Weekly Focus

May 30, 2013

TRENDS TO KEEP AN EYE ON

Argentina – a scheme to pardon tax dodgers is not likely to accomplish its purpose; **Brazil** – an unexpectedly sharp interest rate hike; **Slovenia** – still not certain to make it without a bailout.

COLOMBIA

The weakened peso should make it possible for the Central Bank to end its interest rate cutting and not to have to add to the stimulus package it announced in April. There has been a break-through in the negotiations with FARC, which is also positive for the business climate. Money laundering is still a problem that needs to be addressed in earnest, however.

EGYPT

The Central Bank has been stepping up hard-currency sales for essential imports, able to do so thanks to help from other Arab states. It is no closer to a deal with the IMF, though, despite the imposition of higher taxes. A drive by the Muslim Brotherhood to tighten its grip on power has given rise to an unlikely alliance opposing it.

ICELAND

The new government, based on the same party combination that led the country to its financial collapse, will not find it easy to make good on the promises with which it beguiled the voters. It has ended accession negotiations with the European Union and will not seek Eurozone membership anytime in the foreseeable future.

KOSOVO

It is not certain yet whether the historic deal brokered by the European Union between Kosovo and Serbia will hold, but for now it is a big step forward. Economic growth will stay subdued and threats to remittances pose some risks, but overall the prospects are not bad. The investment climate, unfortunately, is not what it should be.

PORTUGAL

Just as the financial markets express their faith in the government, the notion is growing among the people that Portugal, perhaps, would be better off outside the Eurozone. There is no near-term chance of it leaving. But if the recession persists, the voices arguing in favor of a return to the escudo will get louder.

SOUTH AFRICA

The rand has dropped to a four-year low as the threat of escalating labor unrest is starting to overshadow the attraction of high yields. Resurfacing labor demands for mine nationalization are making a bad situation worse. The CB will have to keep interest rates high despite sluggish growth and a dimming outlook.

SPAIN

The government has achieved much in its drive to rescue the economy from near-bankruptcy, but much remains to be done and the task is becoming harder as there is no sign yet that the recession is letting up. Prime Minister Rajoy has little to fear from the political opposition, but he is being challenged from within his own party.

SWITZERLAND

The famed Swiss bank secrecy is coming to an end. While job losses at financial institutions have been making headlines, though, it is the industrial sector that is more important. This also highlights the significance of the Central Bank's exchange rate control.

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