	8.4	10.1	6.5	6.4	8.1	8.5
PPI (average % YoY)	51.4	61.6	50.1	25.6	14.6	5.9	9.3	6.3	12.7	1.2	8.5	9.6	7.1
Fiscal balance													
Consolidated government balance (% of GDP)	-8.0	-12.1	-11.2	-7.5	-3.9	-0.3	-0.2	-1.6	-2.5	-5.8	-3.6	-2.6	-2.2
Consolidated primary balance (% of GDP)	4.6	5.2	3.6	4.1	6.2	6.7	5.9	4.2	2.8	-0.2	0.8	0.8	1.1
Total public debt (central govt) (% of GDP)	51.3	78.9	73.3	67.4	59.2	51.1	45.5	39.6	40.0	46.3	42.9	42.0	41.0
External balance													
Exports ($bn)	30.8	34.7	40.7	52.4	68.5	78.4	93.6	115	141	110	121	143	166
Imports ($bn)	52.9	38.1	47.1	65.9	91.3	111	135	162	194	134	177	227	250
Trade balance ($bn)	-22.1	-3.4	-6.4	-13.5	-22.7	-33.1	-41.1	-46.7	-53.2	-24.9	-56.3	-83.9	-83.7
Trade balance (% of GDP)	-8.3	-1.7	-2.7	-4.5	-5.8	-6.8	-7.7	-7.2	-7.2	-4.0	-7.6	-10.8	-10.1
Current account balance ($bn)	-9.9	3.8	-0.6	-7.5	-14.4	-22.2	-32.2	-38.2	-41.6	-14.0	-48.6	-74.0	-70.4
Current account balance (% of GDP)	-3.7	1.9	-0.3	-2.5	-3.7	-4.6	-6.1	-5.9	-5.7	-2.3	-6.6	-9.5	-8.5
Net FDI ($bn)	0.1	2.9	0.4	1.2	1.7	9.0	19.0	19.9	15.4	6.9	7.1	9.0	12.0
Net FDI (% of GDP)	0.0	1.5	0.2	0.4	0.4	1.9	3.6	3.1	2.1	1.1	1.0	1.2	1.5
Current account balance plus FDI (% of GDP)	-3.7	3.4	-0.1	-2.1	-3.3	-2.7	-2.5	-2.8	-3.6	-1.2	-5.6	-8.4	-7.1
Exports (% YoY, value)	7	12	17	28	31	15	22	23	22	-22	10	18	16
Imports (% YoY, value)	35	-28	24	38	39	22	22	20	20	-31	32	28	10
Foreign exchange reserves (ex. gold, $bn)	21.2	17.8	25.5	32.2	34.4	50.7	61.1	73.9	71.9	71.8	81.7	94.5	94.5
Import cover (months of merchandise imports)	4.8	5.6	6.5	5.9	4.5	5.5	5.4	5.5	4.5	6.4	5.5	5.0	4.6
Debt indicators													
Gross external debt ($bn)	123	113	127	139	161	178	222	267	280	269	290	350	405
Gross external debt (% of GDP)	46.1	57.5	54.7	45.8	41.0	36.7	41.8	41.2	38.1	43.7	39.4	45.0	49.0
Gross external debt (% of exports)	398	324	312	265	235	227	237	231	199	245	240	245	244
Total debt service ($bn)	24.9	35.9	34.2	32.6	30.8	37.6	46.8	56.2	61.9	68.0	50.0	45.0	50.0
Total debt service (% of GDP)	9.4	18.3	14.7	10.8	7.8	7.8	8.8	8.7	8.4	11.0	6.8	5.8	6.1
Total debt service (% of exports)	80.9	103	84.1	62.2	44.88	48.0	50.0	48.7	43.9	62.0	41.3	31.5	30.2
Interest and exchange rates													
Broad money supply (%YoY)	40.6	86.4	29.0	14.6	22.1	38.5	25.0	16.0	25.8	13.8	19.0	18.0	14.0
Three-month interest rate (TURKIBOR average %)	na	na	50.3	40.2	23.9	16.6	17.6	17.6	17.4	9.6	7.4	8.3	9.5
Three-month interest rate spread over $-EURIBOR (ppts)	na	na	47.0	37.8	21.8	14.4	14.5	13.3	12.7	8.4	6.6	7.5	7.8
Three-month interest rate spread over $-LIBOR (ppts)	na	na	48.5	39.0	22.3	13.1	12.4	12.3	14.5	8.9	7.1	8.0	8.3
Three-year yield (average %)	na	na	na	na	na	na	na	17.5	19.0	12.3	8.8	8.2	8.4
Exchange rate (TRY/$) year-end	0.67	1.45	1.64	1.40	1.34	1.34	1.41	1.16	1.51	1.51	1.55	1.62	1.70
Exchange rate (TRY/$) annual average	0.63	1.23	1.51	1.50	1.43	1.34	1.43	1.30	1.29	1.55	1.50	1.58	1.68
Exchange rate (TRY/EUR) year-end	0.63	1.29	1.73	1.75	1.82	1.59	1.86	1.71	2.14	2.16	2.05	2.25	2.30
Exchange rate (TRY/EUR) annual average	0.58	1.10	1.43	1.70	1.77	1.67	1.80	1.78	1.91	2.16	1.99	2.24	2.28

Source: CBT, Bloomberg, Turkish statistical office, Renaissance Capital estimates

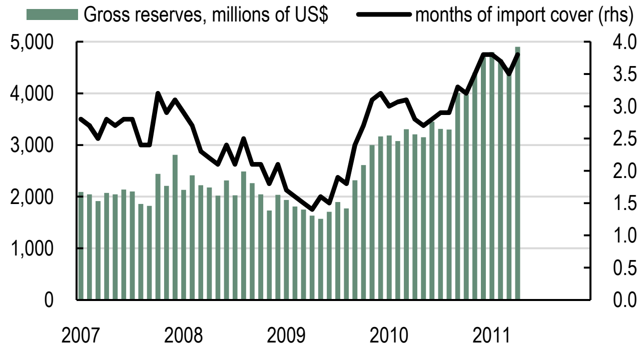
Ghana

Figure 97: Ghana's first oil exports narrow trade deficit



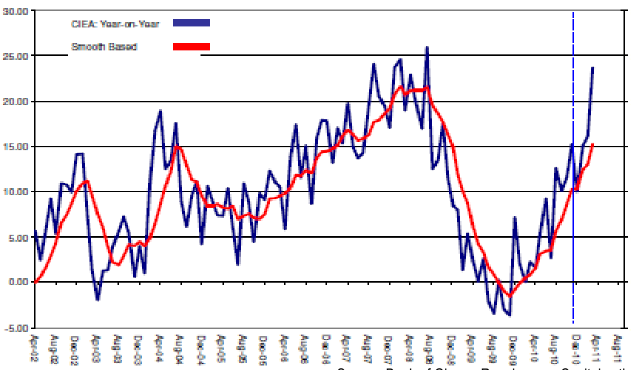
Source: Bank of Ghana

Figure 98: Strong reserves accumulation is cedi-positive



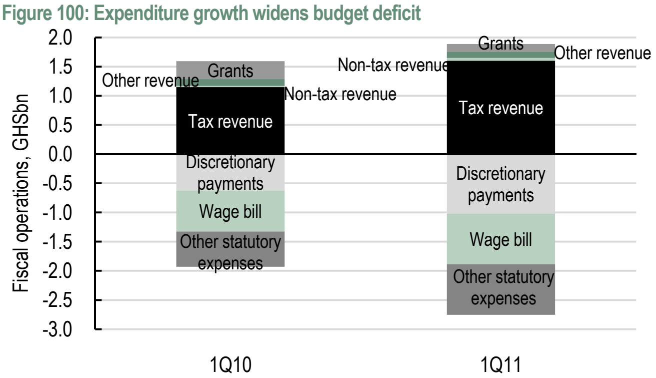
Source: Bank of Ghana

Figure 99: Acceleration of activity in 1Q11 strengthens growth



Source: Bank of Ghana, Renaissance Capital estimates

Figure 100: Expenditure growth widens budget deficit



Source: Bank of Ghana

First crude oil exports narrow C/A deficit

Ghana reported its first full quarter of merchandise trade data that includes oil exports in 1Q11. Oil made up 16% of total exports. Notably, gold's share of total exports remained unchanged at 40%, while the contribution from cocoa exports dropped to 29%, compared with 36% in 1Q10. This was due to a 53% YoY increase in gold exports, while cocoa exports rose 26% YoY. Total merchandise export earnings increased 58% YoY to $3.0bn in 1Q11. The growth in merchandise imports was relatively slower, at 32% YoY to $3.3bn. The debut of oil exports and the strong increase in gold exports largely explain the narrowing of the trade deficit in 1Q11 by 57% YoY to $249mn. As a result, the C/A deficit also shrunk, by 61% YoY to $220mn. We expect this trend to shrink the C/A deficit from 7.2% of GDP in 2010 to 2.5% in 2011. A smaller deficit implies an improvement in the official reserves position and a stronger cedi.

Strong cedi to keep inflation at bay

The central bank is targeting a 5% appreciation of the cedi by YE11, according to the deputy governor of the Bank of Ghana in June 2011. This implies an exchange rate in the region of GHS1.43-1.44/$1 by year-end, from GHS1.51/$1 at the end of May 2011. We believe this is likely given the acceleration in reserves accumulation to $4.9bn in April 2011, from $3.2bn a year earlier. In late 2010, the government was wary of a strong cedi, owing to concerns that the manufacturing sector would lose its competitiveness as a result of the export of oil. However, since then, the country's terms of trade have deteriorated on the back of rising crude oil prices and a declining cocoa price. In this instance, a strong cedi would ease the cost of imports, which may explain why a stronger cedi may now be more palatable for the authorities. Moreover, a strong cedi would ward off inflation. Inflation eased to 9.02% YoY in April, from 9.13% YoY in March, and 13.3% YoY a year earlier. Benign inflation has enabled the central bank to adopt an accommodative policy stance, which is positive for credit growth.

Growth to enter double digits in 2011

The Bank of Ghana's economic activity index increased 23.8% YoY in 1Q11, which is a significant acceleration from 9.1% YoY in 4Q10. The strong growth of the composite index was due to increases in activity in the industrial and construction sectors; stronger import demand; an increase in tourist arrivals; growing social security contributions; an improvement in key manufacturers' sales; and an increase in port and harbour activity. Conversely, we think the real growth of private sector credit remained below potential. The economy's strong start to the year implies to us that we are likely to see above-trend growth in 2011. This follows strong growth of 7.7% in 2010, compared with 4.4% in 2009. The services sector was the best performer in 2010 with growth of 9.8%. The commerce, and information and communication sectors were the services sector's key drivers of growth. In the industrial sector, manufacturing activity began to strengthen in 2H10 and continued into 1Q11, as suggested by improving sales data. Forestry was agriculture's best performer in 2010, which is positive for timber exports.

Increase in government spending widens deficit

The budget deficit widened to 1.6% of GDP in 1Q11, from 1.4% of GDP in 1Q10, owing to higher spending. The government's revenue and grants improved by 19% YoY in 1Q11 to GHS1,748mn (3.3% of GDP) owing to the strong performance of tax revenue. The 40% YoY increase in tax revenues was largely due to a 67% YoY surge in receipts from import and petroleum taxes. This significant increase reflects the marked improvement in trade activity. Conversely, grants fell 54% YoY to GHS139mn in 1Q11. Despite the growth of domestic revenues in 1Q11, it remains low as a ratio of GDP, being in the early teens. Government spending increased 43% YoY in 1Q11. This strong expansion was largely due to a 64% YoY increase in discretionary payments to GHS1,018.8mn. The government's wage bill was its biggest statutory expense; it increased by 24% YoY to GHS870mn. This increase was largely due to the implementation of the single-spine salary structure, which began in July 2010.

Ghana: Key economic forecasts

Ratings (M/S&P/F): NR/B/B+

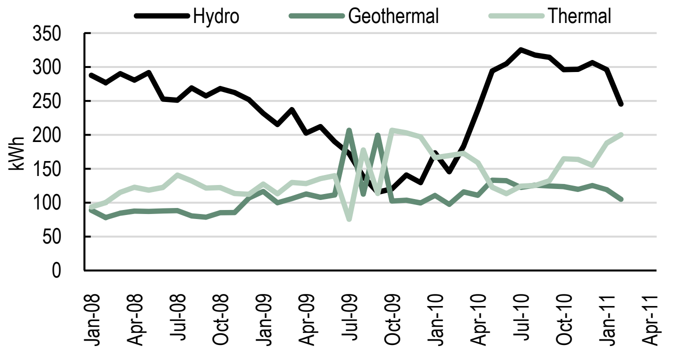
Figure 101: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	3.7	4.0	4.5	5.2	5.6	5.9	6.4	6.5	8.4	4.0	7.7	11.4	7.1
Private consumption (% YoY)	2.0	2.7	3.8	3.6	4.4	6.5	8.5	5.5	13.0	4.1	5.2	5.5	6.2
Government consumption (% YoY)	-2.7	-0.6	6.1	22.9	11.5	33.2	-21.4	8.9	5.5	3.5	3.7	5.0	7.0
Investment (% YoY)	17.0	22.1	-27.7	28.5	30.6	8.2	-20.6	-1.1	15.7	5.0	7.1	6.3	7.0
Industry, value added (% YoY)	na	na	na	na	na	na	na	6.1	15.1	4.5	6.0	49.0	6.0
Nominal GDP (GHSbn)	2.7	3.8	4.9	6.6	8.0	9.7	18.7	23.2	30.2	36.9	44.8	58.3	66.8
Nominal GDP (EURbn)	5.2	5.8	6.5	6.8	7.1	8.6	16.2	18.2	19.0	18.5	23.6	27.8	34.4
Nominal GDP ($bn)	4.8	5.2	6.2	7.7	8.9	10.7	20.3	24.9	27.9	25.8	31.3	39.4	46.7
Population (mn)	18.4	18.9	19.4	19.9	20.4	20.9	21.4	22.0	22.5	23.1	23.7	24.3	24.9
GDP per capita ($)	263	276	319	387	436	512	949	1,133	1,240	1,116	1,322	1,621	1,874
Gross domestic saving (% of GDP)	5.6	7.0	7.4	7.0	7.3	3.7	6.1	3.8	2.0	8.7	10.2	14.8	15.3
Stock of bank credit to corporate/household sector (GHSbn)	na	0.4	0.6	0.8	1.0	1.5	2.1	3.3	4.8	5.6	6.7	8.6	11.8
Stock of bank credit to corporate/household sector (% of GDP)	na	11.7	12.0	12.4	13.1	15.4	11.0	14.4	15.8	15.2	15.0	14.7	17.6
Loan-to-deposit ratio	na	59.6	50.9	57.3	49.8	66.1	62.4	67.5	71.9	63.8	57.0	53.9	54.1
Prices													
CPI (average % YoY)	25.2	32.9	14.8	26.7	12.6	15.1	10.2	10.7	16.5	19.3	10.8	9.3	10.8
CPI (year-end % YoY)	40.5	21.3	15.2	23.6	11.8	14.8	10.9	12.7	18.1	16.0	8.6	11.8	11.7
PPI (average % YoY)	na	na	na	na	na	na	na	32.6	9.6	27.7	13.5	12.1	13.6
Fiscal balance													
General government budget balance (% of GDP)	-9.9	-7.2	-6.7	-4.9	-5.0	-4.6	-7.5	-9.2	-14.7	-9.8	-3.7	-5.1	-7.7
Total public debt (% of GDP)	na	na	na	na	na	na	26.1	23.3	30.1	32.4	35.5	34.6	37.1
External balance													
Exports ($bn)	1.9	1.9	2.0	2.6	2.7	2.8	3.7	4.2	5.3	5.9	7.9	12.0	11.4
Imports ($bn)	2.8	3.0	2.7	3.2	4.3	5.3	6.8	8.1	10.3	8.0	10.7	13.2	14.8
Trade balance ($bn)	-0.8	-1.1	-0.7	-0.7	-1.6	-2.5	-3.0	-3.9	-5.0	-2.1	-2.8	-1.2	-3.4
Trade balance (% of GDP)	-17.1	-21.1	-11.2	-8.7	-17.9	-23.8	-14.9	-15.6	-17.9	-8.3	-8.9	-3.0	-7.4
Current account balance ($bn)	-0.4	-0.3	-0.1	-0.1	-0.4	-0.9	-1.3	-2.0	-3.1	-1.0	-2.3	-1.0	-2.0
Current account balance (% of GDP)	-8.0	-5.5	-1.1	-1.6	-4.0	-8.3	-6.2	-7.9	-11.0	-4.0	-7.2	-2.5	-4.3
Net FDI ($bn)	0.2	0.1	0.1	0.1	0.1	0.1	0.6	1.0	2.1	1.7	2.0	2.3	2.7
Net FDI (% of GDP)	3.4	1.7	1.0	1.8	1.6	1.4	3.1	3.9	7.6	6.5	6.3	5.8	5.8
Current account balance plus FDI (% of GDP)	-4.6	-3.8	-0.1	0.2	-2.4	-6.9	-3.1	-4.0	-3.5	2.5	-0.9	3.2	1.5
Exports (% YoY, value)	na	-4	8	27	6	4	33	12	26	12	34	52	-5
Imports (% YoY, value)	na	7	-9	19	33	24	26	19	27	-22	33	23	12
Foreign exchange reserves (ex. gold, $bn)	0.2	0.3	0.5	1.4	1.6	1.8	2.1	2.8	2.0	3.2	4.2	5.1	5.7
Import cover (months of merchandise imports)	1.0	1.2	2.4	5.0	4.5	3.9	3.7	4.2	2.3	4.8	4.7	4.6	4.6
Debt indicators													
Gross external debt ($bn)	na	6.1	6.3	7.0	7.6	7.1	6.7	3.2	4.5	4.9	5.7	6.8	7.5
Gross external debt (% of GDP)	na	117	103	90	85	66	33	13	16	19	18	17	16
Gross external debt (% of exports)	na	328	315	272	280	252	181	76	85	84	72	57	65
Total debt service ($bn)	na	0.4	0.3	0.2	0.5	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.3
Total debt service (% of GDP)	na	7	5	2	5	2	1	1	1	1	1	1	1
Total debt service (% of exports)	na	21	14	7	17	9	8	6	3	4	3	2	2
Interest and exchange rates													
Monetary policy rate, % year-end	27.0	27.0	24.5	21.5	18.5	15.5	12.5	13.5	17.0	18.0	13.5	12.5	12.5
Broad money supply (% YoY)	na	na	50.0	35.8	26.0	14.1	38.8	36.3	40.2	26.9	35.5	36.5	36.0
Credit to the private sector (% YoY)	na	na		45.3	31.3	30.0	40.8	64.0	43.7	17.6	19.9	27.5	37.0
Three-month interest rate (treasury bill average %)	35.9	37.0	24.8	28.0	17.2	15.2	10.1	9.8	17.8	25.2	13.8	12.0	11.2
Three-month interest rate spread over $-LIBOR (ppts)	29.4	33.2	23.0	26.8	15.6	11.6	4.9	4.5	14.9	24.5	13.5	11.7	10.0
Two-year yield (% year-end)	na	na	na	na	na	17.0	13.5	12.8	21.0	23.5	12.7	12.2	11.5
Exchange rate (GHS/EUR) year-end	0.69	0.66	0.88	1.12	1.22	1.08	1.21	1.42	1.78	2.05	1.99	1.99	1.93
Exchange rate (GHS/EUR) annual average	0.52	0.65	0.75	0.97	1.12	1.13	1.16	1.27	1.59	1.99	1.90	2.10	1.94
Exchange rate (GHS/$) year-end	0.73	0.74	0.84	0.89	0.90	0.91	0.92	0.97	1.27	1.43	1.49	1.43	1.43
Exchange rate (GHS/$) annual average	0.56	0.73	0.79	0.86	0.90	0.91	0.92	0.93	1.08	1.43	1.43	1.48	1.43

Source: Bloomberg, Bank of Ghana, IMF, Ghana Statistical Service, World Bank, Renaissance Capital estimates

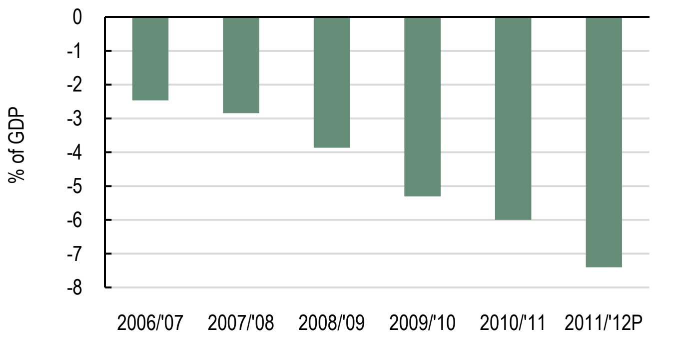
Kenya

Figure 102: Fall in hydro generation reflects poor rains



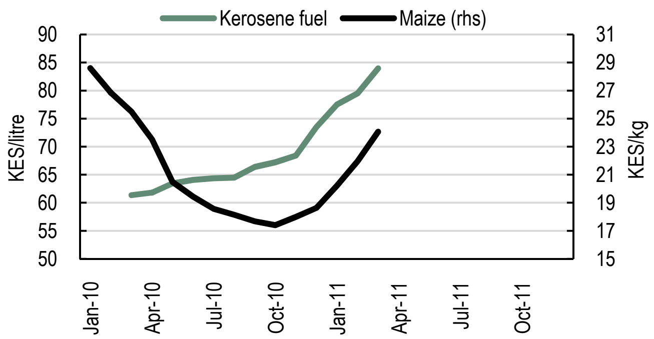
Source: Kenya Power and Lighting Company

Figure 103: The reining in of the budget deficit has been delayed



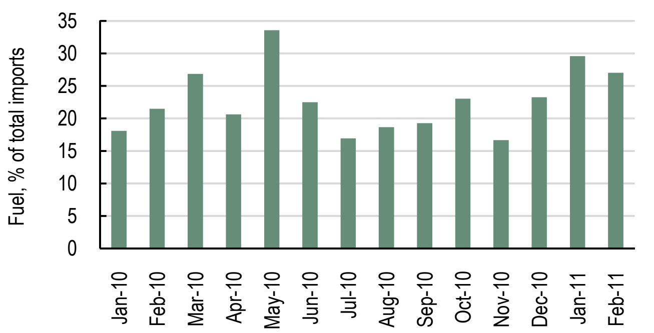
Source: Kenya's Ministry of Finance, Renaissance Capital estimates

Figure 104: Fuel and food prices are rising



Source: Kenya's National Bureau of Statistics

Figure 105: High fuel prices put pressure on C/A deficit



Source: Kenya's National Bureau of Statistics

Weak growth outlook

High oil prices and poor rains are clouding Kenya's growth outlook. This has prompted downward revisions in the government's growth projections for 2011, following a strong recovery in 2010 when the economy grew by 5.6%. In the *Kenya Economic Survey 2011* that was released in May, the government revised its growth projections to 3.5-4.5%, from 5.6% in its budget policy statement that was released in March 2011. Kenya's dependence on rain-fed agriculture and hydropower explains its susceptibility to drought. The decline in hydropower generation in January and February 2011 was a significant indicator that rainfall is underperforming, which will have negative implications for the industrial sector. Adding to that, the strong oil price is pushing up distribution costs and the energy costs burden for industry and low-income households. We expect Kenya's economic growth to slow to 4.0-4.5% in 2011, and are of the view that there is further downside risk to this outlook.

Unwinding of fiscal stimulus delayed

The FY11/12 budget that was proposed in June 2011 revealed that the government's plan to withdraw its fiscal stimulus programme will be delayed, due to incomplete infrastructure projects, the desire to ease the rising cost of living through revenue-squeezing tax exemptions and, perhaps, because of pre-2012 election considerations. The government is targeting a budget deficit of 7.4% of GDP. We think slower economic growth is a potential downside risk to this projection, especially as the budget is premised on growth of 5.3% in 2011, which, in our view, is optimistic. A bigger-than-targeted budget implies that the government may be compelled to raise its domestic borrowing requirement. This would undermine the government's plan to rebalance its financing, moving it away from domestic and towards external sources. Spending on constitutional reforms that have to be in place before the 2012 elections and election-related spending later in the second half of FY11/12 will further delay fiscal consolidation and undermine the government's aim to bring down public debt to 45% of GDP over the medium term, from 51% at YE10.

Risks to inflation mount

Kenya's inflation accelerated to 13.0% YoY in May, from 4.5% at YE10, owing to rising food and fuel prices. Poor rains undermined food production, explaining the surge in food inflation to 20.1% YoY in May. Kenya is already a net food importer, so underperforming food production implies an increase in food imports. Rising global food prices means Kenya will also be importing food inflation. The increase in non-food inflation has been relatively slow, and it remains in single digits, at 8.9% YoY in May 2011. It may be significantly lower non-food inflation that explains the central bank's modest interest rate hikes in the face of surging headline inflation. While we expect the central bank to maintain its tightening stance in 2H11, we do not expect any bold measures. Slowing economic activity will also temper its policy stance. But risks are growing, and faced with pressure on the currency, high inflation and a wide budget deficit, the central bank may be forced to take more dramatic measures.

C/A under further pressure from food imports

A high oil price is already putting pressure on the C/A deficit to widen in 2011. Oil imports rose to over 25% of the import bill in January and February 2011, from around 20% in 2H10. This will be compounded by rising global food prices, given that Kenya is a net food importer. Moreover, this year's poor rains imply there will be an even greater need for food imports in 2011. We think the growth in food imports may widen the C/A deficit to beyond 10% of GDP in 2011, from an estimated 7.5% of GDP in 2010. Further deterioration of the C/A deficit implies there will be continued pressure on FX reserves and, by implication, the shilling. On 16 June, the shilling breached the KES90/$1 level for the first time since exchange controls were removed in 1993. The upside is that the IMF is willing to step in and provide further balance of payments support should Kenya need it. Nevertheless, we think the troubled shilling will continue to come under pressure to depreciate, particularly if import cover approaches three months.

Kenya: Key economic forecasts

Ratings (M/S&P/F): NR/B+/B+

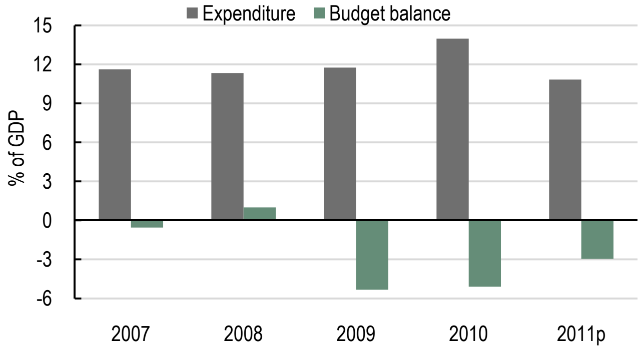
Figure 106: Key economic indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	0.6	3.8	0.5	2.9	5.1	5.9	6.3	7.0	1.6	2.6	5.4	4.3	5.1
Private consumption (% YoY)	-0.4	4.1	0.8	2.2	2.4	6.5	7.9	7.3	-1.3	3.8	4.4	4.4	5.3
Government consumption (% YoY)	-2.2	2.8	1.6	6.0	0.6	-0.8	1.5	4.4	2.3	5.5	5.0	5.5	5.5
Investment (% YoY)	8.3	12.4	-6.1	-8.0	7.3	27.8	18.5	13.6	9.5	0.6	4.9	5.5	5.8
Industry, value added (% YoY)	-1.8	5.5	2.3	6.1	4.1	4.4	5.1	7.1	4.6	3.6	9.3	6.4	5.6
Nominal GDP (KESbn)	968	1,020	1,035	1,132	1,274	1,416	1,622	1,829	2,077	2,274	2,489	2,722	2,969
Nominal GDP (EURbn)	13.7	14.5	13.9	13.2	12.9	15.1	17.9	19.8	20.4	21.1	23.7	22.8	24.8
Nominal GDP ($bn)	12.7	13.0	13.2	14.9	16.1	18.8	22.5	27.2	30.0	29.4	31.4	32.2	33.9
Population (mn)	30.1	30.9	31.5	32.2	32.8	33.4	34.0	34.7	35.3	35.9	36.5	37.1	37.8
GDP per capita ($)	421	421	417	463	490	561	661	784	851	820	861	867	898
Gross domestic saving (% of GDP)	7.3	8.7	9.8	10.5	10.8	9.5	8.1	8.0	6.1	7.8	8.8	8.5	8.6
Stock of bank credit to corporate/household sector (KESbn)	na	256	266	283	346	370	424	493	628	750	944	1,164	1,467
Stock of bank credit to corporate/household sector (% of GDP)	na	25.1	25.7	25.0	27.1	26.1	26.1	27.0	30.2	33.0	37.9	42.7	49.4
Loan to deposit ratio	na	82.0	79.9	75.2	81.8	78.2	74.6	56.1	62.5	65.1	64.1	68.6	74.6
Prices													
CPI (average % YoY)	10.0	5.7	2.0	9.8	11.8	9.9	6.0	4.3	16.2	9.4	3.8	13.7	10.1
CPI (year-end % YoY)	11.8	1.6	4.2	8.4	16.3	4.7	7.3	5.6	17.8	5.3	4.5	16.9	7.3
Fiscal balance													
General government budget balance (% of GDP)	-0.3	-2.4	-2.6	-2.3	0.0	-1.7	-2.5	-2.8	-3.9	-5.3	-6.0	-5.5	-5.0
General government primary balance (% of GDP)						0.6	-0.2	-0.6	-1.7	-3.1	-2.9	-3.1	-3.0
Total public debt	52.1	51.2	58.6	59.7	54.3	50.1	45.4	49.1	45.6	49.2	51.0	49.0	48.0
External balance													
Exports ($bn)	1.8	1.9	2.2	2.4	2.7	3.5	3.5	4.1	5.0	4.5	5.2	5.8	6.2
Imports ($bn)	3.0	3.2	3.2	3.6	4.4	5.6	6.8	8.4	10.7	9.5	12.1	13.7	14.6
Trade balance ($bn)	-1.3	-1.3	-1.0	-1.2	-1.6	-2.1	-3.3	-4.3	-5.6	-5.0	-6.9	-7.9	-8.4
Trade balance (% of GDP)	-9.9	-10.4	-7.6	-7.8	-10.1	-11.4	-14.4	-15.7	-18.8	-16.9	-22.1	-24.5	-24.8
Current account balance ($bn)	-0.3	-0.4	0.3	0.0	0.0	-0.1	-0.6	-1.1	-2.1	-2.0	-2.3	-3.2	-3.2
Current account balance (% of GDP)	-2.2	-3.1	2.2	-0.2	0.1	-0.8	-2.6	-4.1	-7.0	-6.9	-7.5	-9.9	-9.3
Net FDI ($bn)	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.7	0.1	0.1	0.2	0.2	0.2
Net FDI (% of GDP)	0.9	0.0	0.2	0.5	0.3	0.1	0.2	2.7	0.3	0.5	0.8	0.5	0.5
Current account balance plus FDI (% of GDP)	-1.4	-3.1	2.4	0.4	0.4	-0.7	-2.4	-1.4	-6.7	-6.4	-6.7	-9.4	-8.8
Exports (% YoY, value)	na	6	14	12	13	27	2	18	22	-11	14	12	8
Imports (% YoY, value)	an	6	-2	13	22	29	21	24	27	-11	27	13	7
Foreign exchange reserves (ex. gold, $bn)	0.9	1.1	1.1	1.5	1.5	1.8	2.4	3.4	2.9	3.8	4.0	4.2	4.2
Import cover (months of merchandise imports)	3.5	3.9	4.1	5.0	4.2	3.9	4.3	4.8	3.2	4.9	4.0	3.6	3.4
Debt indicators													
Gross external debt ($bn)	6.1	5.5	6.1	6.9	6.9	6.4	6.6	7.4	7.4	8.0	8.3	8.5	9.0
Gross external debt (% of GDP)	48	42	47	46	43	34	29	27	25	27	26	27	27
Gross external debt (% of exports)	345	291	283	284	254	185	186	178	147	178	161	148	144
Total debt service ($bn)	0.6	0.5	0.5	0.6	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Total debt service (% of GDP)	5	4	4	4	2	3	2	2	1	1	1	1	1
Total debt service (% of exports)	33	25	24	24	13	16	12	11	8	8	7	6	6
Interest and exchange rates													
Central bank rate (% year-end)	na	na	na	na	na	na	10.0	8.8	8.5	7.0	6.0	7.5	7.5
Broad money supply (% YoY)	na	na	10.2	11.7	13.2	10.2	17.9	20.9	13.0	16.0	21.7	18.0	18.0
Credit to the private sector (% YoY)	na	na	4.0	6.3	22.2	7.0	14.6	16.4	27.2	19.5	21.3	23.2	26.1
Three-month interest rate (treasury bill average %)	na	na	8.9	3.7	3.0	8.4	6.9	6.8	7.7	7.4	3.6	8.0	9.0
Three-month interest rate spread over $-LIBOR (ppts)	na	na	7.1	2.5	1.4	4.8	1.7	1.5	4.8	6.7	3.2	7.7	7.8
Five-year yield (% avg)	na	na		12.6	9.9	11.0	12.5	11.5	10.5	10.5	9.5	11.0	12.0
Exchange rate (KES/EUR) year-end	73.6	70.0	81.0	95.7	107	86	92	93	109	109	108	127.4	123.7
Exchange rate (KES/EUR) annual average	70.5	70.4	74.5	86.0	98.5	94	91	92	102	108	105	123.4	126.7
Exchange rate (KES/$) year-end	78.1	78.6	77.2	76.0	78.7	72.5	69.6	63.8	78.2	75.8	80.7	91.0	93.0
Exchange rate (KES/$) annual average	76.3	78.5	78.7	76.0	79.2	75.5	72.1	67.3	69.2	77.2	79.2	87.5	92.5

Source: Bloomberg, Central Bank of Kenya, IMF, Kenya's National Bureau of Statistics, World Bank, Renaissance Capital estimates

Nigeria

Figure 107: Lower spending will narrow federal budget deficit

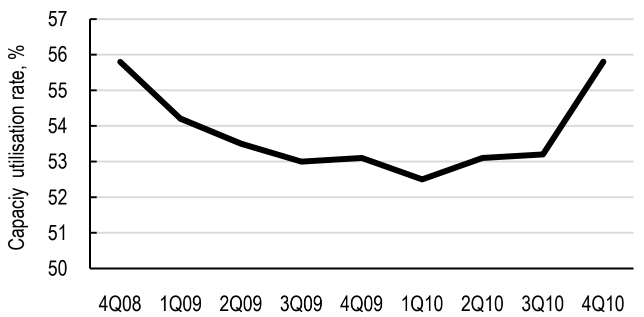


Source: IMF, Renaissance Capital estimates

Fiscal consolidation set to begin

We think the adoption of a federal budget of NGN4.485trn (approximately $29bn) in 2011, which is 11% smaller than the one passed by the National Assembly in March 2011, is a positive signal that the new administration is committed to reining in spending. Lower government spending is in accordance with the central bank's tighter policy stance and its aim to cut inflation to below 10%. Moreover, we expect a reduction in government spending to soften import demand, which will, in turn, ease pressure on FX reserves and support a recovery of the C/A surplus. As per the amended budget, the federal government's deficit target is 3% of GDP, significantly smaller than 5.1% of GDP in FY10. This implies to us that there will have to be a reduction in domestic government borrowing in FY11, which will help ease the upward pressure on yields. High yields discourage commercial banks from lending, crowding out the private sector.

Figure 108: Capacity utilisation recovery strengthens growth, %

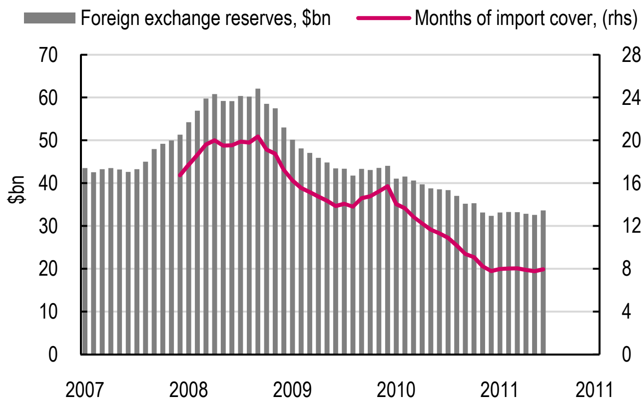


Source: Central Bank of Nigeria

Strong growth momentum going into 2011

According to the statistics office's provisional data, the Nigerian economy grew 7.43% in 1Q11, compared with growth of 7.36% a year earlier, in spite of the pre-election noise. This growth was largely driven by the non-oil sector, which grew 8.46% compared with the oil sector's expansion of 2.90%. Services, commerce and agriculture were the main drivers of growth. A recovery in capacity utilisation in 4Q10 reflects the increasing activity of the industrial sector, which currently produces about one-quarter of GDP. The significant 2.8 ppts increase in the capacity utilisation rate in 4Q10 can be attributed to increasing business confidence and a moderate improvement in the electricity supply. Oil production is growing off a high base, hence its modest growth relative to that of the non-oil sector; however, the high oil price bodes well for the sector's outlook, in our view.

Figure 109: Budget spend has hurt FX reserves

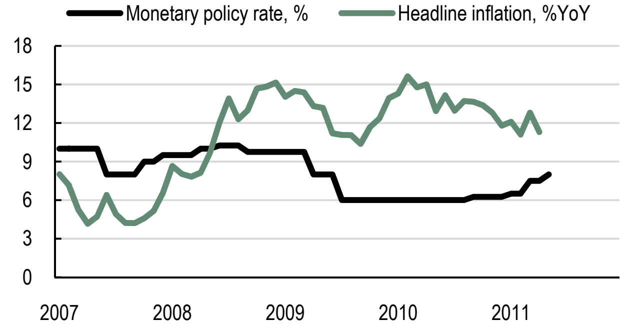


Source: Central Bank of Nigeria, Renaissance Capital estimates

Fundamentals suggest pressure on reserves should lift

Nigeria's FX reserves have come under significant downward pressure in 2Q11. At the end of May, they had reversed the gains of the first four months of 2011, dropping to $32.58bn, which was close to the YE10 low of $32.35bn. The performance of the FX reserves has been surprising to us, given the high oil price. Some government officials are of the view that the naira's movement away from the central bank's upper band of NGN154.5/$1 to NGN157/$1 is due to speculative attack. As a result, the central bank has come under significant pressure to allow the devaluation of the naira. However, the central bank continues to maintain that it will defend the naira and, even with the erosion of the reserves, its FX reserves remain sizeable enough to defend the naira, in our view. FX reserves improved by $1bn in the period between end-May and 15 June. The adoption of a smaller budget is positive for the naira in our view, as it implies that spending, particularly on imports, will slow and the pressure on reserves will ease. A combination of a smaller budget and high oil prices will, in our view, ease the pressure on the naira in 2H11.

Figure 110: More rate hikes expected due to rising inflation risks



Source: Central Bank of Nigeria

Further tightening of monetary policy expected

The increased risk to the inflation outlook has prompted the central bank to adopt a tighter monetary policy stance. So far in 2011, inflation has remained within the 11-13% band. The central bank would prefer it to be below 10%. The risks foreseen by the monetary authority include the impact of the recent public sector wage increases, the possible removal of the fuel subsidy and liquidity injections from the AMCON bond issue. The central bank is also concerned about the continued lax fiscal spending; however, the amendments to the FY11 budget passed in March, which reduce the size of the budget, should lessen this risk, in our view. We expect further tightening of monetary policy in 2H11, owing to the risk from inflation. We expect the monetary policy rate at YE11 to be 9%. A higher interest rate environment would also be favourable for the naira, in our view.

Nigeria: Key economic forecasts

Ratings (M/S&P/F): NR/B+/BB-

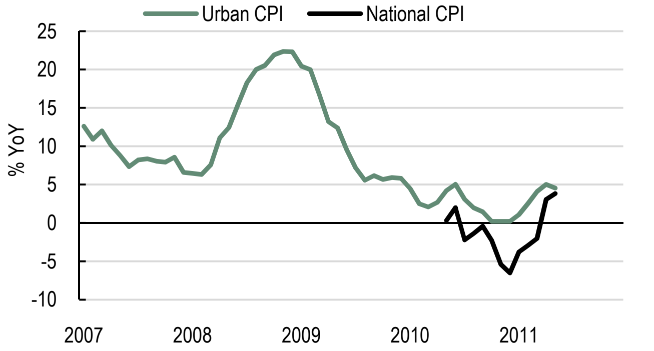
Figure 111: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	5.3	8.2	21.2	10.3	10.6	5.4	6.2	7.0	6.0	7.0	7.8	7.6	7.8
Private consumption (% YoY)	-14.1	58.9	8.0	7.6	5.7	5.4	4.3	5.1	3.1	6.8	7.0	7.0	7.0
Government consumption (% YoY)	1.9	18.0	11.1	2.2	9.0	16.1	4.4	12.5	19.1	8.5	16.0	6.6	5.6
Investment (% YoY)	25.5	14.1	16.7	36.7	29.0	22.6	33.9	24.3	8.1	8.0	10.7	12.7	13.6
Industrial production (% YoY)	9.8	1.7	1.2	0.0	3.7	3.3	0.3	-0.2	-2.3	2.9	5.0	4.7	4.5
Oil production (mn bbl/d year-end)	na	na	na	na	na	na	2.4	2.2	2.0	2.1	2.5	2.6	2.7
Nominal GDP (NGNbn)	4,676	5,339	7,128	8,743	11,674	14,735	18,710	20,874	24,553	25,102	32,311	41,393	47,440
Nominal GDP (EURbn)	48.3	51.6	61.6	58.0	70.1	89.0	116	121	140	120	161	190	225
Nominal GDP ($bn)	44.6	46.2	58.2	65.7	87.2	111	146	166	206	168	214	269	306
Population (mn)	119	122	126	129	133	136	140	144	148	152	156	160	165
GDP per capita ($)	375	378	464	509	657	813	1,040	1,154	1,396	1,103	1,371	1,615	1,858
Gross domestic saving (% of GDP)	18.4	16.7	15.6	14.3	20.2	19.3	29.9	14.8	27.0	24.0	23.1	25.2	27.5
Stock of bank credit to corporate/household sector (NGNbn)	508	796	955	1,210	1,519	1,977	2,524	4,813	7,799	9,668	10,403	10,731	12,878
Stock of bank credit to corporate/household sector (% of GDP)	10.9	14.9	13.4	13.8	13.0	13.4	13.5	23.1	31.8	38.5	32.2	25.9	27.1
Loan-to-deposit ratio	51.0	65.6	62.8	61.9	68.6	70.8	63.6	70.8	80.9	85.7	83.6	80.3	82.2
Prices													
CPI (average % YoY)	6.9	18.9	12.9	13.9	15.4	17.9	8.4	5.4	11.5	12.6	13.7	11.9	10.9
CPI (year-end % YoY)	14.5	16.5	12.2	23.8	10.0	11.6	8.6	6.6	15.1	13.9	11.8	11.2	11.2
Fiscal balance													
Consolidated government balance (% of GDP)	5.9	-5.3	2.1	-3.3	8.1	9.3	7.0	-1.3	3.5	-10.3	-7.3	-4.7	-3.9
Total public debt (% of GDP)	84.2	88.0	68.8	63.9	52.7	28.6	11.8	12.8	11.6	15.5	16.3	17.3	19.0
External balance													
Exports ($bn)	19.1	18.0	15.6	24.0	34.8	49.8	58.8	54.8	80.7	48.9	74.0	99.9	110
Imports ($bn)	8.7	11.1	10.9	16.2	15.0	13.4	22.8	32.7	27.8	29.3	49.9	58.9	62.0
Trade balance ($bn)	10.4	6.9	4.7	7.8	19.8	36.4	36.0	22.1	52.9	19.5	24.1	41.0	48.0
Trade balance (% of GDP)	23.4	14.9	8.1	11.9	22.7	32.9	24.7	13.3	25.7	11.7	11.3	15.8	15.7
Current account balance ($bn)	5.8	2.0	-7.7	-4.0	5.0	7.4	38.6	31.1	32.6	23.8	7.8	25.5	32.5
Current account balance (% of GDP)	13.0	4.4	-13.2	-6.1	5.7	6.7	26.5	18.7	15.8	14.2	3.7	9.5	10.6
Net FDI ($bn)	1.1	1.2	1.9	2.0	1.9	5.0	8.8	6.0	5.5	5.8	4.0	6.7	7.3
Net FDI (% of GDP)	2.6	2.6	3.2	3.1	2.1	4.5	6.1	3.6	2.7	3.5	1.9	2.6	2.4
Current account balance plus FDI (% of GDP)	15.5	7.0	-10.0	-3.1	7.8	11.2	32.6	22.4	18.5	17.6	5.5	12.1	13.0
Exports (% YoY, value)	na	-6	-13	54	45	43	18	-7	47	-39	51	35	10
Imports (% YoY, value)	na	27	-2	49	-7	-11	70	44	-15	6	70	18	5
Foreign exchange reserves (ex. gold, $bn)	9.9	10.5	7.3	7.1	17.0	28.3	42.3	51.3	53.0	44.8	32.3	37.1	44.5
Import cover (months of merchandise imports)	13.6	11.3	8.1	5.3	13.6	25.3	22.3	18.9	22.9	18.3	7.8	7.6	8.6
Debt indicators													
Gross external debt ($bn)	31.4	31.0	30.5	34.6	35.9	20.5	3.5	4.0	4.5	4.0	4.8	5.8	6.1
Gross external debt (% of GDP)	70	67	52	53	41	19	2	2	2	2	2	2	2
Gross external debt (% of exports)	164	173	195	144	103	41	6	7	6	8	6	6	6
Total debt service ($bn)	1.8	2.6	1.5	1.6	3.1	10.7	17.2	1.6	0.5	0.4	0.5	0.4	0.4
Total debt service (% of GDP)	4	6	3	2	4	10	12	1	0	0	0	0	0
Total debt service (% of exports)	10	14	10	7	9	21	29	3	1	1	1	0	0
Interest and exchange rates													
Monetary policy rate (% year-end)	14.0	20.5	16.5	15.0	15.0	13.0	14.0	9.5	9.8	6.0	6.3	9.0	9.0
Broad money supply (% YoY)	68.5	27.0	21.6	24.1	14.0	7.7	50.7	58.1	58.0	17.1	8.8	25.0	35.0
Credit to the private sector (% YoY)	na	41.4	13.4	26.8	26.6	30.8	27.8	97.1	59.4	26.0	7.6	11.0	20.0
Three-month interest rate (treasury bill average %)	15.7	18.4	19.7	15.4	14.9	7.7	6.9	6.9	8.4	3.8	3.9	10.4	10.6
Three-month interest rate spread over $-LIBOR (ppts)	9.2	14.6	17.9	14.2	13.3	4.1	1.7	1.6	5.5	3.1	3.6	10.1	9.4
Three-year yield (% year-end)								8.8	11.1	7.6	11.5	12.0	12.5
Exchange rate (NGN/EUR) year-end	103	106	133	175	179	154	170	172	195	214	203	213	208
Exchange rate (NGN/EUR) annual average	97	104	116	151	167	166	161	172	175	209	200	218	210
Exchange rate (NGN/$) year-end	110	120	127	140	132	130	129	118	140	150	152	153	154
Exchange rate (NGN/$) annual average	105	116	122	133	134	133	129	126	119	150	151	154	155

Source: Bloomberg, Central Bank of Nigeria, IMF, Nigeria's National Bureau of Statistics, World Bank, Renaissance Capital estimates

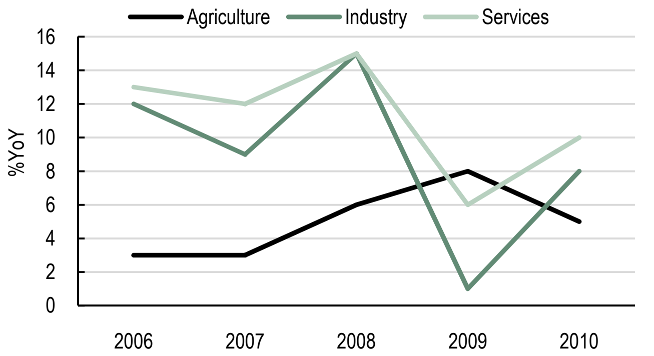
Rwanda

Figure 112: Inflation is on the rise



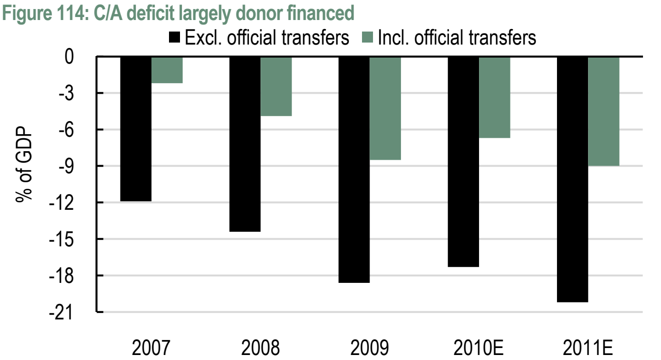
Source: National Institute of Statistics of Rwanda

Figure 113: Strong services growth due to finance sector's recovery



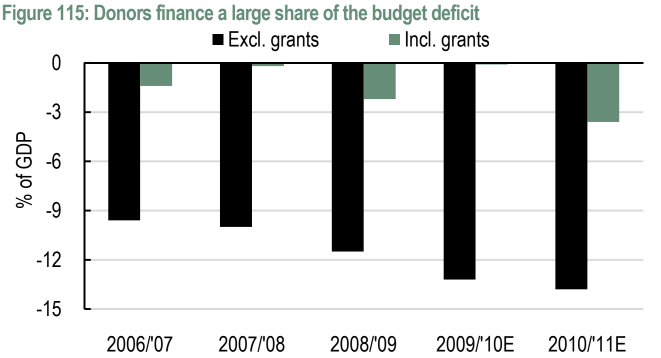
Source: National Institute of Statistics of Rwanda

Figure 114: C/A deficit largely donor financed



Source: IMF

Figure 115: Donors finance a large share of the budget deficit



Source: IMF

Rising food prices

Rwanda's urban inflation tends to be higher than national inflation. This largely reflects the premium that distribution costs place on food items which are produced in the rural area. Urban inflation remained below 5% in 2010, for the first time since 2002, while national CPI went into deflation in 2H10 and emerged from it in 2Q11. Urban inflation averaged 2.3% in 2010, from 10.4% in 2009, owing to a domestic liquidity crisis and low food prices in the region. As we expected, price pressures are increasing in 2011 on the back of rising food prices in the region and a strong oil price. Inflation increased in May to 3.8% YoY, from 3.1% in April, on the back of higher food and transport prices, and stronger credit growth. Nevertheless, Rwanda's inflation rate remains the lowest in the East African Community (EAC). Rwanda's finance ministry expects inflation to end 2011 at 7.5% YoY. The upside risk to inflation is poor rainfall that undermines food production and results in higher food prices.

Services and agricultural economy

Economic activity in 2011 and 2012 will be driven by strengthening domestic credit growth, exports recovery and the continued strong performance of the services sector, especially in telecommunications, and construction. Although commercial banks were slow to pass on the lower policy rate, credit growth is expected to accelerate, particularly as NPL and loan loss provisions moderated in 2010. This follows a six-fold increase in the private sector-to-GDP ratio to 12% of GDP over the past decade. We expect strong regional demand to sustain the demand for exports. We believe agriculture, which produces 40% of GDP, will exhibit sound growth, albeit moderately slower than that of recent years. Industry only produces 15% of GDP implying that Rwanda is primarily a services and agricultural economy. The performance of industry is undermined by strong regional competition, especially from Kenya, and high electricity prices, largely due to limited supply. Rwanda only produces 85 MW of electricity. The government has plans to increase electricity generation to 100 MW by 2012 and 1,000 MW by 2017, partly through the exploitation of the methane gas in Lake Kivu.

Wide C/A deficit due to narrow export base

The most vulnerable part of the Rwandan economy is its external sector because of its large C/A deficit. With the exception of 2004, Rwanda has had a double-digit C/A deficit (excluding official transfers) over the past decade. The deficit ended 2010 at 17.3% of GDP. The wide deficit can be attributed to the country's narrow export base. Exports only made up 5.1% of GDP in 2010. Rwanda's biggest exports are coffee, tin ore, tea and coltan, a relatively obscure mineral. Moreover, Rwanda's small industrial sector means it imports the bulk of its consumer goods and almost all of its capital goods. The trade deficit is projected to widen further in 2011, owing to the pressure of a high oil price on the import bill. On the export side, exports are at risk of lower coffee and tea prices, and tighter controls that would require the authorities to show that its mineral exports are from Rwanda and not the DRC.

Donor-dependent budget

The donor community finances a large share of the fiscal budget – 40%. After grants, the government achieved an almost balanced budget in FY09/10 (July to June), at a deficit of 0.1% of GDP. Excluding grants, the fiscal budget deficit widened to about 13% of GDP, from 11.5% in FY08/09. The government plans to increase spending over the medium term in order to address its poverty-reduction policies. However, donor funding is expected to contain the fiscal deficit. A recovery in exports is expected to improve trade tax revenue. Moreover, the widening of the tax base is expected to improve revenues. Rwanda has low government revenues of 12-13% of GDP. One of the government's primary objectives is to mobilise additional domestic revenue to reduce the country's dependency on aid. Given the weak fiscal positions of several European economies, some of them important bilateral donors, there is even more reason for Rwanda to reduce its dependence on donor aid. As donor aid finances the bulk of the fiscal budget deficit, government borrowing is limited. Debt forgiveness in 2006 and low government borrowing explain Rwanda's relatively low public debt of 22.6% of GDP in 2010, from 71% of GDP in 2005, prior to the cancellation of most of Rwanda's external debt.

Rwanda: Key economic forecasts

Ratings (F): B

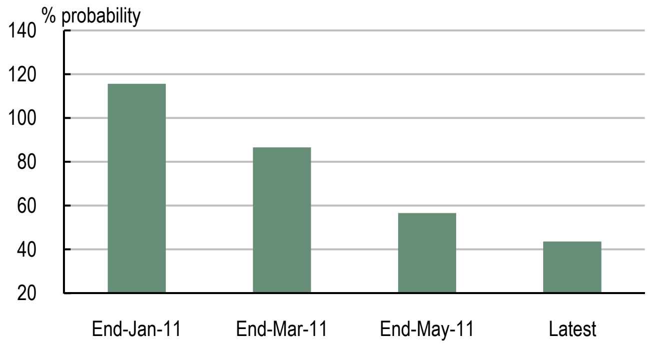
Figure 116: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	8.4	8.5	13.2	2.2	7.4	9.4	9.2	7.7	11.5	6.1	7.5	7.0	7.2
Private consumption (% YoY)	na	3.5	14.5	-0.2	4.9	9.3	9.2	7.8	8.7	12.9	7.5	na	na
Government consumption (% YoY)	na	8.4	19.1	-2.9	1.8	10.5	8.0	1.8	-1.6	6.1	7.5	na	na
Investment (% YoY)	na	16.8	5.1	10.1	15.2	16.6	9.2	21.2	42.5	1.5	2.6	na	na
Industry, value added (% YoY)	na	8.4	13.1	-5.1	15.7	9.3	9.2	7.8	19.5	-1.0	15.2	na	na
Nominal GDP (RWFbn)	676	742	797	993	1,206	1,440	1,716	2,046	2,577	2,990	3,282	3,676	4,128
Nominal GDP (EURbn)	1.9	1.9	1.8	1.6	1.7	2.1	2.5	2.7	3.2	3.8	4.2	4.3	4.8
Nominal GDP ($bn)	1.7	1.7	1.7	1.8	2.1	2.6	3.1	3.7	4.7	5.3	5.6	6.0	6.5
Population (mn)	7.7	7.9	8.1	8.4	8.7	9.0	9.2	9.6	9.8	10.1	10.4	10.7	11.0
GDP per capita ($)	225	212	206	220	242	289	333	391	479	520	540	562	588
Gross domestic saving (% of GDP)	5.9	6.7	5.9	7.8	13.1	13.3	8.9	12.9	15.7	11.5	10.5	12.6	12.7
Stock of bank credit to corporate (RWFbn)	na	na	na	na	67.0	101	136	167	218	218	234	283	336
Stock of bank credit to household sector (% of GDP)	na	na	na	na	5.6	7.0	7.9	8.2	8.5	7.3	7.1	7.7	8.1
Loan to deposit ratio	73.2	73.0	73.5	67.3	64.9	83.2	78.8	71.4	88.5	79.8	75.6	75.4	78.3
Prices													
CPI (average % YoY)	2.1	1.1	-1.3	11.7	11.9	9.1	8.9	9.1	15.4	10.4	2.3	4.5	6.5
CPI (year-end % YoY)	14.1	-10.2	12.5	7.5	10.3	5.6	12.1	6.6	22.3	5.7	0.2	6.1	7.5
Fiscal balance													
General government budget balance (incl. grants) (% of GDP)	-1.3	-6.2	-3.0	-1.8	-0.9	2.1	-1.0	-1.7	0.1	-1.2	-2.2	-1.7	-1.3
Total public debt (% of GDP)	81.8	85.0	88.0	85.2	80.2	71.0	27.0	27.0	21.0	22.5	22.6	24.5	26.2
External balance													
Exports ($bn)	0.07	0.09	0.07	0.06	0.10	0.12	0.15	0.18	0.27	0.23	0.30	0.38	0.41
Imports ($bn)	0.23	0.23	0.21	0.23	0.28	0.35	0.45	0.58	0.88	1.00	1.08	1.40	1.39
Trade balance ($bn)	-0.16	-0.13	-0.14	-0.17	-0.18	-0.23	-0.30	-0.40	-0.61	-0.76	-0.79	-1.02	-0.98
Trade balance (% of GDP)	-9.2	-8.1	-8.4	-9.0	-8.5	-8.9	-9.6	-10.8	-13.0	-14.5	-14.0	-17.0	-15.1
Current account balance, including official transfers ($bn)	-0.09	-0.10	-0.13	-0.13	-0.06	-0.03	-0.21	-0.08	-0.23	-0.45	-0.38	-0.54	-0.41
Current account balance, including official transfers (% of GDP)	-5.2	-6.0	-7.6	-7.1	-2.7	-1.0	-6.8	-2.2	-4.9	-8.5	-6.7	-9.0	-6.4
Net FDI ($bn)	0.01	0.00	0.00	0.00	0.01	0.01	0.03	0.08	0.10	0.12	0.04	0.09	0.07
Net FDI (% of GDP)	0.5	0.2	0.2	0.3	0.4	0.4	1.0	2.2	2.2	2.3	0.8	1.5	1.0
Current account balance plus FDI (% of GDP)	-4.8	-5.8	-7.4	-6.8	-2.3	-0.6	-5.8	0.0	-2.7	-6.2	-5.9	-7.5	-5.4
Exports (% YoY, value)	11	35	-28	-6	56	27	18	20	51	-12	27	26	10
Imports (% YoY, value)	-9	1	-9	10	21	28	26	30	52	13	8	29	-1
Foreign exchange reserves (ex. gold, $bn)	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.6	0.7	0.8	0.7
Import cover (months of merchandise imports)	4.6	5.9	8.2	5.9	9.4	11.1	11.0	10.7	8.0	7.5	8.0	6.7	5.9
Debt indicators													
Gross external debt ($bn)	1.4	1.4	1.5	1.6	1.7	1.5	0.5	0.6	0.7	0.8	0.8	1.0	1.2
Gross external debt (% of GDP)	82.6	84.9	88.1	85.2	80.6	58.5	15.6	15.3	14.4	14.3	14.0	16.2	18.8
Gross external debt (% of exports)	2,054	1,521	2,192	2,495	1,716	1,209	330	325	253	319	265	259	296
Total debt service ($bn)	0.05	0.07	0.05	0.05	0.06	0.06	0.11	0.01	0.01	0.01	0.02	0.04	0.04
Total debt service (% of GDP)	2.8	4.5	3.0	2.7	3.0	2.4	3.6	0.4	0.3	0.3	0.3	0.7	0.7
Total debt service (% of exports)	68.5	80.0	75.3	78.1	64.1	50.5	76.4	8.2	5.4	6.3	6.4	11.5	10.4
Exchange rates													
Exchange rate (RWF/EUR) year-end	404	408	538	729	768	655	724	794	780	819	796	869	878
Exchange rate (RWF/EUR) annual average	363	397	450	609	718	694	694	750	804	792	774	865	867
Exchange rate (RWF/$) year-end	430	458	512	580	567	554	549	544	559	571	594	625	650
Exchange rate (RWF/$) annual average	393	443	475	538	578	558	552	547	547	568	583	611	638

Source: National sources, Bloomberg, Renaissance Capital estimates

South Africa

Figure 117: FRA market probability of a 50 bpts rate hike in December 2011

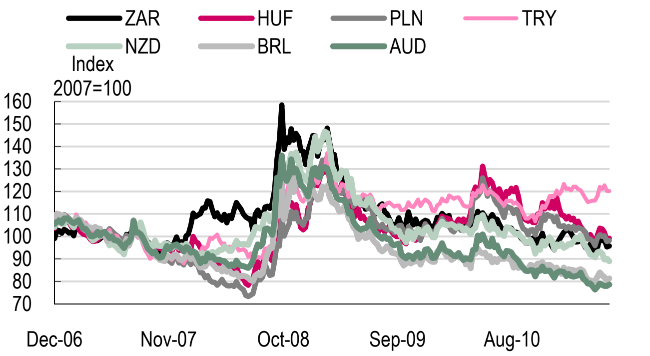


Source: Bloomberg, Renaissance BJM estimates

Interest rates hikes from next year only

We expect the South African Reserve Bank (SARB) to start hiking interest rates only from the beginning of 2012, and we expect a hike to 7.5% by YE12 from 5.5%, in contrast with the consensus view of a much earlier hike. In our view, the central bank will only increase rates once inflation forecasts are sustainably above 6% and it is assured that growth will be securely at or around potential for a sustained period. At this stage, in the absence of any demand-pull inflation pressures, with only a temporary breach of the inflation target in the forecast horizon and the lingering fragility of the economic recovery, we believe that the SARB will be hesitant to hike. The bank will probably only have conviction around the robustness of the domestic recovery once employment and private sector fixed investment start to improve and the global recovery is on a more secure footing.

Figure 118: Rand in line with other commodity EM currencies

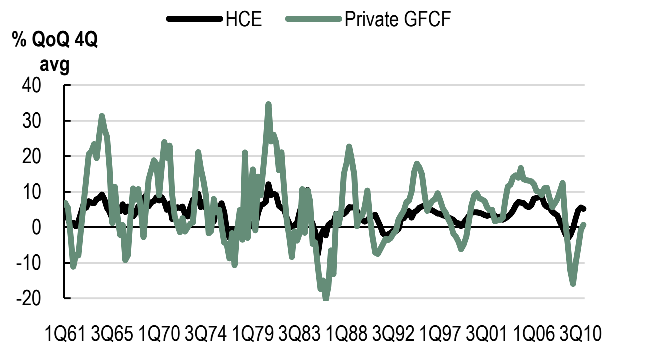


Source: I-Net Bridge, Renaissance BJM estimates

Rand strength not out of line

The figure alongside shows that, in the context of other EM commodity currencies, the strength of the rand has not been out of line. The figure suggests to us that the rand's strength is largely mirroring the strength in comparable currencies; hence, it is being driven by global factors rather than any SA-specific factors. The strength of the currency has been driven by unprecedented bond and equity inflows into the country, and we expect foreigners' appetite for the currency to endure as long as the current global economic setting prevails. The most likely catalyst for a turnaround in the rand, and other high-yielding assets, is US interest rate hikes, which are probably some way off (the assets will likely price this in pre-emptively). Until then, and in the absence of any global shocks, these assets should generally remain strong.

Figure 119: Private sector GFCF on the rise

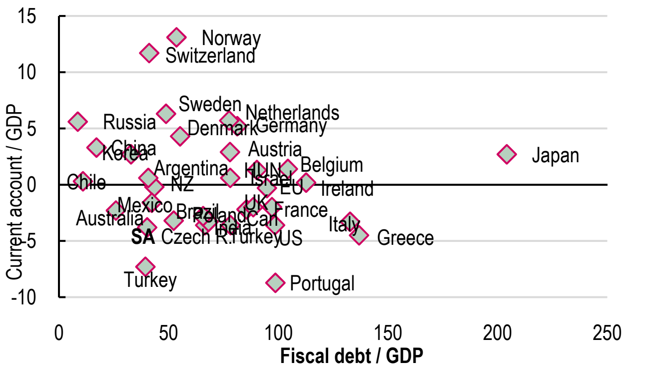


Source: SARB, Renaissance BJM estimates

Constructive fixed investment view

We remain constructive about the recovery in gross fixed capital formation (GFCF), despite the market's still-pessimistic outlook on this. The optimism around the household consumption expenditure (HCE) prognosis amid the pessimism around GFCF is inconsistent in our view; there has never been a recovery in HCE without a substantial expansion in private sector GFCF. In fact, historically, private sector GFCF has typically peaked at least twice as high as HCE growth, and we are pencilling in HCE growth of around 4.6% this year. We are already at the point where private sector fixed investment growth is outpacing growth in public sector fixed investment. We are seeing many signals (such as a slowing in the rate of decline of cement sales and a meaningful improvement in capacity utilisation) that fixed investment is beyond the worst point and is on the brink of a sustained recovery. However, as is usually the case at turning points, the data are not yet uniformly positive.

Figure 120: A relatively safe economy



Source: OECD, The Economist, IMF, National Treasury, Renaissance BJM estimates

Outlook risks mainly foreign

The risks to SA's benign macroeconomic outlook are mainly external, including: disruption to the global economic recovery, which will adversely affect domestic growth; a meaningful positive or negative global growth shock or marked increase in global risk aversion, which will likely weaken the rand and derail the benign inflation and interest rate projections; and a meaningful exogenous global inflation shock (such as bad grain crops that boost prices further), which might have stagflationary consequences for the global and SA economies. While the risk of another electricity shortfall in SA is non-negligible, our analysis suggests that it would require a huge and unexpected supply disruption, and we attach a low probability to this outcome. On the fiscal side, SA stands out as a reasonably low-risk country. However, if we go into a period where global liquidity is less abundant, as we expect for 2012, the relatively large C/A deficit would put us (and the rand) on the back foot.

South Africa: Key economic forecasts

Ratings (M/S&P/F): A3/BBB+/BBB+

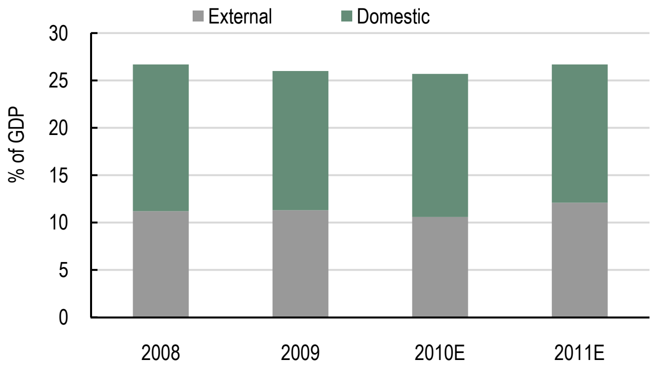
Figure 121: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	4.2	2.7	3.7	2.9	4.6	5.3	5.6	5.6	3.6	-1.7	2.8	3.7	4.1
Private consumption (% YoY)	4.1	3.5	3.2	2.8	6.2	6.1	8.3	5.5	2.2	-2.0	4.4	4.6	4.0
Government consumption (% YoY)	2.9	3.1	4.6	6.0	6.0	4.6	4.9	4.1	4.7	4.8	4.6	4.3	4.2
Investment (% YoY)	3.9	2.8	3.5	10.2	12.9	11.0	12.1	14.0	14.1	-2.2	-3.7	3.2	5.7
Industrial production (% YoY)	3.6	2.2	4.3	-2.0	3.9	3.1	4.8	4.6	0.8	-12.6	5.0	6.5	6.5
Unemployment rate year-end (%)	24.0	24.6	27.7	29.3	26.4	24.2	23.1	23.6	21.9	24.2	24.0	23.5	22.8
Nominal GDP (ZARbn)	922	1,020	1,171	1,273	1,415	1,571	1,767	2,016	2,274	2,396	2,663	2,888	3,178
Nominal GDP (EURbn)	143	130	120	152	178	199	207	210	188	207	281	294	311
Nominal GDP ($bn)	132	117	113	172	222	247	260	287	276	289	365	416	422
Population (mn)	43.7	45.6	45.5	46.4	46.6	46.9	47.4	47.9	48.7	49.3	50.0	53.5	57.2
GDP per capita ($)	3,027	2,561	2,493	3,711	4,758	5,277	5,485	6,006	5,667	5,855	7,295	7,778	7,370
Gross domestic saving (% of GDP)	15.6	15.3	16.7	15.7	15.0	14.5	14.4	14.3	15.4	15.6	16.5	17.5	18.2
Stock of bank credit to corporate/ household sector (% of GDP)	64.0	66.1	60.1	65.9	67.4	72.6	81.2	86.5	87.1	82.6	78.4	79.0	79.3
Loan-to-deposit ratio	90.3	85.5	81.6	81.9	84.2	85.1	87.3	88.2	86.2	85.3	85.8	87.0	88.0
Prices													
CPI (average % YoY)	5.3	5.7	9.1	6.0	1.4	3.4	4.6	7.1	11.5	7.2	4.3	4.7	5.9
CPI (year-end % YoY)	7.0	4.6	12.4	0.3	3.4	3.6	5.8	9.0	9.5	6.3	3.5	5.9	6.1
PPI (average % YoY)	6.6	7.6	13.4	2.3	2.4	3.6	7.7	11.0	14.3	0.2	6.0	5.5	6.0
Wage rates (% YoY, nominal)	7.4	7.4	8.0	8.9	6.8	6.3	6.5	7.3	9.8	9.3	8.2	7.5	6.0
Fiscal balance													
Main government balance (% of GDP) - fiscal year	-1.9	-1.4	-1.1	-2.3	-1.4	-0.3	0.6	0.9	-1.2	-6.9	-5.4	-5.5	-5.1
Primary balance (% of GDP) - fiscal year	2.9	3.1	2.8	1.3	1.9	2.8	3.4	3.5	1.2	-4.5	-2.9	-2.8	-2.2
Total public debt (% of GDP) - fiscal year	42.0	41.3	35.5	34.9	34.6	32.7	30.2	27.8	27.1	33.0	37.1	40.2	42.4
External balance													
Exports ($bn)	29.9	28.5	30.2	37.2	46.1	52.0	58.1	70.3	80.1	62.9	81.8	93.5	96.5
Imports ($bn)	26.7	24.5	26.4	34.8	47.7	55.0	68.0	80.1	88.3	65.2	80.2	95.6	99.5
Trade balance ($bn)	3.2	4.0	3.8	2.4	-1.6	-3.0	-9.8	-9.8	-8.1	-2.3	1.6	-2.1	-3.0
Trade balance (% of GDP)	2.4	3.4	3.3	1.4	-0.7	-1.2	-3.8	-3.4	-3.0	-0.8	0.4	-0.5	-0.7
Current account balance ($bn)	-0.2	0.3	0.9	-1.7	-6.7	-8.6	-13.8	-20.0	-19.6	-11.7	-10.1	-15.8	-19.9
Current account balance (% of GDP)	-0.1	0.3	0.8	-1.0	-3.0	-3.5	-5.3	-7.0	-7.1	-4.1	-2.8	-3.8	-4.7
Net FDI ($bn)	0.6	9.8	2.0	0.2	-0.6	5.7	-6.6	2.7	12.2	4.3	1.1	4.3	3.7
Net FDI (% of GDP)	0.5	8.4	1.8	0.1	-0.3	2.3	-2.5	1.0	4.4	1.5	0.3	1.0	0.9
Current account balance plus FDI (% of GDP)	0.3	8.7	2.6	-0.9	-3.3	-1.2	-7.8	-6.0	-2.7	-2.6	-2.5	-2.8	-3.8
Exports (% YoY, value)	12	-5	6	23	24	13	12	21	14	-22	30	14	3
Imports (% YoY, value)	11	-8	8	32	37	15	24	18	10	-26	23	19	4
Foreign exchange reserves (ex. gold, $bn)	6.6	8.4	4.9	5.8	11.6	18.5	23.6	28.7	34.5	31.3	34.7	44.3	48.0
Import cover (months of merchandise imports)	3.0	4.1	2.2	2.0	2.9	4.0	4.2	4.3	4.7	5.8	5.2	5.6	5.8
Debt indicators													
Gross external debt ($bn)	37.0	31.1	34.0	39.3	45.0	48.6	59.4	75.3	72.9	78.6	78.2	79.3	79.7
Gross external debt (% of GDP)	28	27	30	23	20	20	23	26	26	27	21	19	19
Gross external debt (% of exports)	124	109	113	106	98	94	102	107	91	125	96	85	83
Interest and exchange rates													
Broad money supply (% YoY)	8.5	14.5	19.8	14.0	13.3	16.4	23.1	23.2	19.0	6.6	3.5	7.0	11.5
Three-month interest rate (BA rate)	10.3	9.5	13.0	7.6	7.3	6.9	9.0	10.9	11.1	7.1	5.5	5.4	7.6
Three -month interest rate spread over $-LIBOR (ppts)	3.7	5.8	11.3	6.4	5.7	3.4	3.8	5.6	8.2	6.4	5.1	5.1	6.4
Three -year yield (average %)	11.6	10.8	10.7	8.7	7.4	7.2	8.3	9.2	6.9	8.1	6.8	7.5	7.5
10-year yield (average %)	12.7	11.5	10.6	9.2	8.2	7.4	7.8	8.4	7.3	9.1	8.1	8.5	8.5
Exchange rate (ZAR/$) year-end	7.56	12.00	8.59	6.62	5.64	6.32	6.97	6.81	9.53	7.40	6.62	7.10	7.90
Exchange rate (ZAR/$) annual average	6.97	8.74	10.34	7.39	6.38	6.35	6.80	7.02	8.24	8.30	7.30	6.94	7.53
Exchange rate (ZAR/EUR) year-end	7.12	10.68	9.02	8.33	7.64	7.48	9.20	9.94	13.32	10.59	8.60	9.87	10.67
Exchange rate (ZAR/EUR) annual average	6.44	7.83	9.78	8.36	7.94	7.90	8.54	9.62	12.12	11.57	9.49	9.83	10.23

Source: Stats SA, National Treasury, Andrew Levy Publications, SARS, I-Net Bridge, Bloomberg, Renaissance BJM estimates

Zambia

Figure 122: Manageable public debt ratio

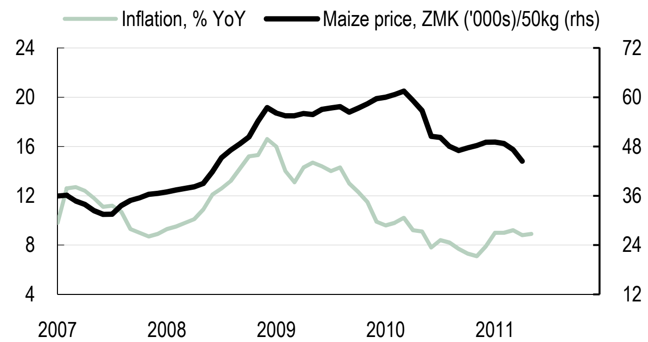


Source: IMF

Figure 123: Modest growth in copper output and exports

Source: Bank of Zambia, Central Statistical Office

Figure 124: Good harvests keep inflation low



Source: Bank of Zambia, Central Statistical Office

Figure 125: Presidential results from 2008 snap elections

Candidate (Party)	Number of votes	% of votes
Rupiah Banda (MMD)	718,359	40.63
Michael Sata (PF)	683,150	38.64
Hakainde Hichelema (UPND)	353,018	19.96
Godfrey Miyanda (Heritage Party)	13,683	0.77

Source: African Elections Database

Debut sovereign bond issuance by YE11

In 1Q11, Fitch and Standard & Poor's rated Zambia for the first time, both giving it a sovereign credit rating of B+, which is equivalent to that of Angola and Nigeria. According to Fitch, its rating reflected Zambia's significant improvement in economic performance, ongoing political stability, rising investment, positive policy interventions in the business environment and sustainable public debt ratios. These ratings have paved the way for Zambia's first sovereign bond issuance, which the finance minister has said will take place by October 2011. The government plans to issue a $500mn eurobond, using the funds raised for infrastructure development. As elections are scheduled to occur in September/October 2011, it appears to us that this administration wants to issue the bond before its term expires. About 40% of the fund ($209mn) will go towards a road rehabilitation project. Part of the remaining funds will be assigned to energy infrastructure projects. The 120 MW Itezhi-Tezhi hydroelectric plant that is being jointly developed by Zambia's power utility and Tata Africa is one such project.

Current investments are positive for the copper outlook

Copper production declined 5.4% YoY in 1Q11 to 198,200mnt, compared to growth of 14.9% YoY a year earlier and 24.6% YoY in 4Q10. This fall in production is, in our view, temporary. Our outlook for copper is positive given the large investments presently taking place in the sector. We expect these to significantly boost production over the medium term. Moreover, the strong copper price that increased 31% in the year to May 2011 is positive for both export earnings and activity in the real economy in 2011. Copper is responsible for 60-70% of total export earnings, so strong prices and rising output is positive for the C/A balance, which amounted to a surplus of 3.9% of GDP 2010, up from a deficit of 3.2% in 2009. The effect of the strong oil price on the import bill is projected to narrow the C/A surplus in 2011. However, FX reserves, which increased to 3.4 months of cover in April, according to our estimates, from 3.2 months in December 2010, should be sustained by strong foreign capital inflows, largely due to FDI.

Low food prices to contain inflation

Although Zambia's inflation accelerated in January to 9.0% YoY, from 7.9% YoY in December 2010, it has since been moving sideways, to 8.9% YoY in May. This recent stability can largely be explained by the slowdown of food inflation to 4.2% YoY in May, from 5.2% in January. The price of Zambia's main staple food, maize, fell 25% in the year to April 2011 to ZMK44,425/50 kg. In keeping with the mid-year harvest season, food prices declined in May. We expect food inflation to remain below 5% in 2H11 owing to high food stocks. Conversely, non-food inflation is currently in the low double digits; however, it slowed in 2Q11, at 13.3% YoY in May from 14.4% in March, on the back of softer price inflation for transport and communication, and furniture and household goods. However, rent, fuel and lighting price inflation remains high, in the region of 20%. The potential moderation of fuel prices, due to weakness in the global economy, and low food prices, as well as a stable kwacha, bode well for the inflation outlook, in our view. We expect inflation to average 8.7% in 2011. This negates a tightening in monetary policy, which explains why the Bank of Zambia rate moved sideways to 8.1% in April, from 8.3% at YE10.

President Rupiah Banda has the advantage of incumbency

Banda, of the ruling Movement for Multiparty Democracy (MMD) party, plans to run for president for a second time in September/October 2011, after completing a term that was started in 2006 by his predecessor, the late Levy Mwanawasa. Following Mwanawasa's death in August 2008, snap elections were held in October 2008, in which Banda (the former vice president) came to power. In addition to the advantage of incumbency, the recent split of the opposition's alliance works in Banda's favour. Banda's main contender at the 2011 presidential poll is likely to be the veteran opposition leader, Michael Sata, of the Patriotic Front (PF) party. However, his former coalition partner, Hakainde Hichilema, of the United Party for National Development (UPND), did surprisingly well at the 2006 polls and should not be discounted. Hichilema won 25% of the vote in the 2006 elections, compared to Sata's 29% of the vote. However, Hichilema did not perform as well at the 2008 snap elections, in which he won 20% of the vote compared with Sata's 39%. The lucrative mining sector is again likely to emerge as an electioneering issue in the run-up to the 2011 elections.

Zambia: Key economic forecasts

Ratings (M/S&P/F): NR/B+/B+

Figure 126: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	3.6	4.9	2.7	5.7	5.4	5.2	6.3	6.2	5.7	6.4	7.6	6.9	6.4
Private consumption (% YoY)	3.7	5.0	-10.7	5.1	5.5	4.9	6.0	5.9	4.8	6.3	7.6	6.8	6.2
Government consumption (% YoY)	2.4	4.8	18.7	6.0	7.0	6.1	7.1	7.5	7.6	7.5	7.9	7.6	7.0
Investment (% YoY)	1.8	5.1	5.7	6.1	4.3	6.0	10.7	8.7	6.3	4.0	8.0	6.6	6.0
Industry, value added (% YoY)	2.9	9.2	9.7	8.7	10.4	9.4	9.1	8.3	4.4	17.6	9.2	9.1	9.0
Nominal GDP (ZMKbn)	10,072	13,133	16,346	20,703	25,917	31,945	38,561	46,195	55,079	64,326	74,359	85,586	98,339
Nominal GDP (EURbn)	3.5	3.9	3.9	3.8	4.4	5.8	8.5	8.4	10.0	9.1	11.7	12.7	15.1
Nominal GDP ($bn)	3.2	3.5	3.7	4.3	5.4	7.2	10.7	11.6	14.7	12.7	15.5	18.0	20.6
Population (mn)	10.1	10.3	10.5	10.7	10.9	11.1	11.3	11.5	11.7	12.0	12.2	12.4	12.7
GDP per capita ($)	320	344	351	405	500	651	949	1,003	1,251	1,065	1,270	1,453	1,620
Gross domestic saving (% of GDP)	3.0	2.8	7.9	13.0	19.9	21.8	31.4	30.2	24.1	18.3	20.5	22.0	20.1
Stock of bank credit to corporate/ household sector (ZMKbn)	na	940	977	1,357	2,061	2,428	3,714	5,415	8,167	7,699	8,723	10,860	14,748
Stock of bank credit to corporate/ household sector (% of GDP)	na	7.2	6.0	6.6	8.0	7.6	9.6	11.7	14.8	12.0	11.7	12.7	15.0
Loan-to-deposit ratio	na	63.9	53.3	64.7	56.0	62.9	60.7	65.4	66.7	60.1	61.3	65.2	69.4
Prices													
CPI (average % YoY)	26.1	21.4	22.2	21.4	18.0	18.3	9.0	10.7	12.4	13.4	8.5	8.7	8.0
CPI (year-end % YoY)	30.1	18.7	26.7	17.2	17.5	15.9	8.2	8.9	16.6	9.9	7.9	9.9	8.6
Fiscal balance													
General government budget balance (% of GDP)	1.2	-6.6	-5.1	-6.0	-2.9	-2.8	20.2	-1.3	-1.5	-3.2	-2.6	-3.4	-4.1
Total public debt (% of GDP)	na	236	204	180	149	87.9	29.8	25.8	26.8	26.0	25.7	26.7	28.3
External balance													
Exports ($bn)	0.8	0.9	1.0	1.1	1.8	2.2	3.9	4.5	5.0	4.3	7.2	8.8	10.1
Imports ($bn)	1.0	1.3	1.2	1.4	1.7	2.2	2.6	3.6	4.6	3.4	5.3	6.9	8.4
Trade balance ($bn)	-0.2	-0.3	-0.2	-0.3	0.1	0.1	1.3	0.9	0.4	0.9	1.9	1.9	1.8
Trade balance (% of GDP)	-6.8	-9.7	-5.8	-7.1	2.2	1.2	12.1	7.8	2.8	7.1	12.1	10.5	8.6
Current account balance ($bn)	-0.6	-0.7	-0.5	-0.6	-0.6	-0.6	0.0	-0.8	-1.0	-0.4	0.6	0.2	0.1
Current account balance (% of GDP)	-18.5	-19.8	-13.7	-14.4	-10.4	-8.4	-0.4	-6.5	-7.1	-3.2	3.9	1.1	0.5
Net FDI ($bn)	0.1	0.1	0.3	0.3	0.4	0.4	0.6	1.3	0.9	1.0	1.8	1.8	1.3
Net FDI (% of GDP)	3.8	2.0	8.2	8.0	6.7	4.9	5.7	11.5	6.4	7.5	11.6	10.0	6.3
Current account balance plus FDI (% of GDP)	-14.7	-17.7	-5.5	-6.3	-3.7	-3.5	5.3	4.9	-0.8	4.4	15.5	11.1	6.8
Exports (% YoY, value)	na	20	9	10	70	22	75	15	10	-13	66	22	15
Imports (% YoY, value)	na	28	-4	16	24	25	22	37	26	-25	56	30	21
Foreign exchange reserves (ex. gold, $bn)	0.2	0.2	0.5	0.2	0.3	0.6	0.7	1.1	1.1	1.3	1.5	2.0	2.4
Import cover (months of merchandise imports)	3.0	1.8	5.3	2.1	2.3	3.1	3.3	3.6	2.9	4.6	3.4	3.5	3.4
Debt indicators													
Gross external debt ($bn)	5.7	6.1	6.6	6.8	7.4	5.4	2.3	2.8	3.0	3.0	3.1	3.8	3.9
Gross external debt (% of GDP)	177	173	179	157	137	74	21	24	20	24	20	21.1	19.0
Gross external debt (% of exports)	756	670	665	625	404	239	58	61	60	71	43	43.2	38.5
Total debt service ($bn)	0.2	0.2	0.2	0.6	0.5	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Total debt service (% of GDP)	5.8	5.2	6.1	12.9	8.6	3.9	1.3	1.0	1.1	1.3	1.2	1.1	1.0
Total debt service (% of exports)	24.5	20.3	22.7	51.3	25.3	12.5	3.6	2.7	3.4	4.0	2.5	2.2	2.0
Interest and exchange rates													
Bank of Zambia rate (% year-end)	44.1	52.5	34.0	21.3	18.3	17.1	10.7	13.5	15.9	8.3	7.8	8.1	8.4
Broad money supply (% YoY)	75.1	12.3	31.3	18.4	31.2	0.2	45.0	26.6	21.8	8.0	29.5	28.5	30.2
Credit to the private sector (% YoY)	na	na	4.0	38.9	50.7	17.3	54.5	42.6	52.7	-6.4	13.3	24.5	35.8
Three-month interest rate (treasury bill average %)	34.3	45.2	36.7	31.0	11.1	15.2	9.3	11.2	12.3	13.0	4.3	6.0	6.7
Three-month interest rate spread over $-LIBOR (ppts)	27.7	41.4	34.9	29.8	9.4	11.6	4.1	5.9	9.4	12.3	4.0	5.7	5.5
Five-year yield (% average)	na	na	na	na	na	na	15.9	14.9	16.6	19.2	12.7	13.0	13.7
Exchange rate (ZMK/EUR) year-end	3,642	3,495	4,776	5,727	6,307	3,960	5,843	5,636	6,702	6,644	6,404	6,609	6,480
Exchange rate (ZMK/EUR) annual average	2,885	3,325	4,202	5,417	5,924	5,500	4,517	5,478	5,515	7,039	6,366	6,726	6,491
Exchange rate (ZMK/$) year-end	3,865	3,925	4,550	4,550	4,652	3,345	4,428	3,863	4,795	4,641	4,785	4,755	4,800
Exchange rate (ZMK/$) annual average	3,124	3,712	4,442	4,784	4,762	4,420	3,595	3,997	3,749	5,048	4,798	4,750	4,780

Source: Bloomberg, Bank of Zambia, IMF, Zambia's Central Statistics Office, World Bank, Renaissance Capital estimates

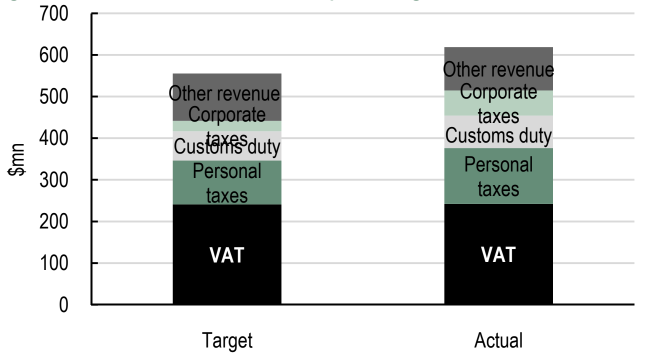
Zimbabwe

Figure 127: Parliamentary representation of political parties

Chamber	Party acronym	Seats	Percentage
House of Assembly	MDC-T	102	48
House of Assembly	ZANU-PF	100	47
House of Assembly	MDC-M	11	5
House of Assembly	Independent	1	0
Senate	Appointed	33	33
Senate	ZANU-PF	31	31
Senate	MDC-T	28	28
Senate	MDC-M	8	8

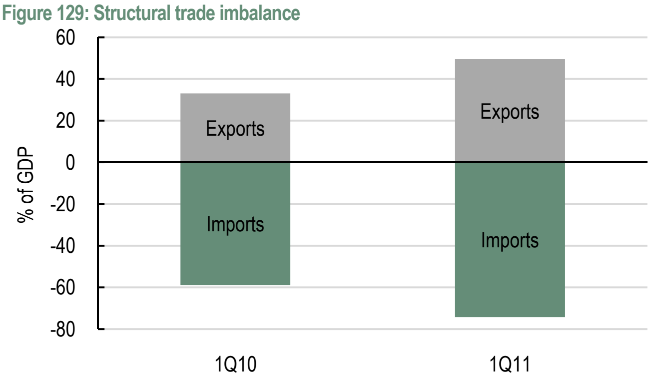
Source: IHS Global Insight

Figure 128: Revenue collection in 1Q11 surpasses target



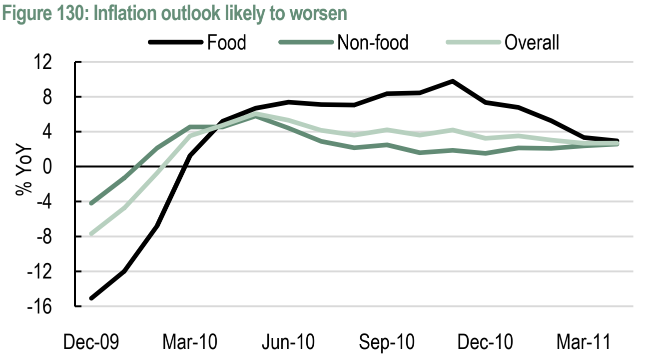
Source: Reserve Bank of Zimbabwe

Figure 129: Structural trade imbalance



Source: Reserve Bank of Zimbabwe, Renaissance Capital estimates

Figure 130: Inflation outlook likely to worsen



Source: Zimbabwe's authorities

Elections in 2011 are ruled out

The Southern African Development Community (SADC) summit held during 11-12 June 2011 was the first political win for Prime Minister Morgan Tsvangirai's Movement for Democratic Change (MDC-T) party since the unity government came into being. The SADC thwarted hardliners from President Robert Mugabe's Zimbabwe African National Union-Patriotic Front (ZANU-PF) party who wished to hold the elections by YE11, and it redirected the focus on to implementing the Global Partnership Agreement (GPA) commitments, which implies to us that elections will, at best, take place in 2012. ZANU-PF is now compelled to address its party's succession issue. Theoretically, the second in line is Vice President Joyce Mujuru. She is considered to be a moderate, and thus more amenable to a unity government. Mugabe's health concerns bring forth the implication of him dying in office. According to the constitution, if the president cannot perform his duties and is alive, he must designate his vice president as the acting president. However, if the president dies in office, the vice president that last acted as president will become the acting president until elections are held within 90 days.

Government revenue collection outperforms target

Revenue collection in 1Q11 was 11% higher than targeted at $619mn. The main sources of domestic revenue were receipts from VAT and personal income taxes, which were $242mn and $134mn, respectively. Zimbabwe's import dependency is reflected in the 12% rise in customs duty to $78mn. Corporate taxes increased more than two-fold to $60mn in 1Q11; however, these are a relatively small constituent of government revenue when compared with revenue from VAT and personal taxes. If the government can sustain its revenue performance in 1Q11 during the rest of the year, the cash-based budgeting system will be able to generate the revenue the government requires to meet its obligations. However, in spite of the strong revenues, spending is still heavily skewed towards recurrent expenses. In 1Q11, 93% of spending was on recurrent expenses and only 4% on capital spending. Moreover, the wage bill makes up almost half of the budget. The hiking of the minimum wage to between $253-397/month in June, from $150/month, implies to us that capital spending will be further crowded out.

Trade deficit widens in 1Q11

The trade deficit increased 12% YoY to $558mn in 1Q11 (about 28% of GDP), despite export earnings growing faster than imports. However, the country's high import propensity for intermediate and final goods means imports dominate the trade account, explaining the structural trade imbalance. Export earnings surged 67% YoY to $1bn in 1Q11, while the import bill increased 36% to $1.5bn. The stellar performance of exports was due to strong prices for minerals and the country's improving tobacco production. Tobacco exports increased 22% YoY to 38mn kg of flue-cure tobacco, worth $112mn, in the period from the beginning of the marketing season in February to April 2011. The manufacturing sector's low capacity utilisation of 40-50% explains the country's huge demand for final goods, including machinery and equipment. Ancient machinery and equipment, a dearth of long-term financing and rising wage bills have pushed up operational costs and made local products uncompetitive. There is further downside risk to the C/A deficit from rising global food prices, especially given that Zimbabwe is a net cereal importer.

Risks to inflation outlook rise

Inflation slowed to 2.5% YoY in May 2011, from 3.2% YoY at YE10, on the back of falling clothing and footwear, and housing and utilities prices. This allowed for non-food inflation to slow in May, after accelerating in January-April on the back of rising energy prices. Transport inflation accelerated to 9.7% YoY in April, from deflation of 2.9% YoY at YE10, before easing to 9.2% in May. Good harvests due to benign weather explain the slowdown in food inflation to 2.3% YoY in May, from 7.3% YoY at YE10. We are of the view that inflation will accelerate in 2H11, on the back of rising global food prices, especially given that Zimbabwe is a net food importer. And, unless the rand weakens, it will remain a risk for this dollarised economy. Zimbabwe's poverty datum line measures how much the cost of a subsistence basket of goods needs to grow to keep above the poverty line. This line has increased by an average of 8.8% YoY in the past five months, which is higher than the current CPI of 3.3%. This has been attributed to the diluting effect of items with prices that change less frequently, including services. This implies to us that the cost of living for low-income households is rising faster than CPI inflation suggests.

Zimbabwe: Key economic forecasts

Ratings (M/S&P/F): NR/NR/NR

Figure 131: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	-7.9	-2.7	-4.4	-10.4	-3.8	-4.0	-3.7	-3.7	-14.8	6.0	9.0	7.5	7.0
Private consumption (% YoY)	-14.3	8.6	2.8	-6.3	-11.3	-8.4	na	na	na	na	na	na	na
Government consumption (% YoY)	55.5	-32.8	-1.8	-15.5	31.7	7.7	na	na	na	na	na	na	na
Investment (% YoY)	-20.5	39.4	9.2	-28.1	43.5	-54.8	na	na	na	na	na	na	na
Industry, value added (% YoY)	-10.4	-8.2	-11.0	-14.5	-3.5	-11.7	-14.3	-16.8	-19.4	8.1	11.1	10.2	9.8
Nominal GDP (EURbn)	8.0	11.5	23.1	6.5	3.8	4.1	4.0	3.6	3.4	4.2	5.6	5.7	6.9
Nominal GDP ($bn)	7.4	10.3	21.9	7.4	4.7	5.2	5.0	5.0	5.0	5.8	7.5	8.1	9.3
Population (mn)	11.7	11.7	11.6	11.8	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
GDP per capita ($)	633	879	1,882	629	402	439	423	425	423	497	637	689	794
Gross domestic saving (% of GDP)	13.3	11.6	7.1	6.2	4.1	0.6	na	na	na	na	na	na	na
Stock of bank credit to corporate/household sector ($bn)	na	na	na	na	na	na	na	na	na	0.7	1.7	2.1	2.5
Stock of bank credit to corporate/household sector (% of GDP)	na	na	na	na	na	na	na	na	na	11.7	22.3	25.7	27.0
Loan-to-deposit ratio	na	na	na	na	na	na	na	na	na	13.0	22.5	24.0	26.0
Prices													
CPI (average % YoY)	na	na	na	na	na	na	na	na	na	6.5	3.0	4.5	5.8
CPI (year-end % YoY)	na	na	na	na	na	na	na	na	na	-7.7	3.2	5.4	6.1
Fiscal balance													
General government budget balance (% of GDP)	na	na	na	na	na	-9.6	-3.6	-4.1	-3.1	-3.3	-2.9	-2.4	-2.3
Total public debt (% of GDP)	na	na	na	na	na	58.1	64.6	69.8	88.4	89.7	91.2	93.5	95.0
External balance													
Exports ($bn)	2.7	2.4	2.0	1.9	2.0	1.9	1.9	1.8	1.8	1.6	3.4	4.3	2.6
Imports ($bn)	2.7	2.2	2.2	2.2	2.5	2.5	2.4	2.3	3.0	3.3	5.2	5.9	3.7
Trade balance ($bn)	0.0	0.1	-0.2	-0.4	-0.5	-0.6	-0.5	-0.4	-1.2	-1.7	-1.8	-1.5	-1.1
Trade balance (% of GDP)	-0.3	1.3	-0.9	-5.2	-10.1	-10.7	-10.0	-8.8	-23.8	-28.3	-23.8	-19.0	-11.8
Current account balance ($bn)	0.0	-0.1	-0.2	-0.4	-0.5	-0.6	-0.5	-0.2	-0.8	-1.4	-1.7	-1.2	-0.9
Current account balance (% of GDP)	-0.3	-0.8	-1.1	-5.1	-10.4	-12.2	-9.4	-4.9	-15.7	-24.4	-23.2	-14.9	-9.5
Net FDI ($bn)	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net FDI (% of GDP)	0.3	0.0	0.1	0.1	0.2	2.0	0.8	1.4	1.0	1.0	1.1	1.0	1.0
Current account balance plus FDI (% of GDP)	0.0	-0.7	-1.0	-5.0	-10.3	-10.2	-8.6	-3.5	-14.7	-23.4	-22.1	-13.9	-8.6
Exports (% YoY, value)	na	-11	-15	-8	8	-3	-3	-3	-3	-9	108	29	-40
Imports (% YoY, value)	na	-17	-1	1	11	1	-4	-5	30	11	58	14	-37
Foreign exchange reserves (ex. gold, $bn)	0.2	0.1	0.1	na	na	na	na	0.2	0.1	0.4	0.5	0.4	0.4
Import cover (months of merchandise imports)	0.9	0.3	0.5	na	na	na	na	0.8	0.3	1.6	1.1	0.9	1.3
Debt indicators													
Gross external debt ($bn)	3.8	3.6	3.9	4.5	4.8	4.2	4.6	5.4	5.3	7.6	8.8	9.6	10.5
Gross external debt (% of GDP)	na	35	18	60	101	82	93	108	106	130	118	119	113
Gross external debt (% of exports)	na	152	193	240	238	218	245	291	296	468	261	221	404
Total debt service ($bn)	0.4	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Total debt service (% of GDP)	na	2	0	1	3	5	2	2	2	2	2	2	2
Total debt service (% of exports)	na	7	5	4	6	12	5	5	5	6	4	3	6
Exchange rates													
Exchange rate (ZAR/EUR) year-end	7.12	10.7	9.02	8.33	7.64	7.48	9.20	9.94	13.3	10.6	8.86	9.87	10.7
Exchange rate (ZAR/EUR) annual average	6.44	7.83	9.78	8.36	7.94	7.90	8.54	9.62	12.1	11.6	9.69	9.83	10.2
Exchange rate (ZAR/$) year-end	7.56	12.0	8.59	6.62	5.64	6.32	6.97	6.81	9.53	7.40	6.62	7.10	7.90
Exchange rate (ZAR/$) annual average	6.97	8.74	10.34	7.39	6.38	6.35	6.80	7.02	8.24	8.30	7.30	6.94	7.53

Source: National Sources, Renaissance Capital estimates

Eurozone

Figure 132: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	4.0	1.9	0.9	0.8	2.0	1.8	3.2	2.8	0.3	-4.1	1.7	1.6	1.8
Private consumption (% YoY)	3.1	2.0	0.9	1.2	1.3	1.8	2.1	1.6	0.3	-1.2	0.8	0.9	1.2
Government consumption (% YoY)	2.4	2.1	2.4	1.7	1.6	1.6	2.3	2.2	2.2	2.4	0.3	0.2	0.3
Investment (% YoY)	5.2	2.6	-1.7	1.3	1.8	3.2	5.6	5.1	-0.8	-11.1	-0.9	2.2	3.5
Industrial production (% YoY)	5.5	-0.3	-0.2	0.3	2.2	1.5	4.3	3.8	-1.6	-14.7	7.4	3.5	2.0
Unemployment rate year-end (%)	8.3	8.2	8.8	9.0	9.3	9.0	8.1	7.4	8.1	10.0	10.1	10.0	9.7
Nominal GDP (EURbn)	6,792	7,090	7,336	7,558	7,853	8,149	8,571	9,031	9,242	8,950	9,182	9,576	9,979
Nominal GDP ($bn)	6,273	6,350	6,940	8,558	9,769	10,140	10,769	12,380	13,597	12,481	12,182	13,560	13,551
Population (mn)	306	308	309	311	313	315	317	318	328	329	330	331	332
GDP per capita ($)	20,484	20,646	22,453	27,514	31,209	32,188	34,006	38,880	41,459	37,894	36,861	40,911	40,791
Prices													
CPI (average % YoY)	2.1	2.4	2.2	2.1	2.1	2.2	2.2	2.1	3.3	0.3	1.6	2.7	2.4
CPI (year-end % YoY)	2.5	2.0	2.3	2.0	2.4	2.2	1.9	3.1	1.6	0.9	2.2	2.9	2.0
PPI (average % YoY)	5.0	2.2	-0.1	1.4	2.3	4.1	5.0	2.8	5.8	-4.9	2.9	5.0	2.5
Wage rates (% YoY, nominal)	2.5	3.5	3.5	3.3	2.6	2.1	2.3	2.4	3.5	2.9	1.5	2.0	2.3
Fiscal balance													
Consolidated government balance (% of GDP)	-0.1	-1.9	-2.7	-3.1	-3.0	-2.6	-1.4	-0.7	-2.1	-6.4	-6.0	-5.0	-4.0
Consolidated primary balance (% of GDP)	na	na	na	na	na	na	1.5	2.3	1.0	-3.5	-3.2	-1.3	-0.4
Total public debt	69.1	68.0	67.8	69.0	69.4	70.0	68.4	66.2	69.9	79.3	85.4	88.0	89.0
External balance													
Exports ($bn)	912	938	1,021	1,199	1,431	1,527	1,752	2,076	2,299	1,789	2,031	2,200	2,225
Imports ($bn)	940	905	935	1,127	1,352	1,521	1,779	2,067	2,380	1,766	2,043	2,250	2,300
Trade balance ($bn)	-28.2	32.7	85.8	71.1	78.3	6.5	-27.2	8.6	-80.9	23.1	-12.1	-50.0	-75.0
Trade balance (% of GDP)	-0.4	0.5	1.2	0.8	0.8	0.1	-0.3	0.1	-0.6	0.2	-0.1	-0.4	-0.6
Current account balance ($bn)	-38.7	4.6	46.7	39.9	116.2	45.1	47.4	33.6	-80.4	-20.3	14.6	-15.0	-35.0
Current account balance (% of GDP)	-0.6	0.1	0.7	0.5	1.2	0.4	0.4	0.3	-0.6	-0.2	0.1	-0.1	-0.3
Net FDI ($bn)	-12.9	-98.2	21.4	-10.9	-99.1	-256	-201	-124	-354	-104	-136	-100	-125
Net FDI (% of GDP)	-0.2	-1.5	0.3	-0.1	-1.0	-2.5	-1.9	-1.0	-2.6	-0.8	-1.1	-0.7	-0.9
Current account balance plus FDI (% of GDP)	-0.8	-1.5	1.0	0.3	0.2	-2.1	-1.4	-0.7	-3.2	-1.0	-1.0	-0.8	-1.2
Exports (% YoY, value)	7.3	2.8	8.9	17.4	19.4	6.8	14.7	18.5	10.7	-22.2	13.5	8.3	1.1
Imports (% YoY, value)	18.2	-3.7	3.4	20.5	19.9	12.5	17.0	16.2	15.1	-25.8	15.6	10.1	2.2
Foreign exchange reserves (ex. gold, $bn)	227	217	210	199	179	176	173	196	215	193	201	230	220
Import cover (months of merchandise imports)	2.9	2.9	2.7	2.1	1.6	1.4	1.2	1.1	1.1	1.3	1.2	1.2	1.1
Interest and exchange rates													
Broad money supply (% YoY)	3.80	6.30	6.50	7.50	6.50	8.70	9.50	10.00	8.10	1.70	2.10	1.50	3.50
Three-month interest rate (EURIBOR average %)	4.40	4.27	3.32	2.33	2.11	2.18	3.08	4.28	4.64	1.22	0.81	1.45	2.00
Three-month interest rate spread over US $ LIBOR (ppts)	-2.14	0.49	1.53	1.12	0.48	-1.38	-2.12	-1.02	1.72	0.53	0.47	1.15	0.80
Three-year yield (average %)	4.94	4.12	3.88	2.79	2.80	2.52	3.48	4.11	3.55	1.72	1.08	1.70	2.10
10-year yield (average %)	5.26	4.82	4.79	4.10	4.07	3.38	3.78	4.23	4.00	3.27	2.78	3.13	3.41
Exchange rate $/EUR (year-end)	0.94	0.89	1.05	1.26	1.36	1.18	1.32	1.46	1.40	1.43	1.34	1.39	1.35
Exchange rate $/EUR (average)	0.92	0.90	0.95	1.13	1.24	1.24	1.26	1.37	1.47	1.39	1.33	1.42	1.36

Source: National sources, Bloomberg, Renaissance Capital estimates

US

Ratings (M/S&P/F): Aaa/AAA/AAA

Figure 133: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	4.1	1.1	1.8	2.5	3.6	3.1	2.7	1.9	0.0	-2.6	2.9	2.5	2.5
Private consumption (% YoY)	5.1	2.7	2.7	2.8	3.5	3.4	2.9	2.4	-0.3	-1.2	1.7	2.5	3.0
Government consumption (% YoY)	2.0	3.8	4.7	2.2	1.4	0.3	1.4	1.3	2.8	1.6	1.0	0.3	-0.5
Investment (% YoY)	6.8	-7.0	-1.4	3.6	10.0	5.5	2.7	-3.1	-9.5	-22.6	17.1	8.0	8.0
Industrial production (% YoY)	4.0	-3.4	0.2	1.3	2.3	3.2	2.2	2.7	-3.7	-11.2	5.3	5.0	5.0
Unemployment rate year-end (%)	3.9	5.7	6.0	5.7	5.4	4.9	4.4	5.0	7.3	9.9	9.4	8.6	7.5
Nominal GDP ($bn)	9,951	10,286	10,642	11,142	11,868	12,638	13,399	14,062	14,369	14,119	14,660	15,467	16,286
Nominal GDP (EURbn)	10,774	11,484	11,249	9,840	9,540	10,157	10,664	10,259	9,767	10,125	11,049	10,923	11,993
Population (mn)	281	285	288	291	294	297	299	302	304	307	309	312	316
GDP per capita ($)	35,361	36,063	36,936	38,316	40,416	42,624	44,753	46,621	47,257	45,989	47,484	49,573	51,539
Prices													
CPI (average % YoY)	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-0.3	1.6	3.0	2.8
CPI (year-end % YoY)	3.4	1.6	2.4	1.9	3.3	3.4	2.5	4.1	0.1	2.7	1.5	2.6	3.0
PPI (average % YoY)	3.7	2.0	-1.3	3.2	3.6	4.9	3.0	3.9	6.4	-2.5	4.2	5.0	5.0
Wage rates (% YoY, nominal)	3.9	3.8	2.9	2.7	2.1	2.8	3.9	4.0	3.8	3.0	2.4	2.5	3.0
Fiscal balance													
Consolidated government balance (% of GDP)	2.1	-0.3	-3.9	-4.9	-4.4	-3.2	-2.0	-2.7	-6.5	-12.7	-10.6	-10.8	-8.0
Consolidated primary balance (% of GDP)	4.1	1.9	-1.7	-2.9	-2.5	-1.3	0.7	0.1	-3.5	-8.7	-8.4	-7.1	-5.7
Total public debt	54.8	54.7	57.1	60.4	61.4	61.7	61.1	62.2	71.2	84.6	91.6	100	103
External balance													
Exports ($bn)	772	719	682	713	808	895	1,023	1,149	1,291	1,046	1,286	1,546	1,800
Imports ($bn)	1,224	1,146	1,165	1,261	1,473	1,677	1,860	1,964	2,117	1,562	1,933	2,210	2,400
Trade balance ($bn)	-452	-427	-482	-547	-665	-783	-836	-815	-826	-517	-647	-664	-600
Trade balance (% of GDP)	-4.5	-4.2	-4.5	-4.9	-5.6	-6.2	-6.2	-5.8	-5.7	-3.7	-4.4	-4.3	-3.7
Current account balance ($bn)	-416	-397	-458	-521	-630	-748	-803	-718	-669	-378	-470	-480	-420
Current account balance (% of GDP)	-4.2	-3.9	-4.3	-4.7	-5.3	-5.9	-6.0	-5.1	-4.7	-2.7	-3.2	-3.1	-2.6
Net FDI ($bn)	162	24.7	-70.1	-85.8	-170	76.4	-1.8	-143	-22.8	-134	-151	-100	-75.0
Net FDI (% of GDP)	1.6	0.2	-0.7	-0.8	-1.4	0.6	0.0	-1.0	-0.2	-0.9	-1.0	-0.6	-0.5
Current account balance plus FDI (% of GDP)	-2.6	-3.6	-5.0	-5.4	-6.7	-5.3	-6.0	-6.1	-4.8	-3.6	-4.2	-3.7	-3.0
Exports (% YoY, value)	10.8	-6.9	-5.0	4.5	13.2	10.8	14.4	12.3	12.4	-19.0	22.9	20.2	16.4
Imports (% YoY, value)	17.2	-6.4	1.6	8.2	16.8	13.9	10.9	5.6	7.8	-26.2	23.7	14.4	8.6
Foreign exchange reserves (ex. gold, $bn)	56.3	56.1	61.5	70.8	72.9	63.7	55.4	56.6	62.8	89.5	118	120	130
Import cover (months of merchandise imports)	0.6	0.6	0.6	0.7	0.6	0.5	0.4	0.3	0.4	0.7	0.7	0.7	0.7
Interest and exchange rates													
Broad money supply (% YoY)	6.00	8.70	7.60	6.90	4.60	4.20	5.30	6.30	7.10	7.80	3.00	2.50	2.00
Three-month interest rate (LIBOR $ average %)	6.40	1.90	1.40	1.20	2.60	4.50	5.40	4.70	1.40	0.25	0.34	0.30	1.20
Three-month interest rate spread over EURIBOR (ppts)	2.0	-2.4	-1.9	-1.1	0.5	2.3	2.3	0.4	-3.2	-1.0	-0.5	-1.2	-0.8
Three-year yield (average %)	6.23	4.16	3.10	2.05	2.73	3.91	4.76	4.43	1.20	1.41	1.09	1.00	2.00
10-year yield (average %)	6.02	5.00	4.59	3.99	4.25	4.28	4.78	4.62	3.64	3.24	3.19	3.50	4.30
Exchange rate ($/EUR) year-end	0.94	0.89	1.05	1.26	1.36	1.18	1.32	1.46	1.40	1.43	1.34	1.39	1.35
Exchange rate ($/EUR) annual average	0.92	0.90	0.95	1.13	1.24	1.24	1.26	1.37	1.47	1.39	1.33	1.42	1.36

Source: National sources, Bloomberg, Renaissance Capital estimates

China

Ratings (M/S&P/F): Aa3/AA-/A+

Figure 134: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	8.4	8.3	9.1	10	10.1	11.3	12.7	14.2	9.6	9.2	10.3	9.0	8.0
Private consumption (% YoY)	9.4	7.8	7.3	8.7	13.1	11.4	13.0	16.5	15.7	9.5	9.0	9.5	8.5
Government consumption (% YoY)	14.2	11.7	7.2	6.8	11.5	18.2	15.6	17.6	16.3	6.3	15.0	12.0	8.5
Investment (% YoY)	5.7	14.1	14.6	22.8	23.6	12.6	19.4	19.4	24.7	18.9	7.5	10.0	10.0
Industrial production (% YoY)	11.4	9.9	12.6	17.0	16.7	16.4	16.6	18.5	12.7	11.4	17.8	14.0	13.0
Unemployment rate year-end (%)	3.1	3.6	4.0	4.3	4.2	4.2	4.1	4.0	4.2	4.3	4.1	4.0	4.0
Nominal GDP (CNYbn)	9,922	10,966	12,033	13,582	15,988	18,494	21,631	26,581	31,405	34,090	39,798	44,972	50,369
Nominal GDP (EURbn)	1,298	1,479	1,537	1,449	1,553	1,814	2,159	2,549	3,072	3,579	4,435	5,041	6,507
Nominal GDP ($bn)	1,198	1,325	1,454	1,641	1,932	2,257	2,713	3,494	4,519	4,990	5,884	7,138	8,837
Population (mn)	1,267	1,276	1,285	1,292	1,300	1,308	1,314	1,321	1,328	1,335	1,341	1,348	1,355
GDP per capita ($)	946	1,038	1,132	1,270	1,486	1,726	2,064	2,644	3,403	3,739	4,386	5,296	6,522
Stock of lending to households and corporates (% of GDP)	112	111	119	127	120	114	113	107	104	127	131	132	128
Population growth (% YoY)	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Prices													
CPI (average % YoY)	0.4	0.7	-0.8	1.2	3.9	1.8	1.5	4.8	5.9	-0.7	3.3	5.1	3.6
CPI (year-end % YoY)	1.5	-0.3	-0.4	3.2	2.4	1.6	2.8	6.5	1.2	1.9	4.6	4.5	3.0
PPI (average % YoY)	2.6	-1.3	-2.3	2.4	6.1	4.9	3.0	3.1	6.9	-5.4	5.5	na	na
Fiscal balance													
Consolidated government balance (% of GDP)	-2.5	-2.3	-2.6	-2.2	-1.3	-1.2	-0.8	0.6	-0.4	-2.3	-2.6	-1.6	-0.9
Total public debt (% of GDP)	16.4	17.7	18.9	19.2	18.5	17.6	16.2	19.6	17.0	17.7	17.7	17.1	16.3
External balance													
Exports ($bn)	249	266	326	438	593	762	969	1,218	1,431	1,202	1,578	1,875	2,099
Imports ($bn)	225	244	295	413	561	660	791	956	1,133	1,006	1,394	1,744	1,988
Trade balance ($bn)	24.1	22.5	30.4	25.5	32.1	102	177	262	298	196	184	131	112
Trade balance (% of GDP)	2.0	1.7	2.1	1.6	1.7	4.5	6.5	7.5	6.6	3.9	3.1	1.8	1.3
Current account balance ($bn)	20.5	17.4	35.4	45.9	68.7	161	253	354	426	297	305	231	212
Current account balance (% of GDP)	1.7	1.3	2.4	2.8	3.6	7.1	9.3	10.1	9.4	6.0	5.2	3.2	2.4
Net FDI ($bn)	37.5	37.4	46.8	46.9	53.1	67.8	60.3	121.4	94.3	34.3	15.0	0.0	-20.0
Net FDI (% of GDP)	3.1	2.8	3.2	2.9	2.8	3.0	2.2	3.5	2.1	0.7	0.3	0.0	-0.2
Current account balance plus FDI (% of GDP)	4.8	4.1	5.7	5.7	6.3	10.1	11.6	13.6	11.5	6.6	5.4	3.2	2.2
Exports (% YoY, value)	28	7	22	35	35	28	27	26	17	-16	31	19	12
Imports (% YoY, value)	36	8	21	40	36	18	20	21	18	-11	39	25	14
Foreign exchange reserves (ex. gold, $bn)	159	188	247	356	490	721	947	1,337	1,802	2,149	2,565	3,200	3,500
Import cover (months of merchandise imports)	8.5	9.2	10.0	10.3	10.5	13.1	14.4	16.8	19.1	25.6	22.1	21.0	19.3
Debt indicators													
Gross external debt ($bn)	146	170	171	194	229	297	339	389	390	429	489	560	640
Gross external debt (% of GDP)	12.2	12.8	11.8	11.8	11.8	13.1	12.5	11.1	8.6	8.6	8.3	7.8	7.2
Gross external debt (% of exports)	58.5	63.9	52.6	44.2	38.5	38.9	34.9	32.0	27.3	35.7	31.0	29.9	30.5
Total debt service ($bn)	24.3	23.9	26.7	25.3	21.4	23.7	27.4	31.0	33.6	27.1	26.7	33.6	40.3
Total debt service (% of GDP)	2.0	1.8	1.8	1.5	1.1	1.1	1.0	0.9	0.7	0.5	0.5	0.5	0.5
Total debt service (% of exports)	9.8	9.0	8.2	5.8	3.6	3.1	2.8	2.5	2.3	2.3	1.7	1.8	1.9
Interest and exchange rates													
Broad money supply (% YoY)	14.0	14.4	16.9	18.5	14.6	17.6	16.9	16.7	17.8	27.7	19.7	16.0	14.5
Three-month interest rate (CHIBOR average %)	4.2	3.8	3.3	2.9	3.5	2.8	2.8	3.7	4.3	1.9	2.8	5.2	4.5
Three-month interest rate spread over $-LIBOR (ppts)	-2.3	0.0	1.5	1.7	1.8	-0.8	-2.4	-1.6	1.4	1.2	2.4	4.9	3.3
Three-year yield (average %)	na	na	na	na	na	2.1	2.3	3.3	3.4	2.0	2.5	na	na
10-year yield (average %)	na	na	na	na	na	3.5	3.1	4.0	4.0	3.3	3.5	na	na
Exchange rate (CNY/$) year-end	8.3	8.3	8.3	8.3	8.3	8.1	7.8	7.3	6.8	6.8	6.6	6.2	5.6
Exchange rate (CNY/$) annual average	8.3	8.3	8.3	8.3	8.3	8.2	8.0	7.6	6.9	6.8	6.8	6.3	5.7
Exchange rate (CNY/EUR) year-end	7.8	7.4	8.7	10.4	11.2	9.5	10.3	10.7	9.5	9.8	8.8	8.6	7.6
Exchange rate (CNY/EUR) annual average	7.6	7.4	7.8	9.4	10.3	10.2	10.0	10.4	10.2	9.5	9.0	8.9	7.7

Source: National sources, Bloomberg, Renaissance Capital estimates

India

Ratings (M/S&P/F): Baa3/BBB-/BBB-

Figure 135: Key economic forecasts

	1999 /00	2000 /01	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06	2006 /07	2007 /08	2008 /09	2009 /10E	2010 /11E	2011 /12E
Activity													
Real GDP (% YoY)	6.4	4.4	5.8	3.8	8.5	7.5	9.5	9.7	9.2	6.9	8.0	8.5	8.3
Private consumption (% YoY)	6.1	3.4	6.0	2.9	5.9	5.2	9.0	8.2	9.8	6.5	7.5	8.6	6.5
Government consumption (% YoY)	13.2	0.9	2.3	-0.4	2.6	3.6	8.3	3.8	9.7	12.3	14.6	4.8	4.0
Investment (% YoY)	11.2	0.0	7.4	6.8	13.6	18.9	15.3	14.3	15.2	4.0	5.2	12.4	10.8
Industrial production (% YoY)	3.5	5.0	2.7	5.7	7.0	11.7	8.0	11.9	8.7	3.2	10.5	7.8	na
Unemployment rate year-end (estimated) (%)	na	na	na	na	na	na	na	na	na	na	na	na	na
Nominal GDP (INRbn)	17,865	19,250	20,977	22,614	25,382	28,777	32,757	37,794	45,410	52,821	61,332	73,070	82,255
Nominal GDP (EURbn)	399	464	497	470	470	509	608	651	796	807	914	1,189	1,388
Nominal GDP ($bn)	412	421	440	467	552	640	740	835	1,128	1,148	1,293	1,581	1,804
Population (mn)	1,043	1,060	1,078	1,096	1,113	1,131	1,148	1,165	1,182	1,199	1,216	1,233	1,189
GDP per capita ($)	395	397	408	426	496	566	645	717	954	958	1,063	1,283	1,518
Prices													
CPI (average % YoY)	3.4	3.8	4.2	4.1	3.9	3.8	4.3	6.4	6.2	9.1	12.4	10.2	na
CPI (year-end % YoY)	4.8	2.5	5.2	4.1	3.5	4.2	4.6	6.7	7.9	8.0	14.9	8.8	na
PPI (average % YoY)							4.4	6.6	4.7	8.1	3.9	9.5	na
Fiscal balance													
Consolidated government balance (% of GDP)	-9.3	-9.5	-9.3	-8.7	-7.2	-6.4	-5.3	-4.0	-7.8	-9.4	-9.0	-8.0	-7.3
Total public debt (% of GDP)	71.4	75.8	80.1	81.2	81.2	78.8	75.7	73.0	73.0	71.1	69.2	68.2	67.7
External balance - calendar year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports ($bn)	42.3	44.6	48.3	57.0	75.4	96.2	121	150	195	165	216	275	320
Imports ($bn)	50.9	51.9	55.8	70.9	97.2	140	174	228	321	257	326	380	415
Trade balance ($bn)	-9	-7	-8	-14	-22	-44	-53	-78	-126	-92	-111	-105	-95
Trade balance (% of GDP)	-2.1	-1.7	-1.7	-3.0	-3.9	-6.9	-7.2	-9.4	-11.2	-8.0	-8.5	-6.6	-5.3
Current account balance ($bn)	-4.6	1.4	7.1	8.8	0.8	-10.3	-9.3	-8.1	-24.9	-35.8	-49.0	-52.0	-48.0
Current account balance (% of GDP)	-1.1	0.3	1.6	1.9	0.1	-1.6	-1.3	-1.0	-2.2	-3.1	-3.8	-3.3	-2.7
Net FDI ($bn)	3.1	4.1	3.9	3.3	3.6	4.4	9.5	9.5	20.7	19.8	10.8	7.6	12.0
Net FDI (% of GDP)	0.8	1.0	0.9	0.7	0.7	0.7	1.3	1.1	1.8	1.7	0.8	0.5	0.7
Current account balance plus FDI (% of GDP)	-0.4	1.3	2.5	2.6	0.8	-0.9	0.0	0.2	-0.4	-1.4	-3.0	-2.8	-2.0
Exports (% YoY, volume)	19.8	5.4	8.3	18.0	32.3	27.6	25.8	24.0	29.8	-15.3	30.7	27.6	16.4
Imports (% YoY, volume)	16.5	2.0	7.5	27.1	37.1	44.1	24.3	31.1	40.6	-19.9	26.8	16.5	9.2
Foreign exchange reserves (ex. gold, $bn)	37	45	67	97	127	132	171	267	247	265	275	262	295
Import cover (months of merchandise imports)	8.8	10.4	14.4	16.3	15.6	11.3	11.8	14.0	9.2	12.4	10.1	8.3	8.5
Debt indicators													
Gross external debt ($bn) - calendar year	111	113	105	113	120	132	160	206	231	251	298	340	385
Gross external debt (% of GDP)	27.0	26.8	23.9	24.1	21.8	20.7	21.7	24.7	20.5	21.9	23.0	21.5	21.3
Gross external debt (% of exports)	263	254	218	198	160	138	132	137	119	152	138	124	120
Total debt service ($bn)	13.0	12.7	11.8	12.7	15.5	12.5	15.4	12.1	14.8	15.8	17.7	21.0	28.0
Total debt service (% of GDP)	3.2	3.0	2.7	2.7	2.8	2.0	2.1	1.4	1.3	1.4	1.4	1.3	1.6
Total debt service (% of exports)	30.8	28.5	24.3	22.3	20.5	13.0	12.7	8.0	7.6	9.6	8.2	7.6	8.8
Interest and exchange rates													
Broad money supply (% YoY)	14.6	13.6	15.8	14.1	14.9	15.6	12.7	17.0	21.3	21.1	19.3	17.1	16.0
Three-year yield (average %)		10.1	10.1	7.3	6.2	4.9	5.7	6.4	7.3	7.7	8.0	6.2	na
10-year yield (average %)	11.4	10.9	10.9	8.9	6.9	5.4	6.2	7.1	7.8	7.9	7.6	7.2	na
Exchange rate (INR/$) year-end	43.6	46.6	48.8	47.6	43.5	43.8	44.5	44.0	40.4	51.2	45.5	46.0	45.0
Exchange rate (INR/$) annual average	43.3	45.7	47.7	48.4	46.0	44.9	44.3	45.2	40.3	46.0	47.4	46.2	45.6
Exchange rate (INR/EUR) year-end	41.7	40.9	42.5	41.4	47.4	53.9	57.7	53.4	53.9	80.9	60.3	59.8	58.5
Exchange rate (INR/EUR) annual average	44.7	41.5	42.2	48.1	54.0	56.6	53.9	58.1	57.1	65.5	67.1	61.5	59.3

Source: National sources, Bloomberg, Renaissance Capital estimates

Indonesia

Ratings (M/S&P/F): Ba1/BB+/BB+

Figure 136: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E
Activity												
Real GDP (% YoY)	4.9	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.0	4.6	6.1	6.4
Private consumption (% YoY)	1.6	3.5	3.8	3.9	5.0	4.0	3.2	5.0	5.3	4.9	4.6	5.8
Government consumption (% YoY)	6.5	7.6	13.0	10.0	4.0	6.6	9.6	3.9	10.4	15.7	0.3	8.0
Investment (% YoY)	16.7	6.5	4.7	0.6	14.7	10.9	2.6	9.3	11.9	3.3	8.5	9.5
Industrial production (% YoY)	-5.2	4.3	3.3	5.5	3.3	1.3	-1.6	5.6	3.0	1.5	4.3	5.0
Unemployment rate year-end (%)	6.1	8.1	9.1	9.7	9.9	10.8	10.4	9.4	8.4	8.0	7.3	6.5
Nominal GDP (IDRbn)	1,389,770	1,646,322	1,821,833	2,013,675	2,295,826	2,774,282	3,339,217	3,950,894	4,948,689	5,603,871	6,422,918	6,971,268
Nominal GDP (EURbn)	179	179	207	207	206	230	290	315	347	387	533	569
Nominal GDP ($bn)	165	160	196	235	257	286	365	432	510	539	707	806
Population (mn)	205	208	211	214	216	220	223	226	229	231	234	238
GDP per capita ($)	804	772	928	1,099	1,187	1,300	1,637	1,915	2,234	2,331	3,017	3,393
Prices												
CPI (average % YoY)	3.9	11.5	11.9	6.6	6.1	10.4	13.3	6.4	10.4	4.9	5.1	5.7
CPI (year-end % YoY)	9.4	12.6	10.0	5.2	6.4	17.1	6.6	6.6	11.9	2.8	7.0	5.2
PPI (year-end % YoY)	12.6	13.0	4.4	3.4	7.4	15.3	13.0	15.4	26.2	4.6	7.3	5.0
Fiscal balance												
Consolidated government balance (% of GDP)	-2.1	-2.4	-2.2	-1.7	-1.1	-0.9	-1.2	-1.5	-1.9	-2.5	-2.1	-1.5
Total public debt (% of GDP)	92.1	72.4	73.7	72.9	56.2	49.9	38.6	34.0	29.3	27.4	26.4	25.5
External balance												
Exports ($bn)	65.4	57.4	59.2	64.1	70.8	87.0	104	118	137	117	158	192
Imports ($bn)	40.4	34.7	35.7	39.5	50.6	69.5	73.9	85.3	129	96.8	136	171
Trade balance ($bn)	25.0	22.7	23.5	24.6	20.2	17.5	29.7	32.8	7.7	19.7	22.1	21.2
Trade balance (% of GDP)	15.2	14.1	12.0	10.5	7.8	6.1	8.1	7.6	1.5	3.6	3.1	2.6
Current account balance ($bn)	8.0	6.9	7.8	8.1	1.6	0.3	10.9	10.5	0.1	10.6	5.7	6.0
Current account balance (% of GDP)	4.8	4.3	4.0	3.5	0.6	0.1	3.0	2.4	0.0	2.0	0.8	0.7
Net FDI ($bn)	2.0	2.0	2.6	1.5	1.7	7.5	4.0	6.6	7.7	3.9	6.3	7.5
Net FDI (% of GDP)	1.2	1.2	1.3	0.6	0.6	2.6	1.1	1.5	1.5	0.7	0.9	0.9
Current account balance plus FDI (% of GDP)	6.1	5.5	5.3	4.1	1.3	2.7	4.1	3.9	1.5	2.7	1.7	1.7
Exports (% YoY, volume)	25.0	-0.6	-2.1	10.3	7.1	17.3	10.2	7.9	10.4	-6.3	8.7	14.0
Imports (% YoY, volume)	19.1	0.2	-5.3	4.1	21.4	19.6	8.8	8.7	21.7	-12.1	9.7	16.0
Foreign exchange reserves (ex. gold, $bn)	28.0	28.7	29.4	33.9	35.8	34.0	40.6	50.7	56.4	58.5	80.7	95.0
Import cover (months of merchandise imports)	8.3	9.9	9.9	10.3	8.5	5.9	6.6	7.1	5.2	7.3	7.1	6.7
Debt indicators												
Gross external debt ($bn)	142	133	131	135	137	135	133	137	149	161	190	210
Gross external debt (% of GDP)	85.9	82.9	67.1	57.7	53.4	47.2	36.4	31.6	29.1	29.9	26.8	26.1
Gross external debt (% of exports)	217	232	222	211	194	155	128	116	109	139	120	109
Total debt service ($bn)	23.0	22.3	24.1	20.7	21.3	19.9	18.9	24.7	20.8	22.2	18.1	20.9
Total debt service (% of GDP)	14.0	13.9	12.3	8.8	8.3	7.0	5.2	5.7	4.1	4.1	2.6	2.6
Total debt service (% of exports)	35.2	38.9	40.8	32.3	30.1	22.9	18.3	20.9	15.2	19.0	11.5	10.8
Interest and exchange rates												
Broad money supply (% YoY)	15.6	13.0	4.7	6.8	9.5	16.3	14.9	19.3	14.9	13.0	15.3	12.0
Three-month interest rate (JIBOR average %)	12.8	16.7	15.8	10.6	7.7	10.0	12.5	8.5	9.7	8.1	6.9	6.5
Three-month interest rate spread over $-LIBOR (ppts)	6.3	12.9	14.0	9.4	6.0	6.4	7.3	3.2	6.8	7.5	6.5	6.2
Three-year yield (average %)	na	na	na	11.5	9.7	na	10.4	8.3	11.7	9.5	7.3	na
10-year yield (average %)	na	na	na	11.7	11.7	12.3	11.8	9.6	12.7	11.2	8.5	na
Exchange rate (IDR/$) year-end	9,595	10,400	8,940	8,465	9,290	9,841	9,068	9,334	11,244	9,458	8,996	8,550
Exchange rate (IDR/$) annual average	8,422	10,261	9,311	8,577	8,939	9,705	9,157	9,143	9,694	10,390	9,083	8,650
Exchange rate (IDR/EUR) year-end	9,015	9,259	9,391	10,635	12,594	11,645	11,960	13,611	15,686	13,554	12,058	11,885
Exchange rate (IDR/EUR) annual average	7,779	9,191	8,809	9,712	11,120	12,075	11,506	12,533	14,261	14,489	12,051	12,248

Source: National sources, Bloomberg, Renaissance Capital estimates

South Korea

Ratings (M/S&P/F): A1/A/A+

Figure 137: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E
Activity												
Real GDP (% YoY)	8.8	4.0	7.2	2.8	4.6	4.0	5.2	5.1	2.3	0.3	6.2	4.5
Private consumption (% YoY)	9.2	5.7	8.9	-0.4	0.3	4.6	4.7	5.1	1.3	0.0	4.1	3.5
Government consumption (% YoY)	1.8	5.0	4.9	4.4	3.8	4.3	6.6	5.4	4.3	5.6	3.0	3.5
Investment (% YoY)	12.3	-0.4	7.4	4.0	2.6	2.3	4.4	3.5	0.0	-13.5	15.4	7.5
Industrial production (% YoY)	17.7	0.6	8.0	5.6	10.6	6.3	8.6	7.0	3.8	0.1	16.9	7.5
Unemployment rate year-end (%)	4.0	3.5	3.0	3.6	3.6	3.5	3.3	3.0	3.1	3.3	3.3	3.3
Nominal GDP (KRWbn)	603,236	651,415	720,539	767,114	826,893	865,241	908,744	975,013	1,026,452	1,065,037	1,172,803	1,237,667
Nominal GDP (EURbn)	577	563	609	569	580	679	757	765	633	598	753	813
Nominal GDP ($bn)	533	505	576	644	722	845	952	1,049	931	834	999	1,151
Population (mn)	47.0	47.4	47.6	47.9	48.0	48.1	48.3	48.5	48.6	48.8	48.9	49.1
GDP per capita ($)	11,347	10,655	12,094	13,451	15,029	17,551	19,706	21,652	19,163	17,107	20,425	23,461
Prices												
CPI (average % YoY)	2.3	4.1	2.8	3.5	3.6	2.8	2.2	2.5	4.7	2.8	3.0	3.5
CPI (year-end % YoY)	2.8	3.2	3.7	3.4	3.0	2.6	2.1	3.6	4.1	2.8	3.5	4.2
PPI (average % YoY)	2.0	-0.5	-0.1	3.1	6.1	2.1	1.0	1.4	8.5	-0.1	3.8	na
Fiscal balance												
Consolidated government balance (% of GDP)	3.4	1.7	2.2	2.2	2.3	2.1	2.4	4.2	1.7	0.0	2.4	2.5
Total public debt (% of GDP)	16.7	17.4	17.6	20.7	23.8	27.7	30.1	29.7	29.0	32.6	30.9	28.8
External balance												
Exports ($bn)	172	150	162	194	254	284	325	371	422	364	466	565
Imports ($bn)	160	141	152	179	224	261	309	357	435	323	425	528
Trade balance ($bn)	12	9	10	15	29	23	16	15	-13	40	41	37
Trade balance (% of GDP)	2.2	1.9	1.8	2.3	4.1	2.7	1.7	1.4	-1.4	4.8	4.1	3.2
Current account balance ($bn)	14.8	8.4	7.5	15.6	32.3	18.6	14.1	21.8	3.2	32.8	28.1	20.0
Current account balance (% of GDP)	2.8	1.7	1.3	2.4	4.5	2.2	1.5	2.1	0.3	3.9	2.8	1.7
Net FDI ($bn)	4.8	1.3	-0.6	-0.6	3.6	-0.1	-7.6	-17.9	-16.9	-14.9	-19.4	-16.0
Net FDI (% of GDP)	0.9	0.3	-0.1	-0.1	0.5	0.0	-0.8	-1.7	-1.8	-1.8	-1.9	-1.4
Current account balance plus FDI (% of GDP)	3.7	1.9	1.2	2.3	5.0	2.2	0.7	0.4	-1.5	2.1	0.9	0.3
Exports (% YoY, value)	19.9	-12.7	8.0	19.3	31.0	12.0	14.4	14.1	13.6	-13.9	28.3	21.1
Imports (% YoY, value)	34.0	-12.1	7.8	17.6	25.5	16.4	18.4	15.3	22.0	-25.8	31.6	24.2
Foreign exchange reserves (ex. gold, $bn)	88.2	97.3	113	135	172	206	225	252	242	235	281	300
Import cover (months of merchandise imports)	6.6	8.3	8.9	9.0	9.2	9.5	8.7	8.5	6.7	8.7	7.9	6.8
Debt indicators												
Gross external debt ($bn)	147	126	129	142	147	159	202	287	352	328	358	412
Gross external debt (% of GDP)	27.6	25.0	22.5	22.0	20.3	18.8	21.2	27.4	37.8	39.4	35.9	35.8
Gross external debt (% of exports)	85.6	83.9	79.6	73.2	57.8	55.9	62.0	77.3	83.4	90.3	76.8	72.9
Total debt service ($bn)	24.3	23.9	26.7	25.3	21.4	23.7	27.4	31.0	33.6	27.1	26.7	33.6
Total debt service (% of GDP)	4.6	4.7	4.6	3.9	3.0	2.8	2.9	3.0	3.6	3.2	2.7	2.9
Total debt service (% of exports)	14.1	15.9	16.5	13.0	8.4	8.3	8.4	8.4	8.0	7.5	5.7	6.0
Interest and exchange rates												
Broad money supply (% YoY)	5.2	8.3	14.1	3.0	5.9	7.0	11.4	11.5	13.1	9.3	7.2	4.0
Three-month interest rate (KORIBOR average %)	8.7	8.0	6.8	5.6	5.7	4.9	5.2	5.7	6.4	4.7	2.7	3.6
Three-month interest rate spread over $-LIBOR (ppts)	2.2	4.3	5.0	4.4	4.1	1.4	0.0	0.4	3.4	4.0	2.3	3.3
Three-year yield (average %)	7.5	5.7	5.8	4.6	4.1	4.3	4.8	5.2	5.3	4.1	3.7	na
10-year yield (average %)	6.9	6.8	6.6	5.1	4.8	5.0	5.2	5.3	5.6	5.2	4.8	na
Exchange rate (KRW/$) year-end	1,265	1,314	1,186	1,193	1,035	1,012	930	936	1,260	1,165	1,126	1,025
Exchange rate (KRW/$) annual average	1,131	1,291	1,251	1,192	1,145	1,024	955	929	1,102	1,277	1,174	1,076
Exchange rate (KRW/EUR) year-end	1,188	1,169	1,246	1,498	1,403	1,197	1,226	1,365	1,757	1,669	1,507	1,425
Exchange rate (KRW/EUR) annual average	1,045	1,156	1,184	1,349	1,425	1,274	1,200	1,274	1,621	1,781	1,558	1,523

Source: National sources, Bloomberg, Renaissance Capital estimates

Argentina

Ratings (M/S&P/F): B3/Bu/B

Figure 138: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	6.8	0.9	9.2	6.5	3.5
Private consumption (% YoY)	-0.7	-5.7	-14.4	8.2	9.5	8.9	7.8	9.0	6.5	0.5	9.0	6.5	3.0
Government consumption (% YoY)	0.6	-2.1	-5.1	1.5	2.7	6.1	5.2	7.6	6.9	7.2	9.4	4.7	3.0
Investment (% YoY)	-6.8	-15.7	-36.4	38.2	34.4	22.7	18.2	13.6	9.1	-10.2	21.2	8.0	4.0
Industrial production (% YoY)	-0.1	-7.5	-10.2	16.3	10.8	8.4	8.4	7.5	5.2	0.0	9.7	6.0	4.0
Unemployment rate year-end (%)	14.7	18.3	20.8	14.5	12.1	10.1	8.7	7.5	7.3	8.4	7.3	7.0	7.5
Nominal GDP (ARSbn)	284	269	313	376	448	532	654	812	1,033	1,145	1,443	1,731	2,077
Nominal GDP (EURbn)	308	300	107	114	122	146	170	191	223	221	279	295	319
Nominal GDP ($bn)	284	269	102	129	152	182	213	261	328	309	370	417	433
Population (mn)	37.3	37.7	38.0	38.3	38.7	39.2	39.6	40.0	40.5	40.9	41.3	41.8	42.2
GDP per capita ($)	7,616	7,132	2,672	3,377	3,930	4,634	5,381	6,523	8,114	7,546	8,947	9,987	10,258
Prices													
CPI (average % YoY)	-0.9	-1.1	25.9	14.9	4.4	9.6	10.9	8.8	12.1	16.3	21.8	22.2	22.0
CPI (year-end % YoY)	-0.7	-1.5	40.9	3.7	6.1	12.3	9.8	8.5	15.4	17.4	23.7	25.0	20.0
PPI (average % YoY)	3.7	-2.0	78.9	28.2	7.7	8.5	11.0	11.7	14.8	6.3	15.0	20.0	10.0
Fiscal balance													
Consolidated government balance (central government) (% of GDP)	-3.6	-6.1	-15.6	-4.3	-3.0	-1.8	-1.0	-2.1	-0.8	-3.8	-1.7	-2.5	-2.0
Consolidated primary balance (% of GDP)	1.0	0.2	0.9	2.3	3.9	3.7	3.5	3.2	3.1	1.5	na	na	na
Total public debt	45.0	53.7	172	136	126	85.5	76.4	67.7	58.1	57.6	47.8	40.7	36.7
External balance													
Exports ($bn)	26.4	26.5	25.7	29.6	34.6	40.1	46.5	55.8	70.0	55.7	68.1	77.0	85.0
Imports ($bn)	25.2	20.3	9.0	13.8	22.4	28.7	34.2	44.7	57.4	38.8	56.5	67.0	77.0
Trade balance ($bn)	1.2	6.2	16.7	15.7	12.1	11.4	12.3	11.1	12.6	16.9	11.6	10.0	8.0
Trade balance (% of GDP)	0.4	2.3	16.4	12.2	7.9	6.3	5.8	4.2	3.8	5.5	3.1	2.4	1.8
Current account balance ($bn)	-9.0	-3.8	8.8	8.1	3.2	5.3	7.8	7.4	7.0	11.1	3.6	2.0	1.0
Current account balance (% of GDP)	-3.1	-1.4	8.6	6.3	2.1	2.9	3.6	2.8	2.1	3.6	1.0	0.5	0.2
Net FDI ($bn)	9.5	2.0	2.8	0.9	3.4	4.0	3.1	5.0	8.3	3.3	5.2	3.0	4.0
Net FDI (% of GDP)	3.3	0.7	2.7	0.7	2.3	2.2	1.5	1.9	2.5	1.1	1.4	0.7	0.9
Current account balance plus FDI (% of GDP)	0.2	-0.7	11.4	7.0	4.4	5.1	5.1	4.7	4.7	4.7	2.4	1.2	1.2
Exports (% YoY, value)	13	0	-3	15	17	16	16	20	26	-21	22	13	10
Imports (% YoY, value)	5	-20	-56	54	62	28	19	31	28	-32	46	19	15
Foreign exchange reserves (ex. gold, $bn)	25.1	14.6	10.5	14.1	19.4	28.2	31.9	45.1	45.0	49.2	54.9	52.0	48.0
Import cover (months of merchandise imports)	12.0	8.6	14.1	12.3	10.4	11.8	11.2	12.1	9.4	15.2	11.7	9.3	7.5
Debt indicators													
Gross external debt ($bn)	153	154	162	162	167	129	107	118	128	121	115	132	139
Gross external debt (% of GDP)	53.8	57.1	160	125	110	71.0	50.2	45.1	39.0	39.2	31.1	31.6	32.1
Gross external debt (% of exports)	579	579	631	550	484	321	230	211	183	217	169	171	164
Total debt service ($bn)	25.1	21.0	26.1	22.6	20.1	16.0	10.4	10.7	11.1	10.9	10.4	11.2	12.6
Total debt service (% of GDP)	8.8	7.8	25.7	17.4	13.2	8.8	4.9	4.1	3.4	3.5	2.8	2.7	2.9
Total debt service (% of exports)	94.9	79.3	101.8	76.3	58.1	39.9	22.5	19.2	15.8	19.5	15.3	14.6	14.8
Interest and exchange rates													
Broad money supply (% YoY)	1.5	-19.4	19.7	29.6	21.4	21.5	20.3	24.5	8.1	17.0	-1.4	25.0	22.0
Three-month interest rate (BAIBOR average %)	11.2	30.9	59.4	11.6	4.6	6.0	9.8	11.2	14.5	14.2	12.2	12.4	14.5
Three-month interest rate spread over $-LIBOR (ppts)	4.7	27.1	57.6	10.4	3.0	2.5	4.6	5.9	11.6	13.6	11.9	12.1	13.3
Exchange rate (ARS/$) year-end	1.0	1.0	3.3	2.9	3.0	3.0	3.1	3.2	3.5	3.8	4.0	4.4	5.2
Exchange rate (ARS/$) annual average	1.0	1.0	3.1	2.9	2.9	2.9	3.1	3.1	3.1	3.7	3.9	4.2	4.8
Exchange rate (ARS/EUR) year-end	0.9	0.9	3.5	3.7	4.0	3.6	4.0	4.6	4.8	5.4	5.3	6.1	7.0
Exchange rate (ARS/EUR) annual average	0.9	0.9	2.9	3.3	3.7	3.6	3.9	4.3	4.6	5.2	5.2	5.9	6.5

Source: National sources, Bloomberg, Renaissance Capital estimates

Brazil

Ratings (M/S&P/F): Baa2/BBB-/BBB

Figure 139: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	4.3	1.3	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.6	7.5	5.0	4.5
Private consumption (% YoY)	4.0	0.7	1.9	-0.8	3.8	4.5	5.2	6.1	5.7	4.2	7.0	5.0	5.0
Government consumption (% YoY)	-0.1	2.7	4.7	1.2	4.1	2.3	2.6	5.1	3.2	3.9	3.3	2.0	2.0
Investment (% YoY)	5.0	0.4	-5.2	-4.6	9.1	3.6	9.8	13.8	13.6	-10.3	21.9	10.0	9.0
Industrial production (% YoY)	6.6	1.6	2.7	0.0	8.1	3.4	2.9	5.9	2.9	-7.3	10.5	3.0	2.0
Unemployment rate year-end (%)	12.8	11.2	11.7	12.4	11.5	9.9	10.0	9.3	7.9	8.1	6.7	6.5	6.0
Nominal GDP (BRLbn)	1,179	1,302	1,478	1,700	1,941	2,147	2,369	2,661	3,032	3,185	3,675	4,098	4,520
Nominal GDP (EURbn)	698	617	535	488	534	709	867	997	1,124	1,144	1,568	1,809	2,190
Nominal GDP ($bn)	644	552	506	552	664	882	1,089	1,367	1,653	1,595	2,080	2,561	2,973
Population (mn)	174	177	179	182	184	186	188	190	192	194	196	198	200
GDP per capita ($)	3,700	3,126	2,825	3,043	3,610	4,740	5,789	7,189	8,612	8,234	10,611	12,934	14,867
Prices													
CPI (average % YoY)	7.1	6.8	8.4	14.8	6.6	6.9	4.2	3.6	5.7	4.9	5.0	6.5	5.8
CPI (year-end % YoY)	6.0	7.7	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3	5.9	6.1	5.5
PPI (average % YoY)	18.3	12.6	16.4	28.9	10.5	5.8	0.8	5.6	13.7	-0.1	5.8	na	na
Fiscal balance													
Consolidated government balance (% of GDP)	-3.4	-2.6	-4.4	-5.2	-2.9	-3.5	-3.5	-2.7	-1.4	-3.1	-2.9	-2.4	-2.6
Consolidated primary balance (% of GDP)	3.4	3.4	3.2	3.3	3.7	3.8	3.2	3.4	4.0	2.1	2.4	3.0	3.0
Total public debt	66.7	70.2	79.8	74.7	70.6	69.1	66.7	65.2	70.7	67.9	66.1	65.7	65.0
External balance													
Exports ($bn)	55.1	58.2	60.4	73.1	96.6	119	138	161	198	153	202	248	265
Imports ($bn)	55.8	55.6	47.2	48.3	62.8	73.6	91.4	121	173	128	182	232	257
Trade balance ($bn)	-0.8	2.7	13.1	24.8	33.8	44.9	46.5	40.0	25.0	25.3	20.2	16.0	8.0
Trade balance (% of GDP)	-0.1	0.5	2.6	4.5	5.1	5.1	4.3	2.9	1.5	1.6	1.0	0.6	0.3
Current account balance ($bn)	-22.4	-20.8	-7.2	4.7	14.5	17.4	17.1	2.1	-41.5	-33.9	-62.8	-65.0	-75.0
Current account balance (% of GDP)	-3.5	-3.8	-1.4	0.9	2.2	2.0	1.6	0.2	-2.5	-2.1	-3.0	-2.5	-2.5
Net FDI ($bn)	32.8	22.5	16.6	10.1	18.1	15.1	18.8	34.6	45.1	25.9	48.4	30.0	30.0
Net FDI (% of GDP)	5.1	4.1	3.3	1.8	2.7	1.7	1.7	2.5	2.7	1.6	2.3	1.2	1.0
Current account balance plus FDI (% of GDP)	1.6	0.3	1.9	2.7	4.9	3.7	3.3	2.7	0.2	-0.5	-0.7	-1.4	-1.5
Exports (% YoY, value)	14.7	5.7	3.7	21.1	32.2	22.7	16.3	16.6	23.2	-22.7	32.0	22.8	6.9
Imports (% YoY, value)	13.5	-0.5	-15.0	2.2	30.1	17.1	24.1	32.0	43.4	-26.2	42.3	27.7	10.8
Foreign exchange reserves (liquidity measure, $bn)	33	360	40	49	53	54	86	180	207	239	289	340	360
Import cover (months of merchandise imports)	7.1	7.7	10.1	12.2	10.1	8.8	11.3	17.9	14.3.	22.5	19.1	17.6	16.8
Debt indicators													
Gross external debt ($bn)	236	222	213	217	206	186	164	190	203	194	250	300	370
Gross external debt (% of GDP)	37	40	42	39	31	21	15	14	12	12	12	12	12
Gross external debt (% of exports)	428	381	353	297	213	157	119	119	103	127	124	121	140
Total debt service ($bn)	69.2	62.8	50.7	74.1	56.2	56.0	50.6	56.3	56.8	46.8	46.0	50.8	44.8
Total debt service (% of GDP)	10.7	11.4	10.0	13.4	8.5	6.3	4.6	4.1	3.4	2.9	2.2	2.0	1.5
Total debt service (% of exports)	126	108	83.9	101	58.2	47.2	36.7	35.1	28.7	30.6	22.8	20.5	16.9
Interest and exchange rates													
Broad money supply (% YoY)	3.3	13.3	23.6	3.9	19.5	18.0	13.6	18.1	37.3	8.8	16.6	20.0	16.0
Key central bank rate	16.8	19.0	25.0	16.5	17.8	18.0	13.3	11.3	13.8	8.8	10.8	12.5	12.0
Three-month interest rate spread over $-LIBOR (ppts)	10.2	15.2	23.2	15.3	16.1	14.4	8.1	6.0	10.8	8.1	10.4	12.2	10.8
Three-year yield (average %)	na	na	na	na	na	na	na	11.5	14.4	11.7	12.2	na	na
Exchange rate (BRL/$) year-end	2.0	2.3	3.5	2.9	2.7	2.3	2.1	1.8	2.4	1.7	1.7	1.6	1.5
Exchange rate (BRL/$) annual average	1.8	2.4	2.9	3.1	2.9	2.4	2.2	1.9	1.8	2.0	1.8	1.6	1.5
Exchange rate (BRL/EUR) year-end	1.8	2.1	3.7	3.7	3.7	2.7	2.8	2.6	3.3	2.5	2.3	2.2	2.0
Exchange rate (BRL/EUR) annual average	1.7	2.1	2.8	3.5	3.6	3.0	2.7	2.7	2.7	2.8	2.3	2.3	2.1

Note: Population statistics cited here by Bloomberg from the IMF are roughly 2-3mn above IMF data in the April WEO

Source: National sources, Bloomberg, Renaissance Capital estimates

Mexico

Ratings (M/S&P/F): Baa1/BBB/BBB

Figure 140: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	6.0	-1.0	0.1	1.3	4.1	3.2	5.2	3.3	1.2	-6.1	5.4	4.0	4.0
Private consumption (% YoY)	8.2	2.5	1.6	2.2	5.6	4.8	5.7	3.9	1.6	-7.8	4.4	4.5	4.6
Government consumption (% YoY)	2.6	-2.4	-0.2	1.0	-2.8	2.5	1.9	3.1	0.9	2.3	3.8	2.6	2.5
Investment (% YoY)	11.4	-5.6	-0.6	0.4	7.9	7.4	9.9	7.0	4.4	-10.1	4.8	6.0	6.1
Industrial production (% YoY)	5.4	-2.8	-0.3	0.8	3.7	2.8	5.7	2.0	-0.6	-6.9	6.1	5.0	4.5
Unemployment rate year-end (%)	2.3	2.8	2.7	3.5	3.7	3.1	3.7	3.6	4.3	5.3	5.3	5.0	5.0
Nominal GDP (MXNbn)	6,355	6,633	6,816	7,556	8,575	9,252	10,379	11,321	12,181	11,888	13,076	14,083	14,646
Nominal GDP (EURbn)	728	793	745	618	611	682	758	756	744	631	781	829	946
Nominal GDP ($bn)	672	710	705	700	760	849	952	1,036	1,094	880	1,036	1,174	1,285
Population (mn)	100	101	102	104	105	106	107	109	110	111	112	114	115
GDP per capita ($)	6,725	7,015	6,881	6,748	7,238	7,994	8,863	9,530	9,954	7,910	9,210	10,320	11,174
Prices													
CPI (average % YoY)	9.5	6.4	5.0	4.6	4.7	4.0	3.6	4.0	5.1	5.3	4.2	3.7	4.0
CPI (year-end % YoY)	9.0	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6	4.4	4.2	3.5
PPI (average % YoY)	10.4	5.3	5.2	5.5	6.8	4.5	5.4	4.1	6.3	4.9	3.8	na	na
Fiscal balance													
Consolidated government balance (% of GDP)	-3.1	-3.2	-3.5	-2.3	-1.3	-1.4	-1.0	-1.3	-1.3	-4.8	-4.1	-1.8	-2.4
Consolidated primary balance (% of GDP)	2.6	2.6	1.7	1.9	2.2	2.2	2.5	2.2	1.8	-0.1	na	na	na
Total public debt	42.6	42.0	45.7	45.6	41.4	39.8	38.4	37.8	43.0	44.6	42.7	42.3	42.1
External balance													
Exports ($bn)	166	159	161	165	188	214	250	272	291	230	298	337	365
Imports ($bn)	174	168	169	171	197	222	256	282	309	234	301	346	380
Trade balance ($bn)	-8.3	-9.6	-7.6	-5.8	-8.8	-7.6	-6.1	-10.1	-17.3	-4.6	-3.0	-9.6	-15.0
Trade balance (% of GDP)	-1.2	-1.4	-1.1	-0.8	-1.2	-0.9	-0.6	-1.0	-1.6	-0.5	-0.3	-0.8	-1.2
Current account balance ($bn)	-17.3	-15.9	-13.4	-8.2	-6.5	-6.3	-5.6	-12.1	-24.0	-8.9	-7.5	-14.0	-19.0
Current account balance (% of GDP)	-2.6	-2.2	-1.9	-1.2	-0.9	-0.7	-0.6	-1.2	-2.2	-1.0	-0.7	-1.2	-1.5
Net FDI ($bn)	18.0	29.8	23.7	16.5	24.3	24.1	20.1	29.7	26.3	15.3	18.7	20.0	20.0
Net FDI (% of GDP)	2.7	4.2	3.4	2.4	3.2	2.8	2.1	2.9	2.4	1.7	1.8	1.7	1.6
Current account balance plus FDI (% of GDP)	0.1	2.0	1.5	1.2	2.3	2.1	1.5	1.7	0.2	0.7	1.1	0.5	0.1
Exports (% YoY, value)	21.8	-4.4	1.4	2.3	14.1	14.0	16.7	8.8	7.2	-21.1	29.9	12.8	8.5
Imports (% YoY, value)	22.9	-3.5	0.2	1.1	15.4	12.7	15.4	10.1	9.5	-24.0	28.6	14.8	9.8
Foreign exchange reserves (ex. gold, $bn)	34.3	41.4	46.5	54.9	61.7	67.1	79.5	79.9	92.7	87.2	108	122	128
Import cover (months of merchandise imports)	2.4	3.0	3.3	3.9	3.8	3.6	3.7	3.4	3.6	4.5	4.3	4.2	4.1
Debt indicators													
Gross external debt ($bn)	162	160	162	163	166	173	169	193	201	196	239	218	245
Gross external debt (% of GDP)	24.1	22.6	23.0	23.2	21.9	20.4	17.8	18.6	18.4	22.2	23.1	18.6	19.1
Gross external debt (% of exports)	97.7	100.9	100.6	98.7	88.4	80.8	67.7	71.0	69.0	85.2	80.1	64.7	67.1
Total debt service ($bn)	38.2	33.3	33.3	40.8	40.2	40.1	40.3	41.9	46.6	45.6	50.0	47.0	49.4
Total debt service (% of GDP)	5.7	4.7	4.7	5.8	5.3	4.7	4.2	4.0	4.3	5.2	4.8	4.0	3.8
Total debt service (% of exports)	23.0	21.0	20.7	24.8	21.4	18.7	16.1	15.4	16.0	19.8	16.8	14.0	13.5
Interest and exchange rates													
Broad money supply (% YoY)	14.8	17.2	10.8	13.0	10.4	15.1	13.7	8.6	14.2	8.7	8.1	8.5	8.0
Three-month interest rate (MEXIBOR average %)	17.2	13.1	8.5	7.1	7.5	9.6	7.7	7.8	8.6	5.9	5.0	4.6	5.8
Three-month interest rate spread over $-LIBOR (ppts)	10.7	9.3	6.7	5.9	5.9	6.0	2.5	2.5	5.7	5.2	4.7	4.3	4.6
Three-year yield (average %)	na	12.4	9.5	7.6	8.2	9.0	7.7	7.6	7.9	6.5	5.5	na	na
10-year yield (average %)	na	11.0	10.0	9.0	9.5	8.6	8.3	7.7	8.5	8.0	7.0	na	na
Exchange rate (MXN/$) year-end	9.6	9.2	10.4	11.2	11.3	10.8	10.9	10.9	13.4	12.9	12.3	11.5	11.2
Exchange rate (MXN/$) annual average	9.5	9.3	9.7	10.8	11.3	10.9	10.9	10.9	11.1	13.5	12.6	12.0	11.4
Exchange rate (MXN/EUR) year-end	9.0	8.2	11.0	14.1	15.3	12.8	14.4	15.8	18.7	18.4	16.5	16.0	15.1
Exchange rate (MXN/EUR) annual average	8.7	8.4	9.1	12.2	14.0	13.6	13.7	15.0	16.4	18.8	16.7	17.0	15.5

Source: National sources, Bloomberg, Renaissance Capital estimates

Venezuela

Ratings (M/S&P/F): B2/BB-/B+

Figure 141: Key economic forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Activity													
Real GDP (% YoY)	3.7	3.4	-8.9	-7.8	18.3	10.3	9.9	8.0	4.6	-3.5	-1.7	2.0	2.5
Private consumption (% YoY)	4.7	6.0	-7.1	-4.3	15.4	15.7	15.5	18.7	7.1	-3.2	-4.5	2.0	4.2
Government consumption (% YoY)	2.8	2.5	-0.4	4.9	11.1	8.0	3.0	5.9	5.3	2.4	2.6	3.0	4.0
Investment (% YoY)	6.7	13.6	-34.0	-35.5	91.3	30.5	36.3	23.0	2.5	-20.0	-1.4	2.5	4.0
Industrial production (% YoY)	na	na	na	13.4	67.3	29.0	21.5	16.4	49.5	10.5	24.4	15.0	5.0
Unemployment rate year-end (%)	13.9	13.2	15.8	15.6	12.5	10.4	8.7	6.6	6.3	7.4	7.7	8.0	8.0
Nominal GDP (VEFbn)	79.6	88.9	108	135	212	307	394	487	669	700	879	1,216	1,646
Nominal GDP (EURbn)	127	137	98	74	90	117	146	165	212	234	156	200	283
Nominal GDP ($bn)	117	123	93	84	113	146	184	227	311	326	207	283	384
Population (mn)	23.5	23.8	24.2	24.6	24.9	25.3	25.6	26.0	26.4	26.8	27.2	27.6	28.1
GDP per capita ($)	4,987	5,156	3,840	3,406	4,519	5,765	7,164	8,716	11,790	12,165	7,592	10,255	13,679
Prices													
CPI (average % YoY)	16.3	12.5	22.2	31.4	21.9	16.0	13.6	18.7	31.2	28.6	29.1	27.0	22.0
CPI (year-end % YoY)	13.4	12.3	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9	27.4	25.0	20.0
PPI (average % YoY)	10.1	7.4	28.7	41.1	27.9	16.8	11.0	12.6	25.1	23.3	26.4	na	na
Fiscal balance													
Consolidated government balance (% of GDP)	4.5	-4.6	-1.5	0.2	2.5	4.1	-1.6	-2.9	-2.7	-8.2	-6.0	-1.5	-2.0
Consolidated primary balance (% of GDP)	6.9	-1.6	2.9	4.8	6.1	7.0	0.4	-1.5	-1.6	-10.7	-4.3	-1.0	-1.9
Total public debt	31.9	34.5	46.5	49.3	42.9	33.7	28.6	30.9	24.6	32.7	38.7	40.2	42.1
External balance													
Exports ($bn)	34.7	28.0	27.8	28.1	40.8	57.1	67.1	70.8	97.3	59.6	67.5	77.0	80.0
Imports ($bn)	18.0	20.5	14.3	11.2	18.2	25.6	35.7	50.0	53.8	42.0	42.2	45.0	51.0
Trade balance ($bn)	16.7	7.6	13.5	16.9	22.6	31.4	31.4	20.8	43.5	17.6	25.3	32.0	29.0
Trade balance (% of GDP)	14.3	6.1	14.6	20.2	20.1	21.6	17.1	9.2	14.0	5.4	12.2	11.3	7.6
Current account balance ($bn)	11.9	2.0	7.6	11.4	13.8	25.4	27.1	20.0	39.2	8.6	14.4	20.0	17.0
Current account balance (% of GDP)	10.1	1.6	8.2	13.7	12.3	17.5	14.8	8.8	12.6	2.6	7.0	7.1	4.4
Net FDI ($bn)	4.2	3.5	-0.2	1.3	1.9	1.0	-2.6	-1.6	-1.1	-4.9	-1.2	-1.0	-1.0
Net FDI (% of GDP)	3.6	2.8	-0.3	1.6	1.7	0.7	-1.4	-0.7	-0.3	-1.5	-0.6	-0.4	-0.3
Current account balance plus FDI (% of GDP)	13.7	4.4	7.9	15.3	13.9	18.2	13.3	8.1	12.2	1.1	6.4	6.7	4.2
Exports (% YoY, volume)	65.6	-19.2	-0.9	1.1	45.1	39.9	17.6	5.4	37.5	-38.7	13.3	14.1	3.9
Imports (% YoY, volume)	24.2	13.8	-30.4	-21.4	62.1	40.9	39.5	39.8	7.6	-22.0	0.6	6.6	13.3
Foreign exchange reserves (ex. gold, $bn)	15.6	13.8	11.0	16.1	22.2	27.6	31.9	29.4	34.3	31.0	28.6	30.0	30.0
Import cover (months of merchandise imports)	10.4	8.1	9.3	17.2	14.6	12.9	10.7	7.1	7.7	8.9	8.1	8.0	7.1
Debt indicators													
Gross external debt ($bn)	39.5	38.8	39.2	43.0	42.3	44.8	41.8	55.9	60.7	73.8	87.0	95.0	108
Gross external debt (% of GDP)	33.8	31.6	42.2	51.4	37.6	30.8	22.8	24.6	19.5	22.6	42.1	33.5	28.1
Gross external debt (% of exports)	114	138	141	153	104	78.6	62.3	78.9	62.4	124	129	123	135
Total debt service ($bn)	5.7	5.9	5.7	4.0	3.8	4.9	5.5	5.1	5.3	3.2	4.7	5.1	6.5
Total debt service (% of GDP)	4.9	4.8	6.1	4.8	3.4	3.4	3.0	2.3	1.7	1.0	2.3	1.8	1.7
Total debt service (% of exports)	16.5	21.1	20.4	14.4	9.4	8.6	8.1	7.2	5.4	5.4	7.0	6.6	8.1
Interest and exchange rates													
Broad money supply (% YoY)	23.1	15.8	17.7	64.1	40.1	52.4	75.4	28.7	26.1	20.5	25.3	30.0	20.0
Exchange rate (VEF/$) year-end	0.70	0.76	1.39	1.60	1.92	2.15	2.15	2.15	2.15	2.15	4.29	4.29	4.29
Exchange rate (VEF/$) annual average	0.68	0.72	1.16	1.61	1.88	2.11	2.15	2.15	2.15	2.15	4.25	4.29	4.29
Exchange rate (VEF/EUR) year-end	0.66	0.68	1.46	2.01	2.60	2.54	2.83	3.13	3.00	3.07	5.75	5.96	5.79
Exchange rate (VEF/EUR) annual average	0.63	0.65	1.12	1.82	2.34	2.62	2.70	2.94	3.16	3.00	5.63	6.07	5.83

Source: National sources, Bloomberg, Renaissance Capital estimates

Disclosures appendix

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	302			**8**	

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