

# Magni Client Information

## Talking Points on International Equity Research and Investing

### January 2016

#### Country Ranking Trends

- Turkey was upgraded for improvements to its market integrity (see the comments on Turkey below).
- The overall trends discussed in recent commentaries remain the same. A few more countries are improving than deteriorating. Collectively, the average score continues to increase at a modest pace.

#### Making Indonesian Investment More Attractive

- Indonesia is expected to soon announce its plans for easing foreign investment rules. For example, foreigners will be allowed to increase their ownership stakes in companies and some previously-closed industries will be opened. Indonesia's investment coordinating board has also set up a one-stop shop to help speed up the licensing process. While Indonesia saw a gain in foreign direct investment during 2015, this increase has been attributed to improved investor sentiment in the country following the 2014 election of President Joko Widodo. Recently, however, the economy has slowed and growth in foreign investment has fallen. Further opening measures may face opposition from entrenched politicians and officials, and could ultimately fall far short of hopes, but they represent an important test for the reform promises of the new administration.
- So far, the improvements have not warranted an upgrade to Indonesia's scores. Magni will be watching to determine if enough improvements are made to justify an upgrade. Several countries, including Brazil, have Magni Country Scores slightly higher than Indonesia. Small upgrades could have a big impact on Indonesia's relatively rank.

#### Geopolitical and Economic Concerns Overshadow Turkey's Improvement

- As a net importer of petroleum products, lower energy prices have narrowed Turkey's current account deficit, but political uncertainty is hampering the transmission of lower oil prices into increased growth and economic activity. At the same time, there are concerns about the serviceability of its sovereign debt. President Erdogan continues to seek a new constitution that would centralize his control on power. The continued military conflict with the Kurdistan Workers' Party, as well as spillover effects from the Syrian civil war, are further clouding the outlook.
- On a positive note, Turkey strengthened its anti-money laundering practices. Anti-money laundering practices are a good indicator of market integrity. Turkey moved beyond a declared intention regarding better market integrity and has proven that it is implementing its intentions. The upgrade slightly improved the country's relative ranking.

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### *Is Poland Slipping Backward?*

- Earlier this month Standard & Poor's cut Poland's foreign currency rating to BBB+ with a negative outlook from A-. The A- rating had a positive outlook. The downgrade was a reaction to policy steps taken by Poland's newly elected Law and Justice (PiS) party. Concerns over the country's political climate have grown recently and have included a preliminary probe by the European Commission as to whether laws pursued by PiS violate EU standards. Among the controversial measures is a new annual bank tax on assets scheduled to take effect in February. Another proposal by Poland's president would convert mortgages denominated in Swiss francs to the Polish zloty. The new government will also soon be appointing eight new members to the central bank's ten-person rate council, and S&P stressed that further downgrades are possible if the credibility of monetary policy is undermined.
- Magni currently gives Poland fairly high marks for the transparency of its monetary policy. Magni will be watching to determine if a downgrade is warranted.