

# Weekly Focus

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## TRENDS TO KEEP AN EYE ON

**Bailouts, Banks and the Eurozone** – the coordinated CB action this week makes sense as a temporary band-aid, but it offers no solution to the Eurozone’s problems. Ms. Merkel has the right instincts, but her answer would need time and the markets may lack the patience.

## BELGIUM

Agreement on a 2012 budget was probably the last big hurdle on the path toward the formation of a new government, but the breakthrough was reached only after a sharp increase in external pressures. More trouble is ahead, as there are already doubts about the budget compromise.

## EGYPT

Preliminary election results could conjure up a sharpening show-down with the military. They will also increase the difficulty of sustaining the United States’ close military and political partnership with Egypt and are certainly not good news for Israel.

## INDIA

Many Indian companies are coming under financial stress because of the rupee’s exchange market plunge, but the government’s latest response to this problem, opening up the economy to foreign retailers, has triggered a fierce political backlash that threatens to wipe out any positive effect. This suggests that the rupee has further to fall.

## MEXICO

The authorities have stepped in to brake the peso’s descent, and while this will not necessarily put an end to further declines, it should reduce the unit’s volatility. This should benefit the economy, which, though it has held up reasonably well so far, faces growing headwinds.

## PORTUGAL

While the review of the bailout program was “successful,” the situation does not appear as reassuring looking ahead. This is what motivated Fitch to downgrade Portuguese debt to “junk” status. The change will not immediately affect Portugal’s position as a sovereign debtor, but it will worsen the situation for companies.

## TUNISIA

The Islamist Ennahda, having emerged with a strong plurality from the elections, is doing its best to demonstrate that it is akin to Turkey’s AKP. What concerns people most, though, is the economy. The new interim government will have a tough time trying to meet the heightened expectations of the populace.

## VENEZUELA

Pres. Chavez now has a challenger with a populist message, but he still has the ability to play a trump card with a massive increase in spending. The fiscal effect is hidden by a large off-budget kitty that is at his disposal. The inflationary effect is much more difficult to hide.

## YEMEN

The country’s troubles are far from over, even though Pres. Saleh has ceded power. The new leader will face an uphill task preventing the country from disintegrating, trying to restore government authority and keeping AQAP from building a mini-state in Yemen.

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