

Weekly Focus

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TRENDS TO KEEP AN EYE ON

Costa Rica – new tax rules for foreign portfolio investors; **India** – a step to spur capital inflows; **Iran** – yet another exchange-market plunge by the rial; **Russia** – the President’s continuing retreat from democracy; **Vietnam** – a new, more business-friendly constitution in the making.

BRAZIL

The numbers continue to show that the economy is now tending toward stagflation. Still, the Central Bank may be forced to start tightening sooner than is currently predicted. A critical uncertainty in the outlook is whether Brazil will have to suffer through another energy crisis.

CYPRUS

The Island’s request to be bailed out is proving to be a tough nut to crack for its partners. There has been talk in Berlin and Brussels that senior bondholders and depositors should be bailed into a Cypriot bank rescue, but this would be a game changer. Either Cyprus’ days as a tax haven or its days in the Eurozone are numbered.

GEORGIA

This country passed an important milestone when last October it managed to achieve a peaceful hand-over of power, but things have gone wrong since then. The economy is not doing badly, with robust growth and ebbing inflation. The current-account BoP deficit is shrinking while FX reserves are rising.

GERMANY

The latest election setback by Angela Merkel’s Conservatives in a state poll in Lower Saxony highlighted some of the complications the popular Chancellor may face in seeking a third term later this year, but its predictive significance can easily be exaggerated... The Bundesbank is repatriating much of the gold it has stored abroad.

ISRAEL

While the consensus of the mainstream international press appears to be that the election outcome has sharply weakened PM Netanyahu, we deem this to be a gross exaggeration. He now has several options for forming a new governing coalition and is likely to come up with one that will not tightly limit his room for maneuver.

JAPAN

Steps one and two in the three-step assault on the Japanese economy’s sluggishness promised by Prime Minister Abe and his Cabinet have now been taken. The yen’s fall, meanwhile, though criticized abroad, is likely to go further if the Japanese authorities have their way.

MALAWI

While the IMF has had mostly high praise for the government’s economic program and while foreign aid has been restored, the people are less happy with the way the economy has been performing. If she is not careful, this could cost Pres. Banda in the next elections.

ZIMBABWE

Pres. Mugabe and PM Tsvangirai appear to have reached agreement on the outlines of a new constitution. If all goes well, elections could be held later this year and remove some of the political uncertainties that trouble the economy. Growth is still noteworthy, but the current-account BoP deficit remains troublesome and official FX reserves are much too small.

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