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T-A-C RiskMonitor
A Country Risk Assessment Service provided by TAC

The World Economic Recovery: Navigating between Positives and Pitfalls

Presentation at RIETI

Tokyo

October 20, 2009

T - A - C
Applied Economic & Financial Research

About TAC

TAC is a fully independent European research group providing advisory services on emerging markets for financial investors and industrial companies, with a growing customer base in Asia.

TAC also provides policy advisory services through research funded by multilateral or bilateral donors / institutions.

TAC combines a very strong quantitative expertise with a customized approach to companies' requirements. The track record in terms of early warning signals and operational recommendations is outstanding.

Introduction

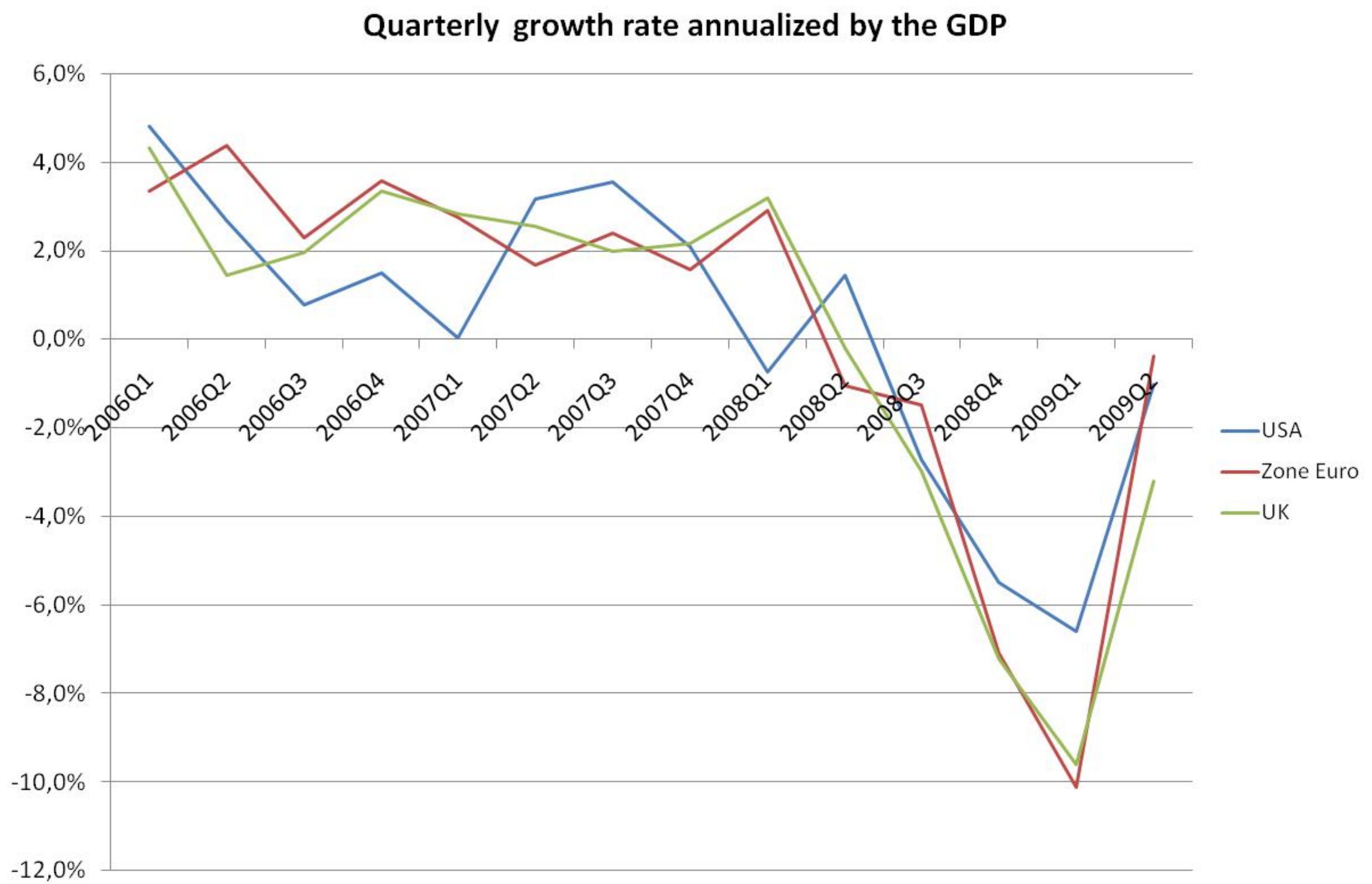
Recent economic indicators confirmed TAC's scenario of a trough in 2009Q2; markets are pricing a V-shaped recovery but some are talking about a "double-dip". What about the "decoupling" between developed and emerging economies and where are the risks in emerging markets?

1. Not so much a risk of double-dip than one of medium-term sub-potential growth in industrialized countries
   a. Sustainability of the recovery
   b. Constraints on medium-term growth
   c. World trade and financial developments

2. Is there a new "decoupling" between developed and emerging markets? Early birds and latecomers in the new cyclical phase
   a. Emerging countries remain more dynamic
   b. Country risk analysis
   c. Key vulnerabilities in emerging markets

1. Global view on the world economic outlook

1.a. Sustainability of recovery



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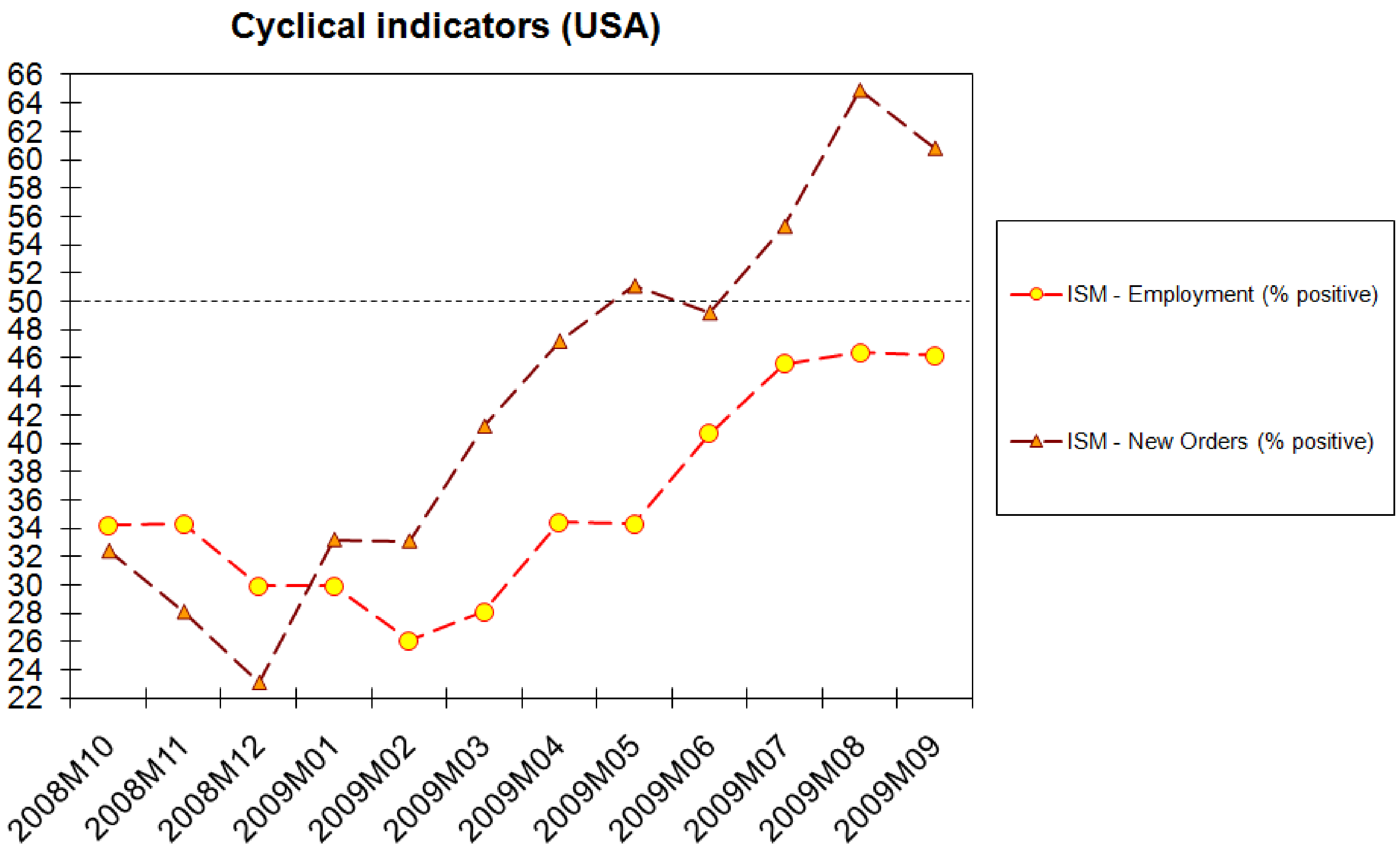

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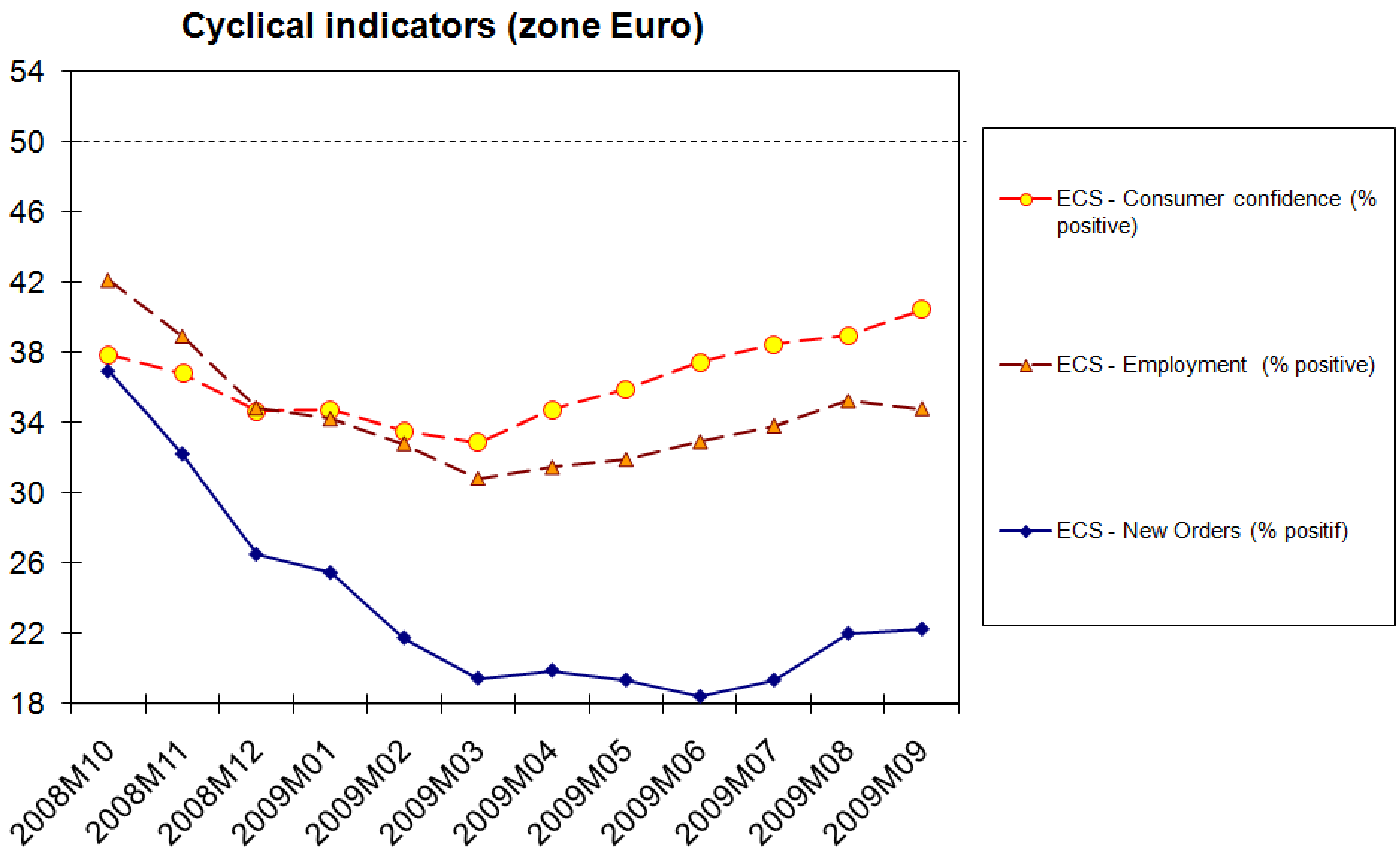

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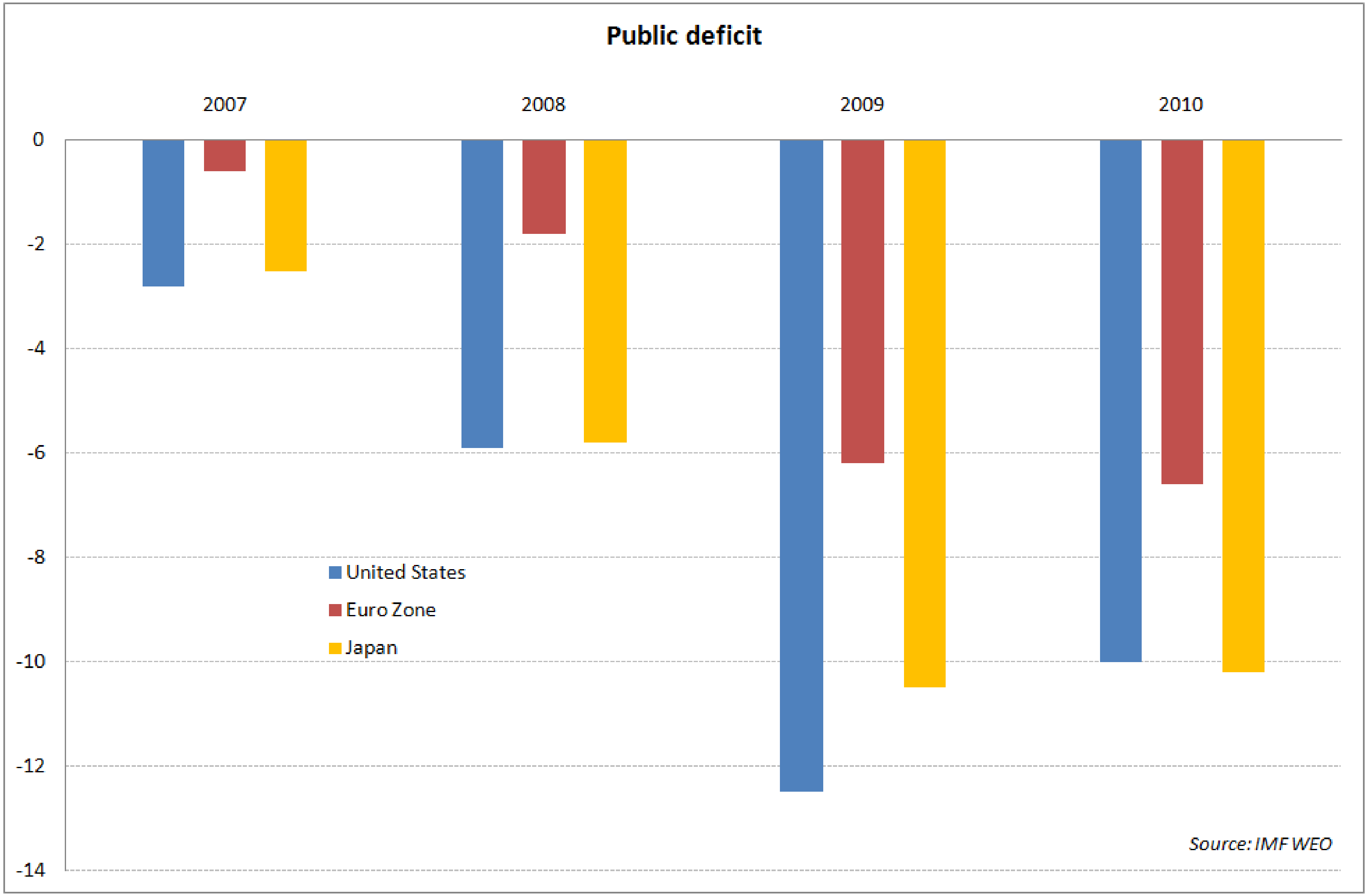

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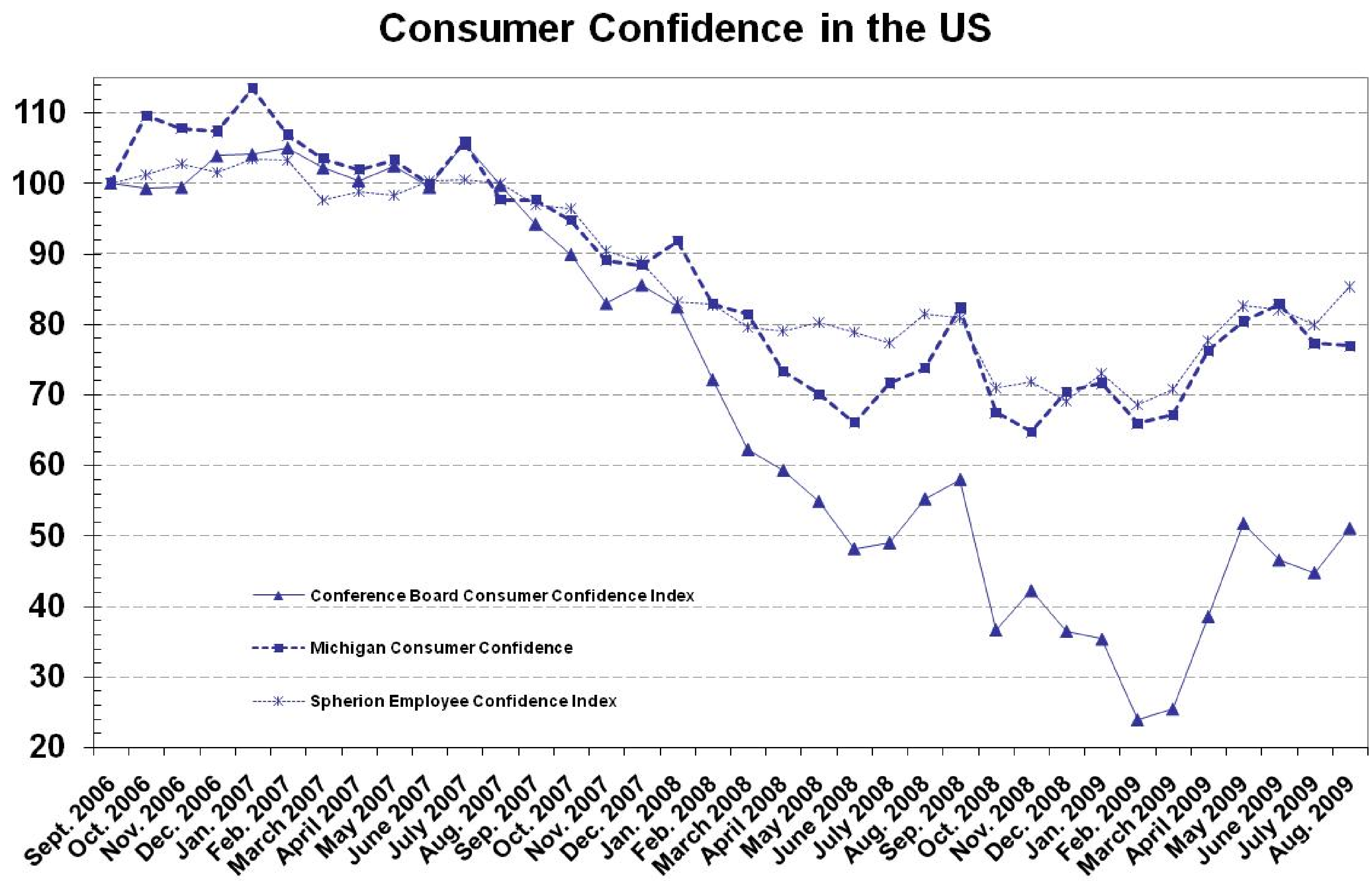
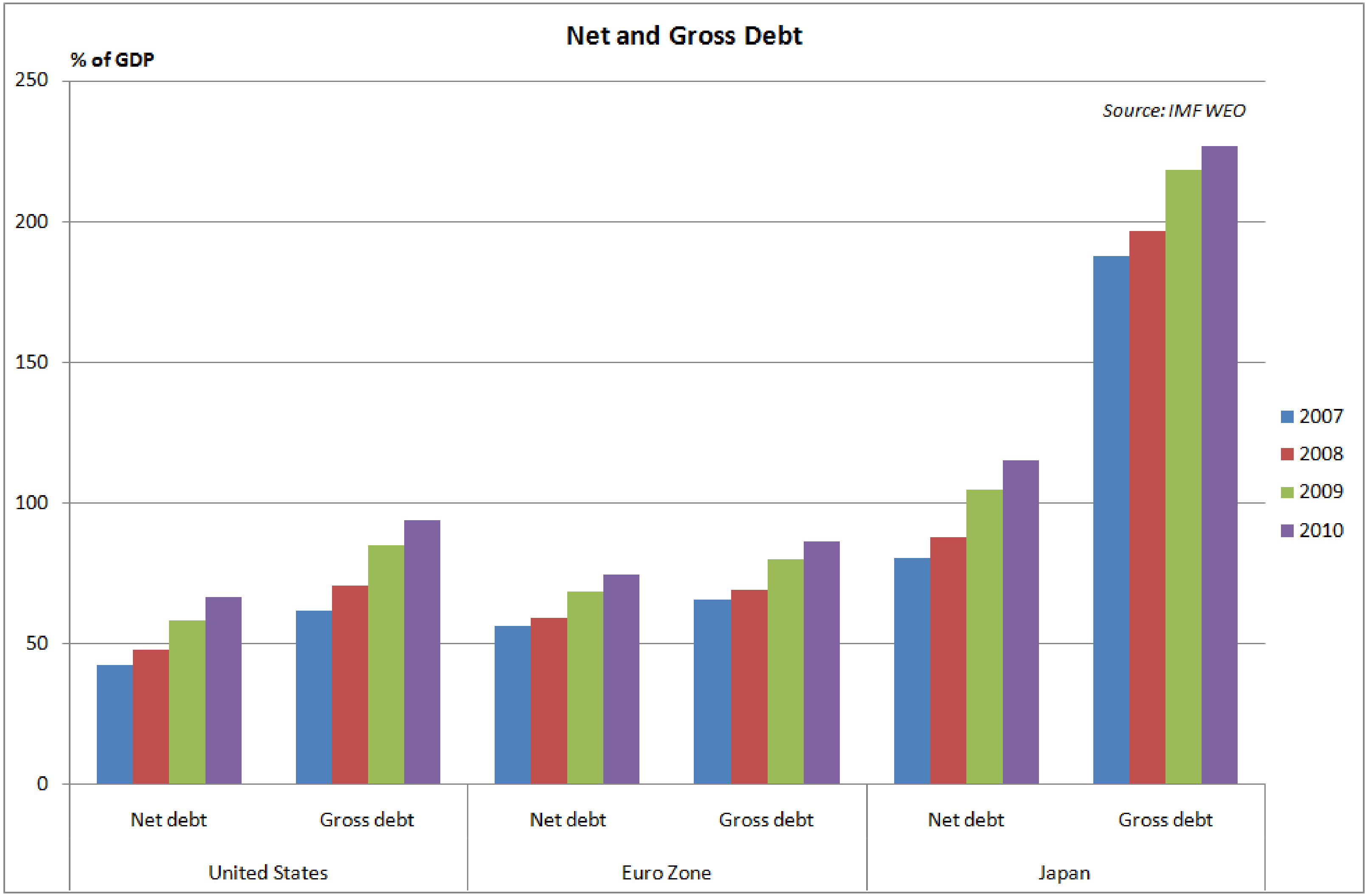


1.b. Constraints on medium term growth



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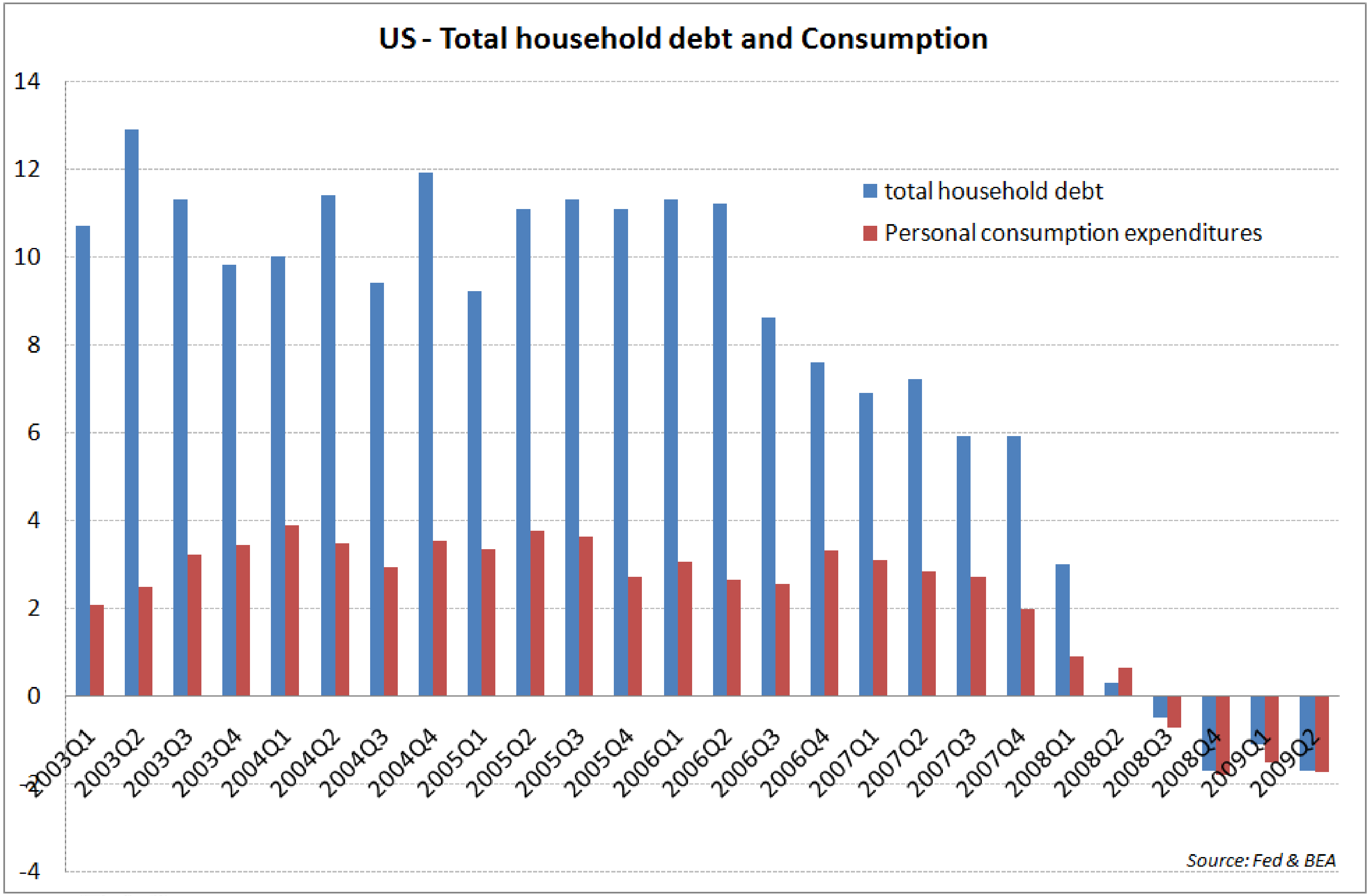
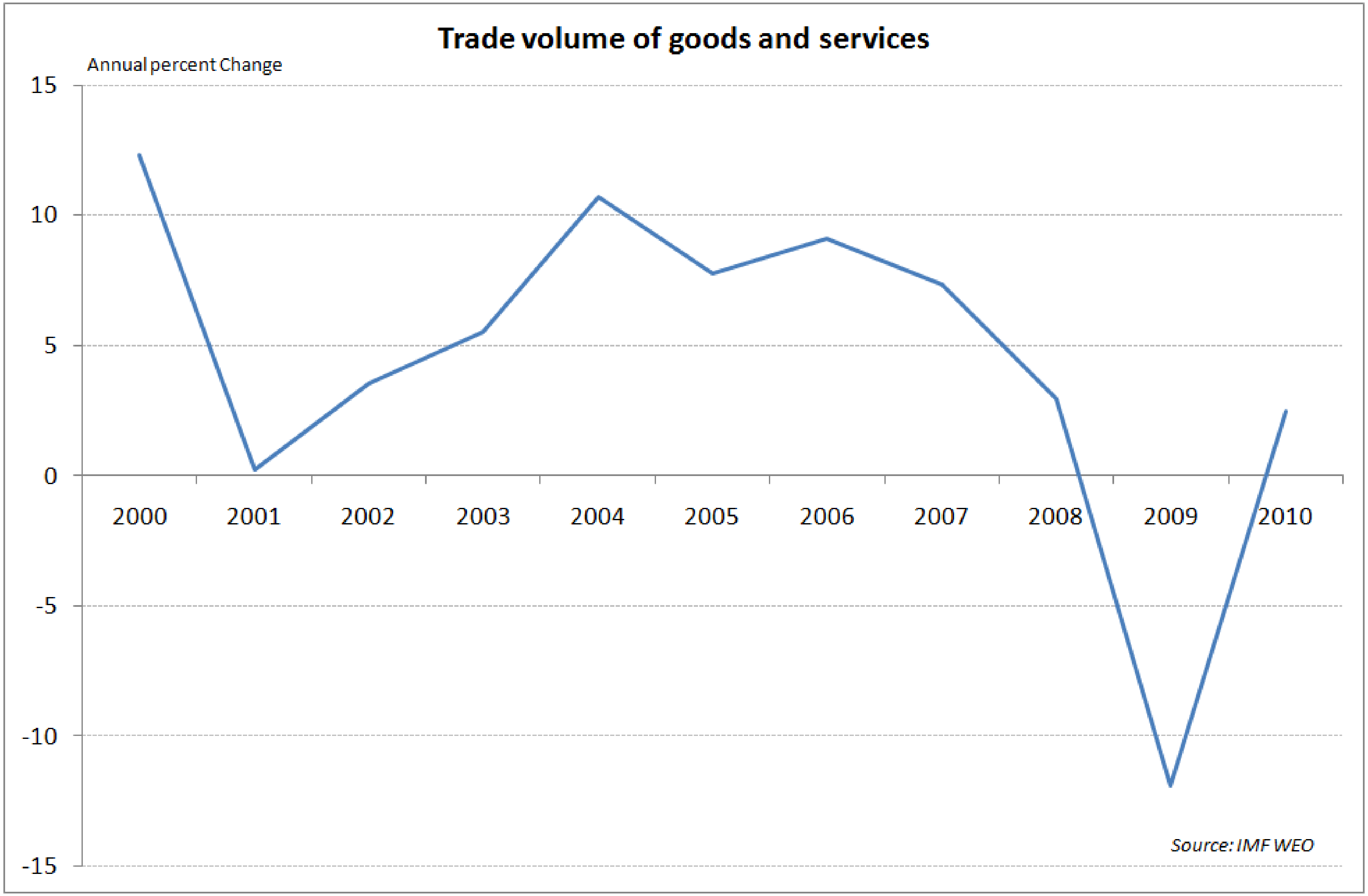


1.c. World trade and financial developments



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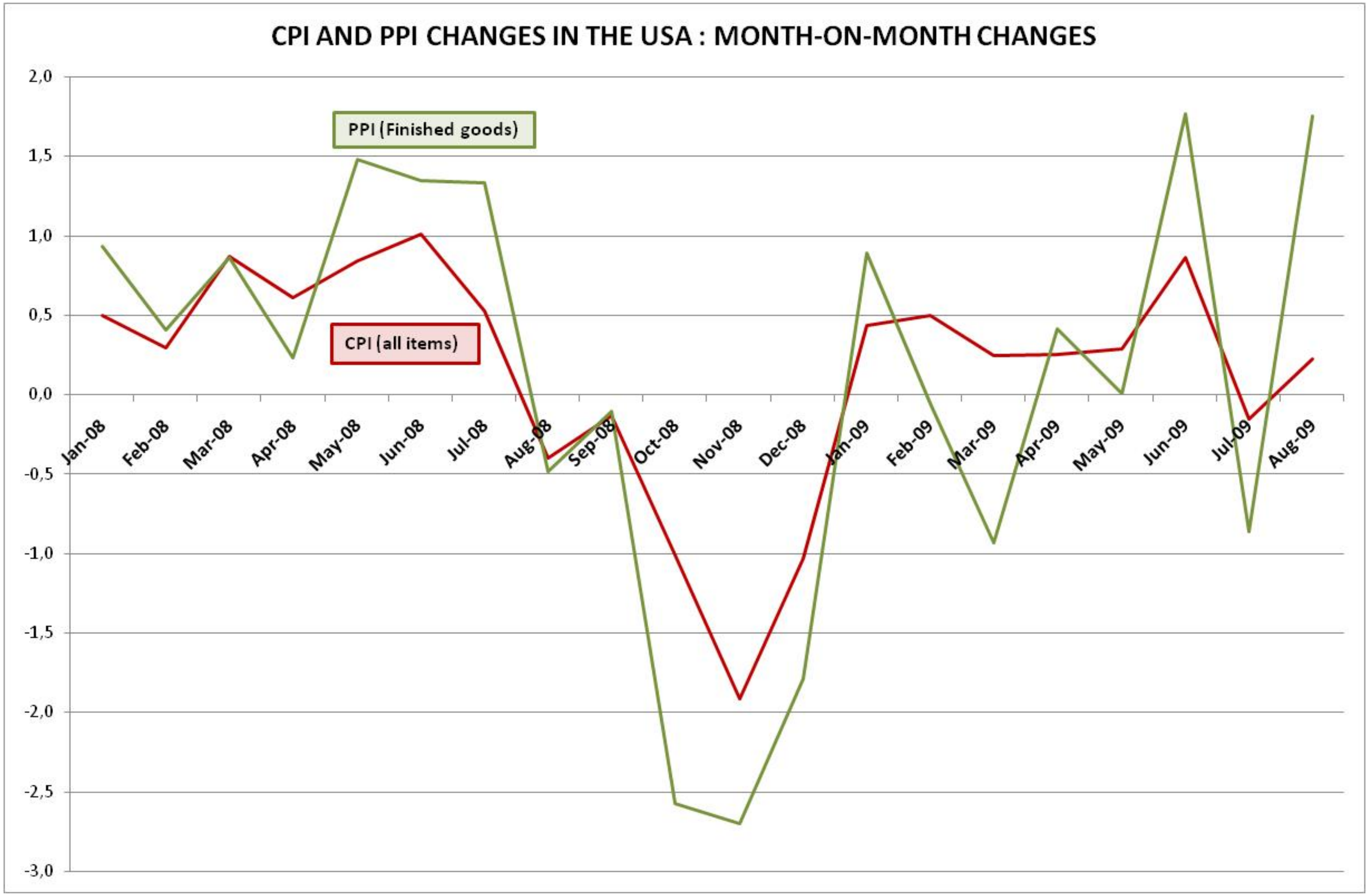

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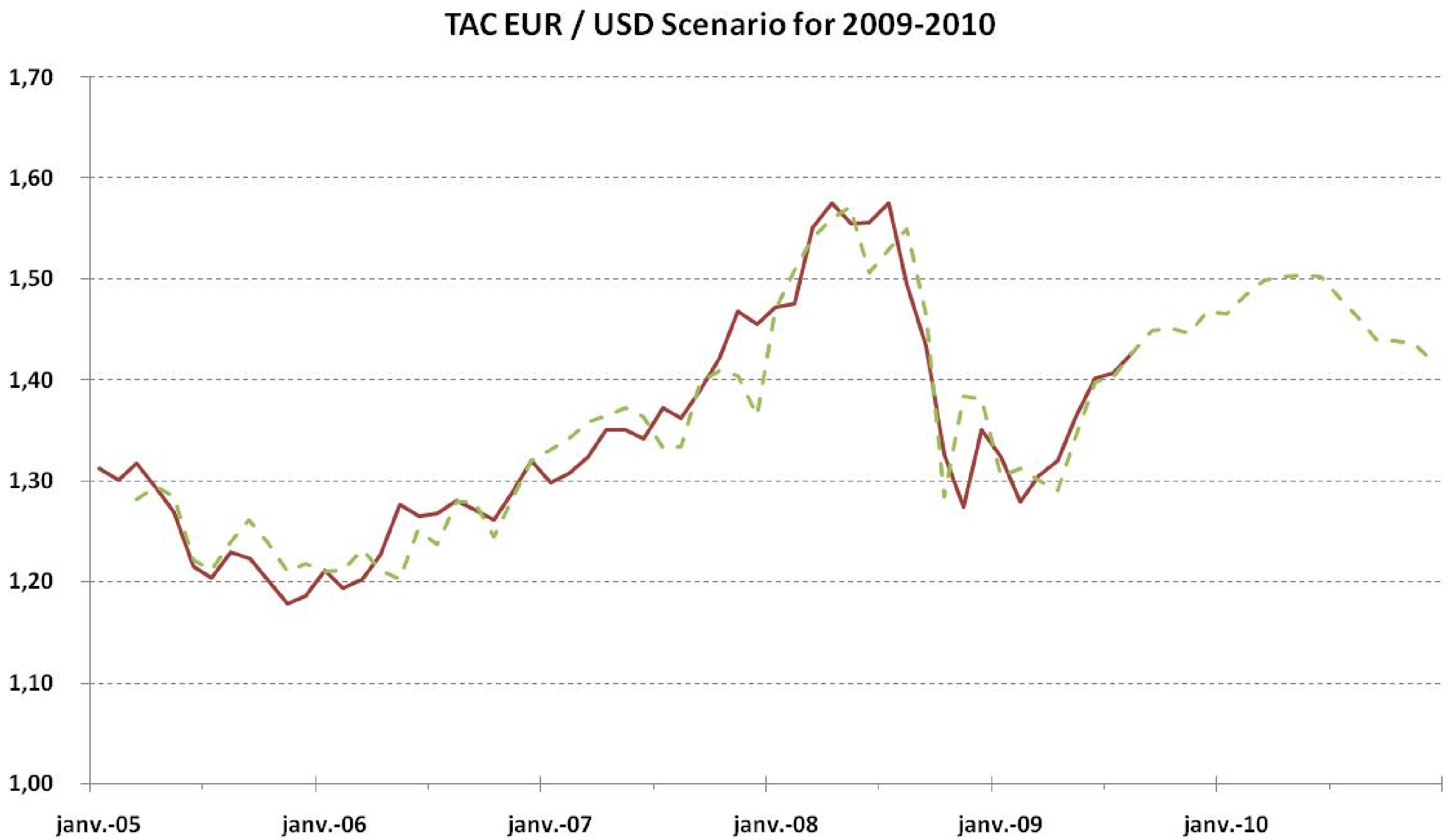

Source: TAC

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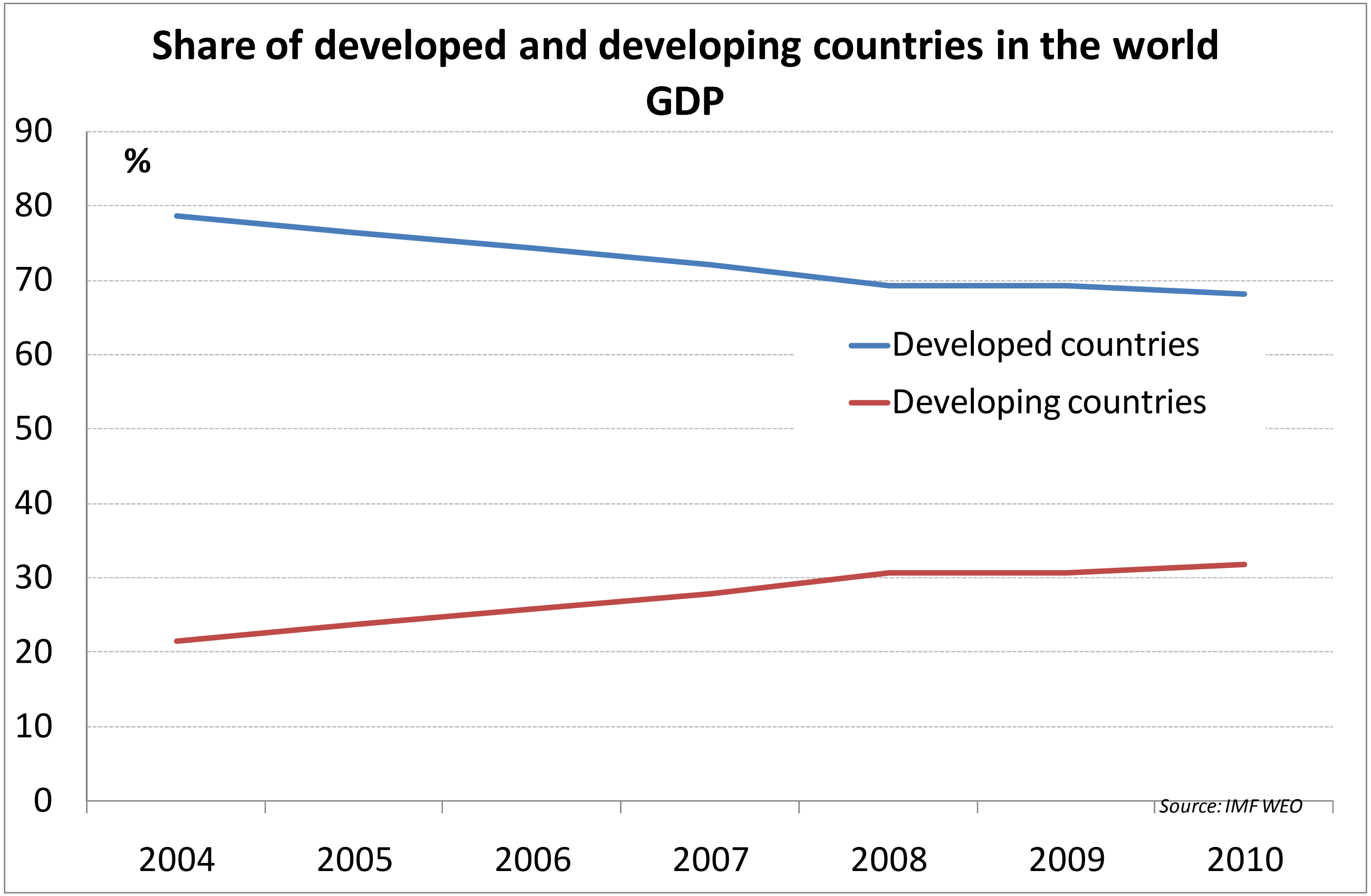
Global View: Conclusions

1. No double dip, but a weak and possibly “chaotic” recovery in industrialized countries
2. The US will recover earlier and register a higher growth than the Eurozone or Japan
3. Inflation is a real risk, with a likelihood of significant reversal for government bond markets
4. Commodities are now at or above their “neutral” valuation and may reverse temporarily, before picking up again in 2010-2011

2. Emerging Markets & Country Risk

2.a. Emerging markets remain more dynamic



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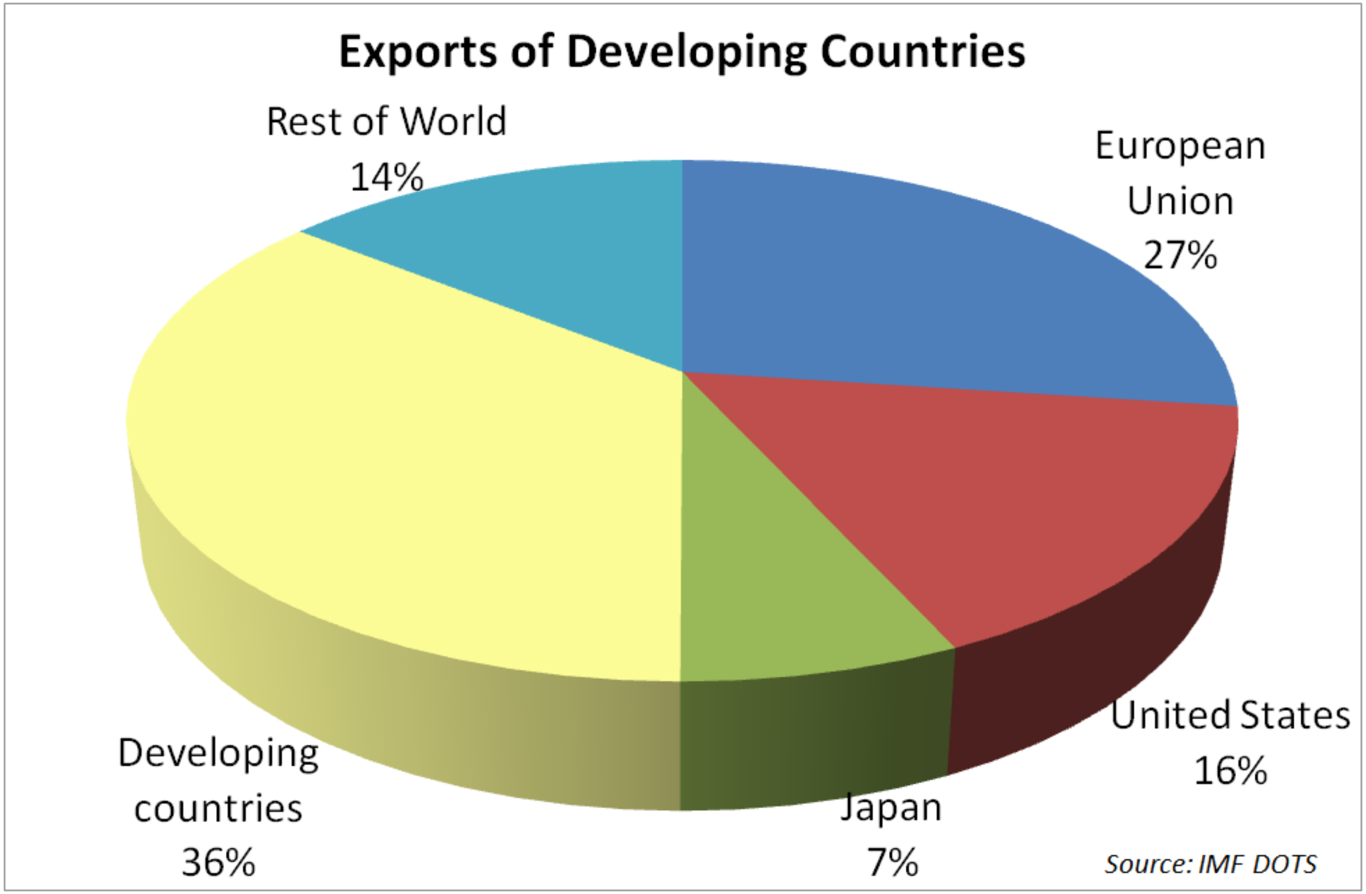

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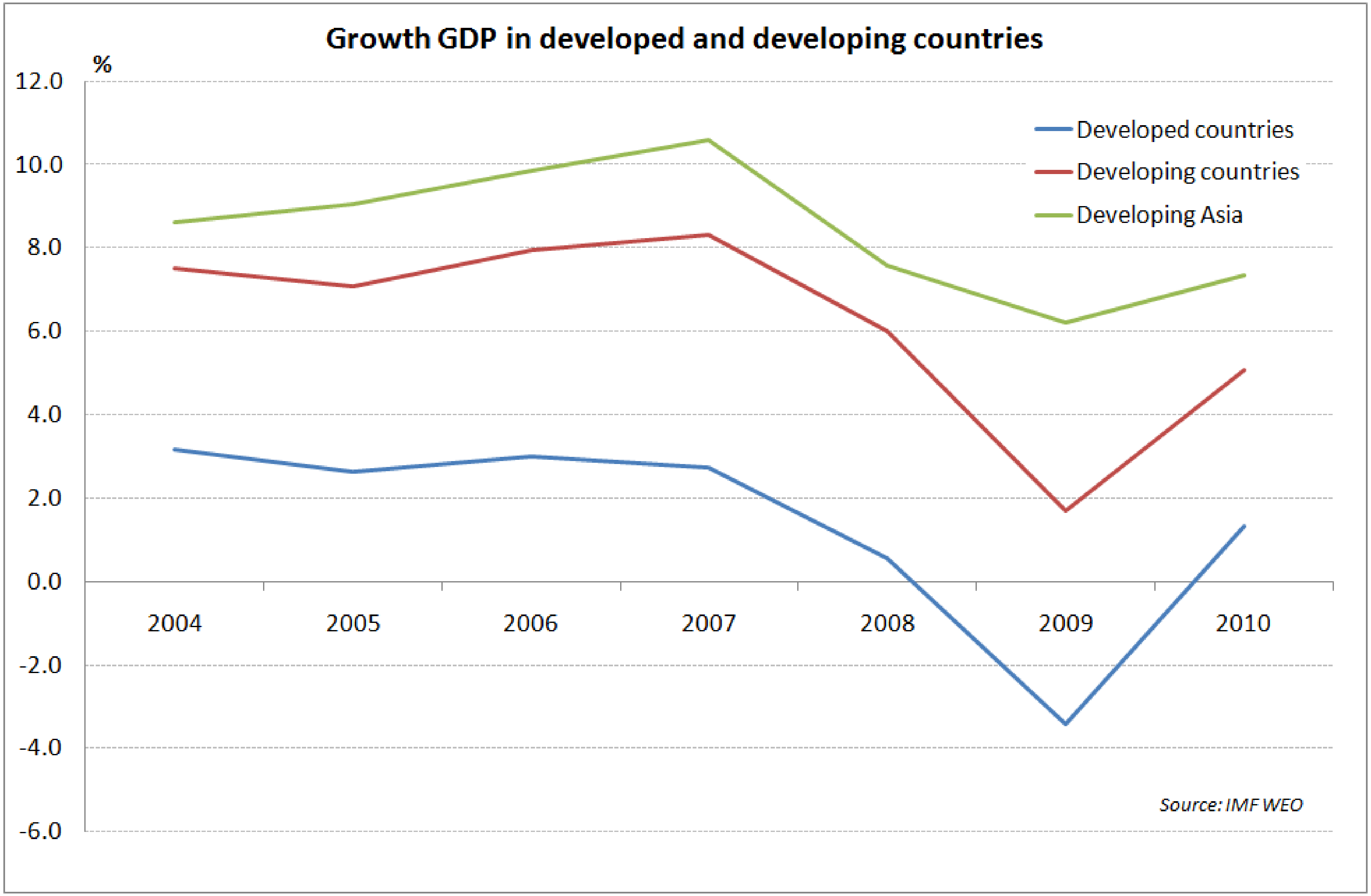

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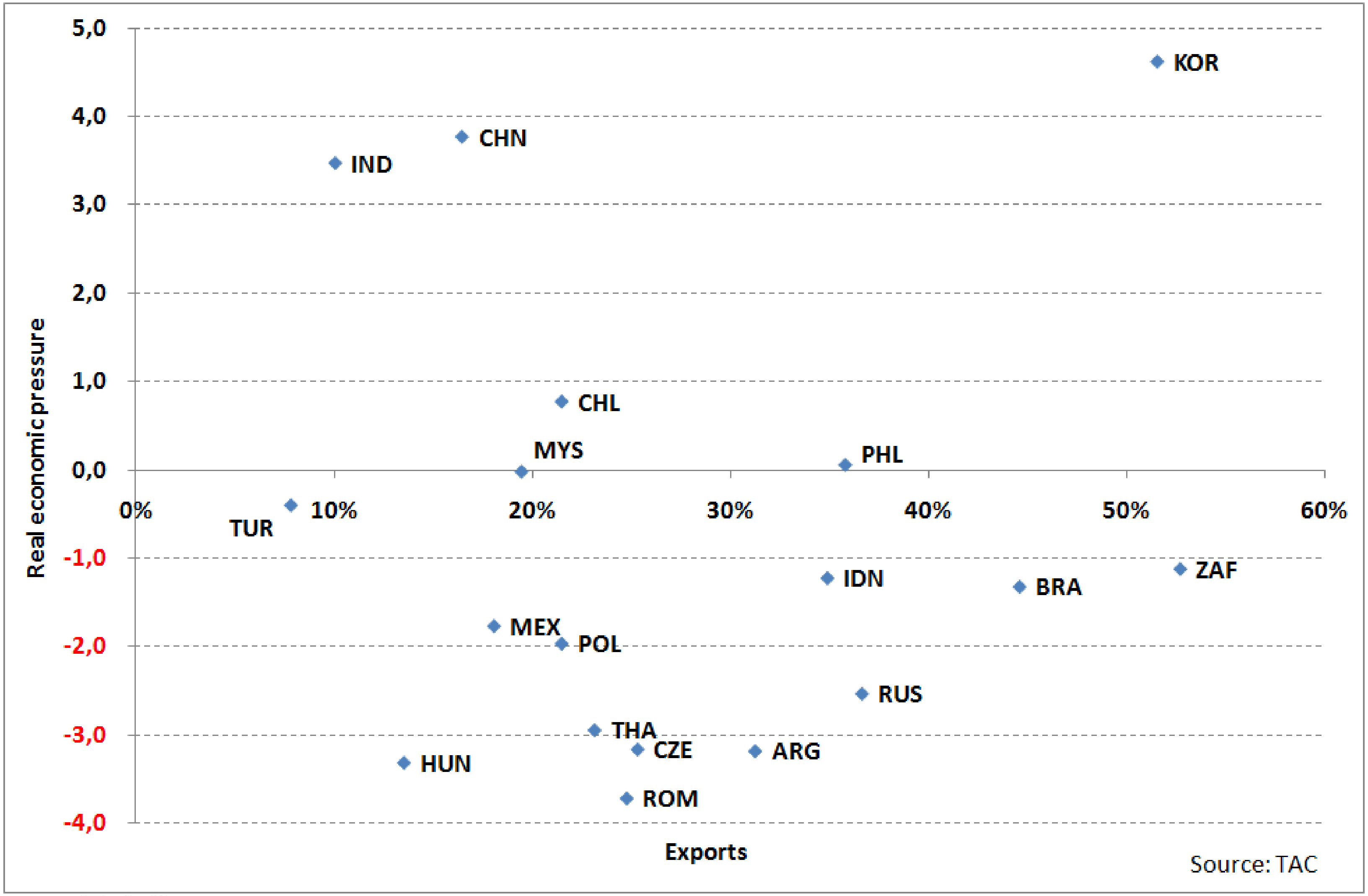
2.b. Early birds and latecomers

In the current environment the « positives » and « negatives » for emerging markets should be looked at through the following elements:

- Potential of domestic demand for sustaining economic growth
- Evidence or potential for further regional integration

2.b. Early birds and latecomers



2.b. Early birds and latecomers

Exports, 2008

		Partner countries							
		Advanced Economies	United States	LatAm	Middle East	Dev. Asia	Africa	European Union	Total
Reporting countries	AFRICA	292 088	99 073	21 586	7 385	65 631	40 760	149 479	444 799
	DEV. ASIA	1 554 440	***367 235***	90 062	**123 157**	**349 310**	70 611	***425 335***	**2 333 250**
	MIDDLE EAST	561 720	*90 235*	9 936	91 222	214 870	30 487	142 565	995 104
	LATAM	579 433	*382 156*	187 969	13 963	74 642	13 940	128 326	927 249

2.c. Key vulnerabilities

Emerging markets remain highly sensitive to potential pressures on their economic recovery, exchange rate or payment positions, and the current environment of high uncertainty warrant a closer look at potential vulnerabilities:

- Liquidity and Exchange rate risks
- Banking system and Cyclical risks
- Political / risks *versus* Economic & Financial risks
- Results as a global “country risk premium”

All these measures are derived from a proprietary tool designed for monitoring country risk and enabling companies to strengthen their risk management policies

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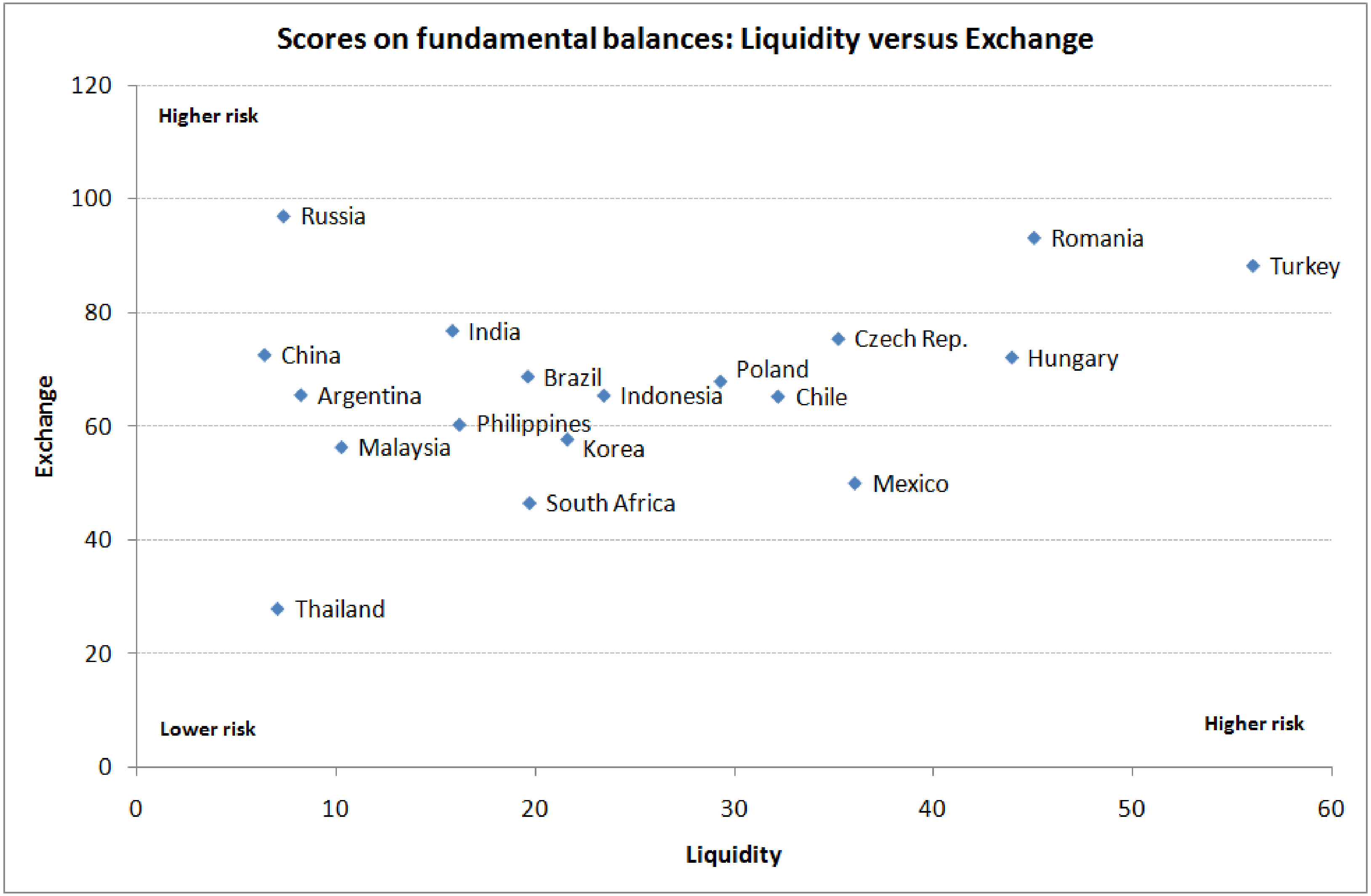

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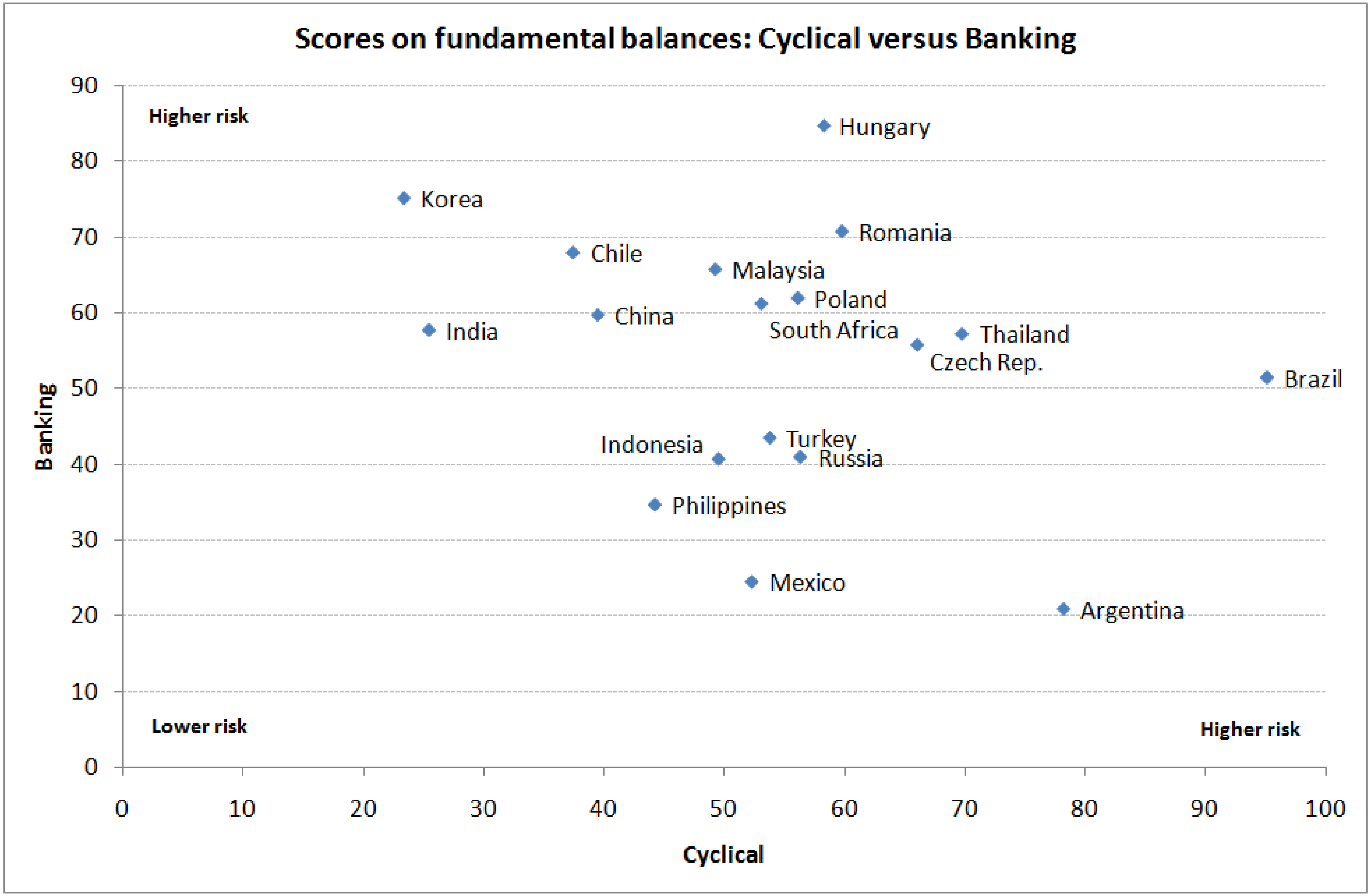

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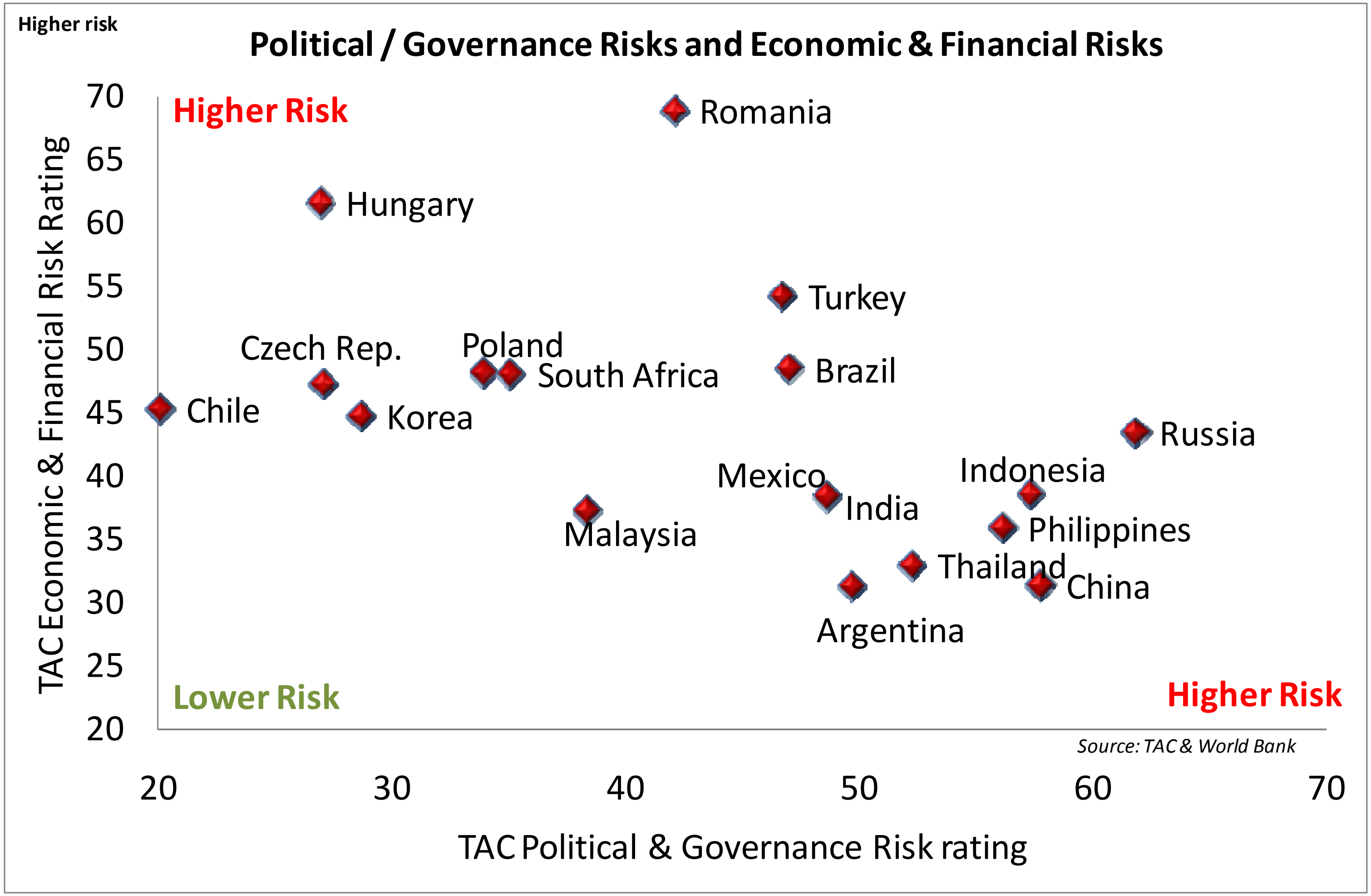

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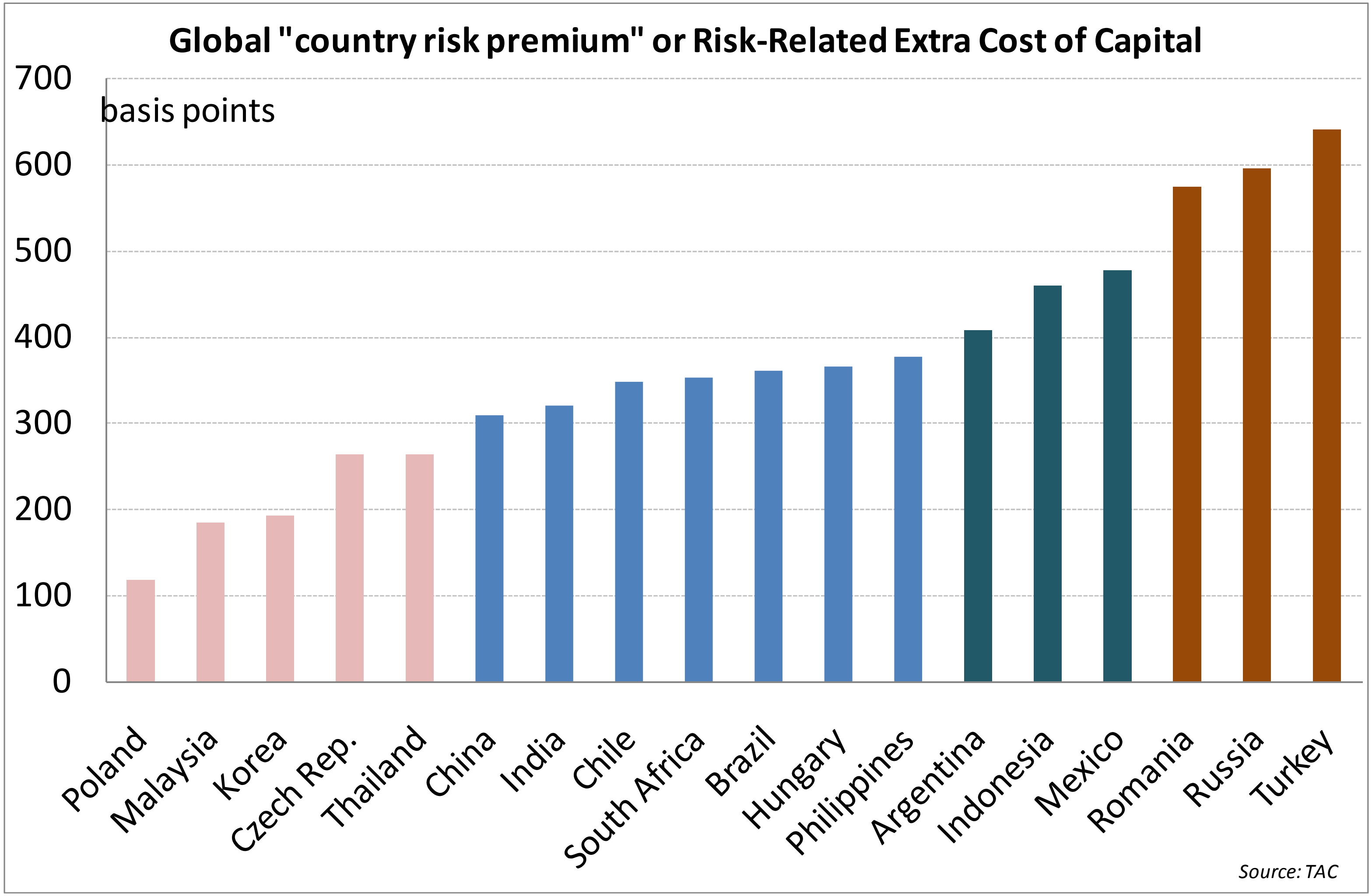

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Emerging market & country risk: Conclusions

1. Asian countries will keep a higher growth momentum, and the process of regional integration to serve domestic demand in the region’s large markets will intensify

2. Smaller countries (Laos, Cambodia) or those with limited policy space (Philippines or Vietnam) will remain vulnerable to exchange rate pressures and will register an increase in corporate difficulties in the short run

Emerging market & country risk: Conclusions

3. Eastern Europe and CIS countries will continue to be the most affected part of the world and will continue to require extreme short-term caution
4. Middle East progressively coming out of difficulties, but financial tensions / debt negotiations still likely
5. Latin America (apart from Mexico) and most of Africa remain highly dependent on commodity prices; higher likelihood of volatility
6. Whatever the region, “differentiation” remains the key word!

Thank you for your patient attention

Your contacts at TAC:

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- Mrs. Jocelyne Vaubourg, in charge of customer relations (vau@tac-financial.com)
- Dr. Thierry Apoteker (Managing Director) or Mr. Sylvain Barthélémy (Research Director), for technical / economic and financial questions or discussions (apo@tac-financial.com and barth@tac-financial.com)

ISO codes for countries

ISO code	Country	ISO code	Country	ISO code	Country
AZE	Azerbaijan	LTU	Lithuania	EGY	Egypt
BGD	Bangladesh	POL	Poland	IRN	Iran
KHM	Cambodia	ROM	Romania	ISR	Israel
CHN	China	RUS	Russia	JOR	Jordan
GEO	Georgia	TUR	Turkey	KWT	Kuwait
IND	India	UKR	Ukraine	MAR	Morocco
IDN	Indonesia	ARG	Argentina	OMN	Oman
KAZ	Kazakhstan	BOL	Bolivia	QAT	Qatar
KOR	Korea	BRA	Brazil	SAU	Saudi Arabia
LAO	Laos	CHL	Chile	TUN	Tunisia
MYS	Malaysia	COL	Colombia	ARE	UAE
MMR	Myanmar	DOM	Dominican Republic	AGO	Angola
PAK	Pakistan	ECU	Ecuador	CMR	Cameroon
PHL	Philippines	SLV	El Salvador	COG	Congo
LKA	Sri Lanka	GTM	Guatemala	COD	Congo, Dem. Rep.
TWN	Taiwan	MEX	Mexico	GHA	Ghana
THA	Thailand	PAN	Panama	CIV	Ivory Coast
VNM	Vietnam	PRY	Paraguay	KEN	Kenya
BGR	Bulgaria	PER	Peru	MDG	Madagascar
HRV	Croatia	URY	Uruguay	MOZ	Mozambique
CZE	Czech Rep.	VEN	Venezuela	NGA	Nigeria
EST	Estonia	DZA	Algeria	ZAF	South Africa
HUN	Hungary	BHR	Bahrain	SDN	Sudan
LVA	Latvia				