Weekly Focus

December 15, 2011

TRENDS TO KEEP AN EYE ON

China – hitting the US with punitive import duties on cars; **Hungary** – an interest rate hike with more to come; **Italy** – amendments to the austerity program; **Pakistan** – the US Congress freezes an aid allocation; **Papua New Guinea –** a troubling political deadlock that could end in violence.

CONGO (DEM. REP.)

Elections supposed to move this country toward greater stability have instead set the stage for more violence amidst charges of widespread fraud. The resource-based economy is still doing well, but the global economic downturn will inevitably take its toll.

EGYPT

Now that Islamists have won the first round of parliamentary elections, the question is whether they can put generating economic growth ahead of their religious/social ideology. The economy is in a bad way and a crisis on this front could allow more radical elements to come to the fore.

GERMANY

Dimmed prospects for growth and a recent "disastrous" German bond sale serve as reminders that Berlin has a keen interest in saving the euro. It is doubtful, however, that a wholesale revision of the EU's treaties as envisaged by Chancellor Merkel will accomplish this.

INDIA

The government's U-turn on opening up the economy to foreign retailers has hurt the reputation not just of the dysfunctional legislature but also of PM Singh. The rupee and the Sensex stock index have been Asia's worst performers this year, and indications are that they will continue to deserve this description.

ITALY

The austerity measures PM Monti has introduced are a step in the right direction, but not much more than that. Italy urgently needs fundamental reforms and a debt restructuring down the road will probably be inevitable. Fortunately, the country can cope with high borrowing rates in the short run.

SPAIN

Structural reforms are as important as is fiscal austerity to set things right, and how the incoming government will approach the problem is not yet certain. Spanish bonds have sold off also because of growing doubts that the latest EU agreements will be up to the task of containing the crisis.

TURKEY

There is no indication that the CB's unorthodox monetary policy and the government's tax measures are accomplishing their assigned task. As the risk of a hard landing for the economy is growing, the authorities may eventually have to seriously consider a course change.

UNITED KINGDOM

PM Cameron miscalculated badly when he thought he could use last week's European crisis meeting to extract safeguards on financial regulation and other interests. In the longer run, the main loser is likely to be the City of London… The UK economy has slowed to a crawl.

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