

Weekly Focus

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TRENDS TO KEEP AN EYE ON

Ecuador – big loans from China; **Egypt** -- brushing off the IMF and the World Bank; **Peru** -- unpredictable Humala; **Portugal** – much more red ink than expected; **Romania** – a precautionary facility from the IMF; **United States** – still-uncertain prospects for three trade pacts.

CHINA

The government remains concerned about inflation, but official countermeasures appear to be working. While economic growth has been slowing, the landing will be “soft” even by Chinese standards. The latest official debt figures, while up substantially, suggest that this problem, too, remains manageable.

DENMARK

Now that a second bank has folded, highlighting the effects of Europe’s toughest resolution rules, larger lenders are starting to face increased funding costs. But the arguments behind the Danish approach are hard to quibble with.

GREECE

The country and its creditors have only gained time – and not very much time, at that. Greece’s problem is too big to grow out of. Some sort of debt restructuring still appears inevitable. And in the interim, the key question is whether the country can and will implement the latest official belt-tightening as agreed.

INDIA

The RBI has steadily tightened monetary policy, but with little success in an economy characterized by supply constraints, skilled labor shortages and high expectations among the 1.2 billion people. Urgently needed are structural reforms, but the coalition government remains unlikely to make the necessary decisions.

JAPAN

While the most recent indicators still bespeak an economy in trouble after the disasters that struck earlier this year, there is hope that growth will return in the second semester. It is likely to stay constrained, though, by persistent problems in the energy sector and political infighting.

PAKISTAN

The withdrawal of the MQM from the ruling coalition will not, for now, bring down the government. More of a danger are growing rifts within the military, which are linked to the widening chasm between the US and Pakistan. The economy is suffering, and the state budget does nothing to improve things.

SOUTH AFRICA

Growth this year will not be strong enough to regain jobs lost in the recession. This reinforces COSATU in its criticism of economic policy and encourages the ruling ANC’s youth wing to step up its nationalization demands. The clamoring is predictably having the opposite of the intended effect by discouraging investment.

UNITED STATES

A persistent call for raising taxes has played a role in keeping the economy weak, as has the lack of an explicit plan to deal with exploding deficits and debt. Until these problems are dealt with, the expansion will remain sub-par at best, tempting the Fed to seriously consider QE3.

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