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# COUNTRY RISK WEEKLY BULLETIN

# NEWS HEADLINES

## WORLD

### Basel decision to reduce cost of trade finance for banks

The Basel Committee on Banking Supervision agreed to waive the one-year maturity floor for some trade finance instruments under the advanced internal ratings-based approach (AIRB) for credit. It noted that the one-year maturity floor under the AIRB is also inappropriate for short-term self-liquidating trade finance instruments given their average tenor of 115 days. The Committee also agreed to waive the sovereign floor for claims of the confirming bank on the issuing bank under Option 2 of Basel II's standardized approach for credit risk in the context of short-term self-liquidating letters of credit. It noted that its decisions will make access to trade finance instruments easier and less expensive for low income countries, as it will allow banks to take advantage of the reduced risk weights. It added that the waiver will also help reduce capital requirements for banks engaged in trade finance and, therefore, support the import of goods to low income countries. However, the Committee did not reduce the 100% credit conversion factor (CCF) for contingent trade finance products, which is used to calculate bank leverage ratios. It attributed it decision to the fact that a reduction would be inconsistent with the core financial stability objectives of the capital framework and its supplementary objective of using the leverage ratio as a back-up to the risk weighting.

*Source: Bank for International Settlements*

## EMERGING MARKETS

### Cross-border M&As up 21% to $77bn in first 9 months of 2011

Figures released by the UN Conference on Trade & Development (UNCTAD) show that cross-border mergers and acquisitions in developing and transition economies totaled $76.8bn in the first 9 months of 2011, constituting an increase of 21.1% from $63.4bn in the same period last year. Cross-border M&As in developing economies dropped by 9.3% year-on-year to $55.3bn while those in transition economies surged by 772.1% to $21.5bn in the first 9 months of 2011. In comparison, cross-border M&As in developed countries totaled $275.6bn in the first 9 months of 2011 and increased by 43.5% year-on-year, while global cross-border M&As reached $352.4bn and rose by 38% year-on-year. The UNCTAD said that cross-border M&As in South, East & Southeast Asia reached $29.2bn in the first 9 months and increased by 25.5% year-on-year; followed by Southeast Europe and the Commonwealth of Independent States with $25.1bn (772.1%), West Asia with $6.3bn (351.7%) and Africa with $4.4bn (22%); while cross-border M&As in Latin America & the Caribbean dropped by 35.2% to $15.3bn. UNCTAD noted that cross-border M&As in developing and transition economies accounted for just 23.6% of global of global M&As.

In parallel, Greenfield projects in developing and transition economies reached $414.1bn in the first 9 months, up 3.7% year-on-year and accounting for 72.8% of the global Greenfield projects. Greenfield projects in developing economies increased by 4.2% year-on-year to $374.7bn while those in transition economies dropped by 1.6% to $39.4bn in the first 9 months of 2011. Greenfield projects in South, East & Southeast Asia totaled $180.7bn in the first 9 months of 2011, followed by Latin America & the Caribbean with $102.4bn, Africa with $53bn, Southeast Europe and the CIS with $39.4bn, and West Asia with $35.6bn.

*Source: UNCTAD*

### Bank lending conditions deteriorate in third quarter of 2011

The Emerging Markets Bank Lending Conditions Survey indicated that lending deteriorated in the third quarter of 2011, as the Lending Conditions Index posted a record-low 49.1 in the third quarter, compared to 53 in the previous quarter and 56.9 in the same period of 2010. The survey said that loan demand continued to increase but at a slower pace relative to the previous quarter, as 35% of respondent banks said that demand increased in all categories of lending compared to 41% who said the same in the second quarter. The survey added that banks reported a significant net tightening of credit standards in all regions, as 24.6% of responding banks acknowledged a tightening in standards for commercial real estate loans and 25.4% for residential real estate loans.

In parallel, the survey revealed that funding conditions tightened significantly across emerging markets in the third quarter, as 50% of responding banks acknowledged the deterioration in funding conditions compared with 23% in the second quarter. It said that external funding conditions contributed the most to the tightening, with 69% of all respondents indicating a deterioration in external funding compared to 2% that reported an improvement. Further, non-performing loans are expected to increase in all regions, except in the Middle East & Africa region, as 25% of overall respondents expected NPLs to increase over the next three months and 16% expected them to decrease. In parallel, the survey showed that conditions for international trade finance have also been affected adversely by current financial turmoil, with only 23% of participating banks saying that conditions for global trade finance have improved relative to 44% in the previous quarter. The survey is addressed to senior loan officers, chief credit officers or other senior officers in equivalent positions at 200 banks based in emerging market countries.

*Source: Institute of International Finance*

# POLITICAL RISK OVERVIEW - OCTOBER 2011

## ALGERIA

The Libyan National Transitional Council called for the extradition of former leader Qaddafi's family. In parallel, three aid workers were kidnapped on October 22 from a refugee camp in the west of the country by al-Qaeda in the Islamic Maghreb. Further, 17 women were killed on October 17 by a roadside bomb in Boumerdes province.

## EGYPT

The army crackdown on a Christian protest in Cairo left 26 people killed and over 200 injured, constituting Egypt's worst outbreak of violence since the ouster of President Husni Mubarak. Further, thousands of policemen participated in a strike across Egypt demanding higher salaries and the removal of Mubarak regime officials from security posts. In parallel, political parties threatened to boycott the parliamentary elections after the Supreme Council of the Armed Forces allowed members of Mubarak's former ruling party to run.

## IRAN

The U.S. stated that it broke up an Iranian plot to assassinate the Saudi Arabian ambassador in Washington, but Iran denied the accusations. Further, Iran's Foreign Minister Ali Akbar Salehi visited Ankara and pledged cooperation in operations against Kurdish militants. President Mahmoud Ahmadinejad criticized the Syrian regime's killing of protesters but warned against international intervention in Syria. U.S. Secretary of State Hillary Clinton warned Iran from exploiting U.S. troops withdrawal from Iraq and noted that Iran is morphing into a military dictatorship.

## IRAQ

U.S. President Barack Obama announced that all U.S. troops will be withdrawn as scheduled by the end of the year. In parallel, the government of Iraqi Kurdistan condemned the Turkish ground operation and air strikes against the Kurdistan Workers' Party in northern Iraq.

## DEM REP CONGO

Prime Minister Adolphe Lumanu Mulenda announced that the government arrested five armed men from Congo Brazzaville suspected of planning attacks on six cities including Kinshasa. In parallel, policemen continued to suppress political rallies ahead of the November 28 elections, including demonstrations led by the Union for Democracy and Social Progress (UDPS). The Supreme Court rejected the petition filed by the UDPS against the electoral body and the ruling party which sought the cancellation of certain electoral lists.

## LIBYA

The National Transitional Council's (NTC) leader Mustafa Abdel Jalil declared the liberation of Libya on October 23 after former ruler Muammar Qaddafi was captured by rebel forces and died in custody on October 20th. Consequently, the UN Security Council unanimously adopted Resolution 2016 to end the authorization of international military action in Libya, despite calls by Jalil for NATO to stay until the end of the year. Jalil also announced that Shariah law would be the basic source of legislation in Libya and that laws contradicting Islam would be nullified. In parallel, the NTC ordered an investigation into the death of Qaddafi following international pressure.

## SUDAN

The Sudanese government pledged on October 6 to withdraw its troops from the Abyei region following the full deployment of UN peacekeepers. The Sudan People's Liberation Movement in the North (SPLM-N) stated that aerial bombardment by government forces had killed 74 civilians and wounded over a 100 people in the Blue Nile state since clashes began on September 2nd. The government also announced that the Sudanese Armed Forces (SAF) had captured Sali, a strategic town in the Blue Nile state. President Omar al-Bashir stated that Sudan will continue with plans to adopt an Islamic constitution. Further, the Justice and Equality Movement (JEM) threatened new attacks if renegotiation of the Doha agreement was rejected.

## SOUTH SUDAN

Leaders from at least 18 opposition parties reported on October 13 that they were considering forming a single opposition party. The government urged the international community to set a deadline for North Sudan's withdrawal from the Abyei region. The Rebel South Sudan Liberation Army (SSLA) threatened to attack the Unity state government, and gave UN agencies and aid groups one week to leave. Around 80 people were killed in an attack by SSLA rebels.

## SYRIA

The United Nations reported that over 3,000 people have been killed and thousands arrested since the eruption of protests. The United Nations Security Council (UNSC) resolution condemning Syria was vetoed on October 5 by Russia and China over the mention of possible sanctions. Foreign Minister Walid Moallem warned foreign countries not to recognize the newly formed opposition Syrian National Council. A Kurdish opposition leader Mashaal Tammo was killed on October 7 by gunmen, and at least five people were killed by security forces while attending his funeral. The U.S. Ambassador to Syria Robert Ford left the country on October 24 after receiving threats. Also, 35 people were killed on October 28, mostly in Homs and Hama. NATO Secretary General Anders Rasmussen announced that NATO will not conduct a military intervention in Syria. Also, the Arab League called for the end of violence, the release of prisoners, and for negotiations with opposition parties.

## TUNISIA

The moderate Islamist Nahda Party won a plurality of votes during elections held on October 23 with 90 seats out of 217 seats. Despite fears of potential pre- and post-election violence, election polls were praised by observers as fair and well-organized. Al Aridha Chaabia Party had seats cancelled on October 28 after allegations that it broke campaign finance rules.

## YEMEN

Violence increased during October as the country remains on the verge of a full-scale war between security forces supporting President Ali Abdullah Saleh and forces loyal to the opposition. Dozens of protesters were killed in Sanaa and Taiz in the worst clashes since the President's return from Saudi Arabia. The UN Security Council passed a resolution on October 21 condemning violence and called for the transition of power on the basis of the GCC initiative.

*Source: International Crisis Group*

# OUTLOOK

## IRAQ

### Non-oil growth to average 5.3% in 2011-12

The International Monetary Fund projected economic growth in Iraq at 9.6% in 2011 and 12.6% in 2012 compared to growth in Middle Eastern oil exporting countries of 4.9% in 2011 and 3.9% in 2012. It forecast the country's real non-oil GDP to grow by 5% in 2011 and 5.5% in 2012, up from 4.5% in 2010. It forecast Iraq's annual average inflation rate at 5% in each of 2011 and 2012, compared to inflation of 11% and 7.7% in oil exporting countries for 2011 and 2012, respectively. Also, it expected broad money to grow by 23.3% this year and 26.2% next year, up from 16.7% in 2010. The Fund projected the central government's fiscal balance to post a deficit of 8.7% of GDP in 2011 and 7.9% of GDP in 2012, compared 9.1% of GDP in 2010. It also forecast the government's non-oil fiscal deficit at 212.4% of GDP this year and 221% of GDP next year, up from 174.4% of GDP last year. It estimated overall government revenues at 72% of GDP in 2011 and non-oil revenues at 12% of GDP in 2011 compared to 70.7% of GDP and 13.6% of GDP, respectively, in 2010; and total expenditures at 82.8% of GDP this year relative to 84.7% of GDP last year.

The IMF projected Iraq's public debt to reach 42.3% of GDP at end-2011 and 42.8% of GDP at end-2012, significantly down from 119.6% at end-2010. It also forecast total gross external debt at 30.1% of GDP this year and 29% of GDP next year relative to 107.5% of GDP last year. Further, the Fund estimated Iraq's exports of goods & services at $75.7bn in 2011 and $81.6bn in 2012, and imports of goods & services at $75.5bn in 2011 and $81.8bn in 2012. It forecast the country's current account to post a deficit of $0.9bn, or 0.9% of GDP, in 2011 and $1.4bn or 1.2% of GDP in 2012. It expected the country's gross official reserves to grow from $50.6bn at end-2010 to $55.7bn at end-2011 and $63.9bn by end-2012.

*Source: International Monetary Fund*

## TUNISIA

### Government facing major socioeconomic challenges

Barclays Capital projected real GDP growth in Tunisia at 1% in 2011 and 3.2% in 2012 compared to growth of 3.7% in 2010 and relative to an annual average growth rate of 5% over the past five years. It noted that the economy contracted by 2% during the first half of the year, with the services sector and non-manufactured industries, which together employ more than 63% of the labor force, posting the steepest drop. It added that the economy is still in a contraction mode despite a slight rebound in activity in the second quarter of the year. It pointed out that the new government faces daunting socioeconomic challenges and will have to implement a series of reforms and measures to boost economic growth and job creation over the short term. It noted that, in the absence of tourist flows, public investments constitute a key factor to stimulate domestic demand and to foster more balanced access to services. It said that the inability of Tunisia's growth model to create enough jobs for fresh graduates constituted a key failure. It viewed the government's challenge as reviving growth in the sectors affected by the slowdown in near term, while gradually adjusting Tunisia's growth model away from low value-added sectors towards sectors able to employ the skilled unemployed university graduates.

Barclays indicated that local and international investors will remain in a wait-and-see mode in the short-term, which would put more pressure on the government to intervene and stimulate growth. It expected the fiscal deficit to reach 4.6% of GDP in 2011 and 3.5% of GDP in 2012, up from 1.2% of GDP in 2010. It anticipated that the government would work closely with regional and international donors in the short-term to help secure favorable financing terms to support its investment objectives. It projected Tunisia's current account balance to widen to 6.2% of GDP in 2011 relative to 4.8% of GDP in 2010 and to narrow to 4.8% of GDP in 2012.

*Source: Barclays Capital*

## ARMENIA

### Real GDP growth at 4.6%, fiscal deficit at 3.8% of GDP in 2011

The International Monetary Fund projected economic growth in Armenia at 4.6% for 2011 and 4.3% for 2012 compared to growth in oil importing countries in Caucasia & Central Asia (CCA) of 5.7% in 2011 and 5.3% in 2012 and growth in CCA countries of 5.6% in 2011 and 6.2% in 2012. It forecast Armenia's annual average inflation rate at 8.8% in 2011 and 3.3% in 2012, relative to 7.3% in 2010, and compared to inflation of 9.9% in CCA countries for 2011 and 8.8% in 2012. Also, it expected broad money to grow by 15% this year and 12.1% next year, compared to10.6% in 2010. Also, the Fund projected the central government's fiscal balance to post deficits of 3.8% of GDP in 2011 and 3.1% of GDP in 2012, down from 4.9% of GDP in 2010. It estimated public revenues at 20% of GDP in each of 2011 and 2012, almost unchanged from 2010, and total expenditures at 26.5% of GDP this year and 24.3% of GDP next year, compared to 27% of GDP last year.

The IMF expected Armenia's public debt to slightly increase to 41.5% of GDP at end-2011 and 41.4% of GDP at end-2012 from 39.2% at end-2010. It also forecast total gross external debt at 35.1% of GDP in 2011 and 34.5% in 2012 relative to 35.2% of GDP in 2010 and compared to external debt in CCA countries of 50.3% of GDP in 2011 and 51% of GDP in 2012. Further, the Fund estimated Armenia's exports of goods & services to rise to $2.2bn in 2011 and $2.4bn in 2012 from $1.9bn in 2010, and for imports of goods & services to grow to $4.7bn in 2011 and $5bn in 2012 from $4.2bn in 2010. It forecast the country's current account deficit to contract to $1.2bn or 11.7% of GDP in 2011 and at $1.1bn or 10.7% of GDP in 2012, from $1.3bn or 14% of GDP in 2010. The Fund expected the country's gross official reserves to reach $1.9bn at end-2011, unchanged from the preceding year, but to marginally decrease to $1.8bn at end-2012.

*Source: International Monetary Fund*

## MENA

### Equity markets down 12% in first 10 months of 2011

Arab stock markets decreased by 12.4% and GCC equity markets declined by 9.2% in the first 10 months of 2011 compared to increases of 8.5% and 8.7%, respectively, in the same period last year. Activity on the Iraqi stock exchange increased by 31.7% during the covered period and posted the best performance and the only increase among Arab markets. In parallel, the Damascus financial market dropped by 47.5% in the first 10 months of the year and posted the worst performance among Arab equity markets. It was followed by the Egyptian stock market with a 37.7% retreat, the Bahrain bourse with a 20% contraction, the Beirut Stock Exchange with a 19% decrease, the Muscat equity market with a 17.3% decline, the Amman exchange with a 15% retreat, the Kuwait bourse with a 15% drop, the Dubai financial market with a 13.6% downturn, the Casablanca stock market with a 10.3% regression, the Tunis exchange with an 8.2% decrease, the Abu Dhabi exchange with an 8% retreat, the Saudi equity market with a 6% drop, the Palestine equity market with a 3% contraction and the Doha stock market with a 1% decline. In comparison, emerging market equities dropped by 13.6% and global equities declined by 6.4% in the first 10 months of 2011. Arab stock markets regressed by 1.9% in October compared to drops of 12.5% for emerging market equities and 10.5% for global equities.

*Source: Local stock markets, Dow Jones Indexes, Byblos Research*

## EGYPT

### Sovereign ratings downgraded on ongoing economic weakness and political uncertainties

Moody's Investors Service downgraded Egypt's government bond ratings by one notch to 'B1' from 'Ba3' and kept a 'negative' outlook on the ratings. It also lowered Egypt's country ceiling for foreign currency bonds to 'Ba2' from 'Ba1', the country ceiling for foreign currency bank deposits to 'B2' from 'B1' and the local currency bond and deposit ceilings to 'Ba1' from 'Baa3'. It affirmed the short-term country ceiling for foreign currency bonds at 'Not-Prime'. It attributed the downgrade to the country's ongoing economic weakness and financial deterioration, as reflected by the sharp drop of foreign currency reserves since the beginning of the year; as well as to rising pressures on budgetary spending and financing. It also said the downgrades were prompted by the continued unsettled political conditions and the uncertainty over the transition to a stable and civilian government. The agency added that these developments have eroded Egypt's credit fundamentals relative to its rated peers. Moody's warned that the ratings could be downgraded further if foreign currency reserves continue to decline to a level that threatens the authorities' debt repayment capacity or their ability to support the Egyptian pound. It added that a rise in the government's funding costs and an increase in refinancing risks would also exert negative pressure on the ratings.

*Source: Moody's Investors Service*

## SUDAN

### Economy in need of diversification

The International Monetary Fund expected Sudan's oil revenues to decline significantly, barring new discoveries, which would exacerbate domestic and external imbalances. It indicated that the increase in the country's oil production over the past decade has lifted growth rates, raised living standards, and generated revenues. But it noted that this increase has had limited positive spillovers to the country's non-oil sector, as a large segment of the population continues to live in poverty. It said the government needs to diversify the economy, given that oil accounted for 50% of public revenues and 90% of exports prior to the South's independence. It considered that the development of agriculture and light industries holds considerable potential, while the service sector and non-oil extractive industries, such as gold mining, could also play a role in economic diversification. Further, it said that Sudan will need to exercise fiscal restraint by streamlining non-priority expenditures, reducing fuel subsidies, and improving public revenues.

In parallel, the Central Bank of Sudan (CBoS) stated that the country would cover its oil revenue losses from non-petroleum exports such as gold as well as from charging South Sudan for the use its oil infrastructure to ship its oil. It added that its foreign exchange reserves are sufficient to cover three months of imports and attributed the recent sharp deterioration in the value of the pound against the US dollar to speculation that artificially boosted the price of the dollar. But, it indicated that its intervention on the foreign exchange has stabilized the currency.

*Source: International Monetary Fund, Central Bank of Sudan*

## GHANA

### IMF calls for fiscal reforms in light of rise in capital spending

The International Monetary Fund expected Ghana to post a fiscal deficit below the target of 5.7% of non-oil GDP this year due to a reform-driven increase in tax revenues, as well as to a shortfall in foreign-financed capital spending. The Fund supported the government's plan to invest in infrastructure in order to boost Ghana's growth potential and economic development, adding that authorities have secured a large financing package on non-concessional terms for this purpose. But it called for new revenue measures and for restraining spending in other areas of the 2012 budget in light of the significant scaling up of infrastructure expenditures, in order to preserve macroeconomic stability and the sustainability of public debt. It encouraged an appropriate phasing of investment projects; and supported the adoption of additional tax measures, particularly in natural resources, as well as the passage of new legislation to broaden the tax base. It considered the key priorities on the expenditures side to be managing the wage bill, strengthening public financial management, and regularly adjusting energy and other regulated prices to avoid costly subsidies.

*International Monetary Fund*

## EMERGING MARKETS

### Ratings trend improves in third quarter of 2011

Fitch Ratings indicated that rating actions for emerging market banks stood at 51 in the third quarter of 2011, up from 46 in the second quarter and 48 in the first quarter of the year. It added that there were 29 positive rating actions in the third quarter of 2011, relative to 33 in the second quarter and 23 in the first quarter of the year. In parallel, there were 22 negative rating actions in the third quarter, up from 13 in the preceding quarter but down from 25 in the first quarter of the year. Further, there were 19 'negative' outlooks on emerging market bank ratings in the third quarter of 2011, compared to 16 in the second quarter and 29 in the first quarter of the year. In parallel, the number of 'positive' outlooks increased to 54 in the third quarter from 43 in the preceding quarter, but marginally decreased from 55 in the first quarter of the year. Fitch said that the ratio of 'positive' to 'negative' actions in emerging markets was +1.3 in the third quarter, down from +2.5 in the second quarter, but up from -1.1 in the first quarter of the year. It noted that 79% of bank outlooks in emerging markets remain at 'stable', 13.4% at 'positive' and 4.7% at 'negative'. Fitch noted that 66.7% of outlooks in Emerging Europe are 'stable', 16.3% are 'negative' and 11.3% are 'positive'; while 81.3% of outlooks in the Middle East & Africa are 'stable', 15% are 'positive' and 3.8% are 'negative'. Also, 88% of outlooks in Emerging Asia are 'stable' and 10.1% are 'positive'.

*Source: Fitch Ratings*

## EGYPT

### Bank ratings downgraded on exposure to government securities

Moody's Investors Service downgraded the foreign-currency deposit ratings of state-owned National Bank of Egypt, Banque of Misr and Banque du Caire as well as those of private banks Commercial International Bank (Egypt) and Bank of Alexandria to 'B2' from 'B1' with a 'negative' outlook. It also downgraded the local currency deposit ratings of the state-owned banks to 'B1' from 'Ba3' and those of the CIB to 'Ba3' from 'Ba2' and Bank of Alexandria to 'Ba2' from 'Ba1'. The agency attributed its decision to the banks' high exposure to government securities and related instruments, which raises the banking system's sensitivity to event risk. It noted that holdings of government securities are equivalent to between four to seven times the equity of state-owned banks, which reflects a material credit-exposure concentration. It added that the downgrades reflect the weakening operating and macroeconomic environment, which will likely exert additional pressure on banks' asset quality and earnings generating capabilities. It expected this to result in reduced market liquidity, which will be further exacerbated by the allocation of banks' funds to finance the budget deficit, thereby increasing their exposure to government securities. Moody's also anticipated a deterioration in the banks' asset quality and profitability through higher provisioning costs and lower revenues due to weaker loan generation volumes.

*Source: Moody's Investors Service*

## NIGERIA

### Banks' outlook revised to stable

Fitch Ratings affirmed the long- and short-term foreign currency Issuer Default Rating (IDR) of Diamond Bank at 'B/B' as well as that of First Bank of Nigeria, Union Bank of Nigeria and United Bank for Nigeria at 'B+/B'. Fitch also revised the outlook on the four banks to 'stable' from 'negative', in line with the outlook change on Nigeria's sovereign ratings. It said that the change in the sovereign outlook reflects the improved prospects for reforms following the recent elections and the appointment of a strong economic team. It noted that the 'stable' outlook anticipates continued reforms progress and a tighter budget for 2012, including progress towards lifting the petroleum subsidy and making the Nigeria Sovereign Investment Authority operational. It said that the banks' ratings are solely based on support from the Nigerian authorities, and that the government's ability to provide the support in case of need is constrained by its long-term foreign currency IDR of 'BB-', despite its high willingness to provide such support.

*Source: Fitch Ratings*

## RUSSIA

### Banking system's outlook revised downward to negative

Moody's Investors Service revised to 'negative' from 'stable' the outlook for the Russian banking system over concerns that the weak global economic landscape and financial market volatility would weaken Russia's operating environment as well as negatively affect banks through a system-wide liquidity contraction, slower credit growth and pressure on asset quality. It said that the downside risks to global energy demand may further impact the operating environment for banks, as Russian economic growth is largely driven by oil prices. It added that global financial market volatility, reduced access to wholesale funding, continued capital flight and downward pressure on the ruble have already led to a liquidity squeeze in the Russian banking system. It expected the squeeze to continue and to slow credit growth as banks increase interest rates and tighten collateral rules. It forecast loan-loss provisions to increase to about 12% of gross loans by end-2012 from 9.6% at mid-2011. It said that the increase, along with a 16% downward mark-to-market revaluation for securities, would reduce the system's capital adequacy ratio to around 14% at end-2012. It noted that such ratio would still be at a comfortable level, compared with a high of 16.7% at mid-2011. But it warned that a worsening of the European sovereign debt crisis would trigger a material increase in credit and market losses, leading to a drop in the overall capital adequacy ratio to below the regulatory minimum of 10%.

*Source: Moody's Investors Service*

# ENERGY / COMMODITIES

## Oil up as market considers Greek referendum

Oil prices rallied on October 3 pushing toward $110 a barrel after the European Central Bank unexpectedly cut its main interest rate, and on hopes that a Greek referendum on a euro-zone bail out would be delayed if the government collapsed. The ECB cut its main refinancing rate by 25 basis points to 1.25% as worries about the eurozone's worsening debt crisis outweighed concerns over persistently high inflation. The market had expected rates to remain unchanged. Brent crude for December increased $1.18 to $110.52 a barrel after declining to $107.83 a barrel in Asian trading. Also, U.S. crude prices increased $1.42 to $93.93 a barrel.

Data from the U.S. Energy Information Administration showed that crude stocks rose by 1.8 million barrels to 339.5 million barrels in the week to October 28, against expectations of a 1.1 million barrel rise. Overall, Brent ICE futures increased 4.4% month-on-month to $109 a barrel on October 31st.
*Source: Thomson Reuters*

## Syria signs three oil export contracts

The Syrian Ministry of Petroleum announced that it signed three export contracts for the sale of its crude oil and is in negotiations with 50 companies and traders. The new contracts are expected to come to force in November, but financial and other obstacles remain at hand, including securing tankers and insuring them. Syria's exports and production of oil have declined since the EU banned the export and transport of Syrian crude oil. Syria exported around 90% of its crude oil to EU countries before the sanctions.
*Source: Syria Report*

## Energy facilities in Armenia need to be replaced

The Armenian Ministry of Energy & Natural Resource stated that around 85% of Armenia's energy facilities are depleted and need to be replaced. It noted that the exploitation period of these facilities exceeded 40 years and that they are currently obsolete. However, international experts explained that despite the high wear-out rate, Armenia's energy system is the best in the Commonwealth of Independent States. Also, Armenia plans to spend $52m on the modernization of the electric power transmission line connecting Hrazdan TPP with the Vorotan Cascade of HPPs, which will link the northern and southern power transmission networks. The plan is co-funded by a $39m loan from the World Bank and $13m from the Armenian government.
*Source: Arminfo Daily News*

## GCC to spend $25bn to expand power generation capacity

The International Renewable Energy Agency expected the Gulf Cooperation Council (GCC) countries to spend up to $25bn over the next 10 years to install new power generation capacity to meet their growing electricity demand. It said that such investments will generate an additional 100 gigawatts of power-generating capacity over the next 10 years.
*Source: Gulf News*

## Base metals: Prices higher on positive sentiment in China

The base metals complex rallied in the past month, lifted by improved confidence about Europe, although the mood soured at the start of this week as Greece announced its referendum plan. Three-month aluminum prices increased 1% in October, while copper prices rose 11% in October. Lead and zinc prices increased 3% and 4%, respectively, in October. Also, nickel and tin prices rose 8% and 6%, respectively, in October. A weaker US dollar provided some support to the prices of base metals and is down 5% month-on-month against the Euro.

In parallel, underlying demand for copper in China has been outperforming other base metals in recent months. While some investors are still bearish on copper prices for the next few months, a floor $7,000 per ton is expected and is considered as an attractive level for consumers.
*Source: Standard Chartered*

## Precious metals: Silver leads markets higher

Precious metals prices rallied in the past month due to a dramatic rise in equity markets and a weaker U.S. dollar. Silver led the rally in metals, and rose 13% in October, while gold prices increased by 5% month-on-month on the same day. Optimism about Europe was the main driver of the increase in prices, with a package of measures agreed at last week's EU summit.

In parallel, investor flows have been mixed, with gold trending higher but other markets showing withdrawals. Physical ETF holdings for gold increased 1% since the start of October, with net managed money flows up 2% week-on-week. On the other hand, physical ETF holdings for palladium and platinum declined 6% and 2.3%, respectively, over the past month. Overall, the price of gold increased by 5.7% in October to $1,714 per ounce, while the price of silver rose 14.1% to $34.3 an ounce. Palladium prices increased by 5.1% to $646 per ounce in October and platinum rose by 5.1% to $1,602 per ounce.
*Source: Standard Chartered*

**Global Commodity Outlook**

| (3-months LME, $/ton) | 2010 | 2011f | 2012f |
|---|---|---|---|
| Aluminum | 2,201 | 2,488 | 2,450 |
| Copper | 7,570 | 9,108 | 9,500 |
| Lead | 2,172 | 2,472 | 2,525 |
| Nickel | 21,913 | 23,876 | 23,000 |
| Tin | 20,448 | 26,906 | 27,000 |
| Zinc | 2,188 | 2,289 | 2,400 |
| (Spot price, $/ounce) | | | |
| Gold | 1,227 | 1,601 | 1,900 |
| Palladium | 529 | 765 | 850 |
| Platinum | 1,613 | 1,766 | 1,950 |
| Silver | 20 | 37 | 40 |

*Source: Standard Chartered*

# COUNTRY RISK METRICS

| Countries | LT Foreign currency rating S&P | Moody's | Fitch | CI | EIU | Central gvt. balance/ GDP (%) | Public debt (% of GDP) | External debt / GDP (%) | External debt/ Exports (%) | Debt service ratio (%) | External Debt/ Forex Res. (%) | Current Account Balance / GDP (%) | Net FDI / GDP (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Africa** | | | | | | | | | | | | | |
| Algeria | - | - | - | - | BB | | | | | | | | |
| | - | - | - | - | Stable | -9.9 | 16.1 | 2.9 | 7.4 | 2.0 | 3.2 | 3.4 | 1.8 |
| Angola | BB- | Ba3 | BB- | - | B | | | | | | | | |
| | Stable | Stable | Stable | - | Negative | 2.7 | 20.6 | 20.2 | 35.7 | 8.2 | - | 1.6 | 17.6 |
| Egypt | BB- | B1 | BB | BB+ | CCC | | | | | | | | |
| | Negative | Negative | Negative | Negative | Stable | -8.2 | 74.2 | 14.3 | 66.5 | 4.6 | 88.3 | -2.0 | 3.3 |
| Ethiopia | | | | | B | | | | | | | | |
| | - | - | - | - | Stable | -1.5 | - | - | 257.5 | - | - | -3.9 | 0.3 |
| Ghana | B | - | B+ | - | BB | | | | | | | | |
| | Stable | - | Stable | - | Positive | -10.8 | - | 34.9 | 50.0 | - | - | -11.6 | 10.9 |
| Ivory Coast | - | - | - | - | CCC | | | | | | | | |
| | - | - | - | - | Stable | -0.2 | - | 50.1 | 111.2 | - | - | 6.8 | 1.8 |
| Libya | BB | - | B | - | B | | | | | | | | |
| | Negative | - | Stable | - | Stable | 13.3 | 0 | 7.2 | 11.6 | 3.2 | 5.1 | 20.1 | 2.5 |
| Mauritania | - | - | - | - | - | | | | | | | | |
| | - | - | - | - | - | -4.5 | 88.5 | 69.8 | 128.4 | - | 1,220 | -7.6 | -1.3 |
| Morocco | BBB- | Ba1 | BBB- | BBB- | BB | | | | | | | | |
| | Stable | - | Stable | Stable | Stable | -4.5 | 49.9 | 24.1 | 78.4 | 8.0 | 110.0 | -5.3 | 0.9 |
| Nigeria | B+ | - | BB- | - | B | | | | | | | | |
| | Stable | - | Stable | - | Stable | -7.9 | 14.1 | 5.0 | 14.2 | 0.7 | - | 13.0 | 0 |
| Sudan | - | - | - | - | C | | | | | | | | |
| | - | - | - | - | Stable | -3.7 | 71.4 | 57.4 | 343.6 | - | 3,780 | -8.9 | 5.5 |
| Tunisia | BBB- | Baa3 | BBB- | BBB | B | | | | | | | | |
| | Negative | Negative | Negative | Stable | Stable | -2.8 | 43.0 | 46.3 | 101.0 | 11.7 | 195.2 | -4.4 | 3.7 |
| **Middle East** | | | | | | | | | | | | | |
| Bahrain | BBB | BBa1 | A- | BBB+ | BBB | | | | | | | | |
| | Negative | Negative | Negative | Negative | Stable | -5.4 | 32.8 | 139.6 | 170.2 | 6.8 | 946.6 | 5.2 | 9.9 |
| Iran | - | - | B+ | BB- | B | | | | | | | | |
| | - | - | Stable | Stable | Stable | 0.4 | 21.7 | 5.6 | 19.9 | 2.7 | 21.3 | 4.2 | 0.8 |
| Iraq | - | - | - | - | CCC | | | | | | | | |
| | - | - | - | - | Stable | -14.2 | 42.2 | 41.8 | 65.4 | - | 75.3 | -14.4 | 1.4 |
| Jordan | BB | Ba2 | - | BB | B | | | | | | | | |
| | Negative | Negative | - | Stable | Stable | -6.3 | 63.0 | 19.2 | 44.8 | 4.8 | 48.6 | -7.2 | 9.2 |
| Kuwait | AA | Aa2 | AA | AA- | A | | | | | | | | |
| | Stable | Negative | Stable | Stable | Stable | 17.1 | 6.5 | 46.2 | 72.2 | 3.7 | 224.0 | 30.1 | -8.7 |
| Lebanon | B | B1 | B | B | CCC | | | | | | | | |
| | Positive | | Stable | Stable | Stable | -7.2 | 136.7 | 160.8 | 240.3 | 14.7 | 212.2 | -10.2 | 10.0 |
| Oman | A | A2 | - | A | A | | | | | | | | |
| | Negative | - | - | Stable | Stable | 5.3 | 5.7 | 15.4 | 22.6 | - | 63.7 | 5.8 | 3.9 |
| Qatar | AA- | Aa2 | - | AA- | AA | | | | | | | | |
| | Stable | Stable | - | Stable | Stable | 10.8 | 27.2 | 80.6 | 139.3 | 10.0 | 512.3 | 15.6 | 5.0 |
| Saudi Arabia | AA- | Aa3 | AA- | AA- | BBB | | | | | | | | |
| | Stable | Stable | Stable | Stable | Stable | 1.9 | 12.9 | 22.6 | 40.5 | 2.4 | 22.7 | 6.7 | 7.7 |
| Syria | - | - | - | BB- | CCC | | | | | | | | |
| | - | - | - | Stable | Stable | -4.3 | 26.9 | 14.9 | 48.0 | - | 52.9 | -3.9 | 2.7 |
| UAE | - | Aa2 | - | AA- | BB | | | | | | | | |
| | - | - | - | Stable | Stable | -2.7 | 24.7 | 53.1 | 57.7 | 7.3 | 360.4 | 5.4 | 0.6 |
| Yemen | - | - | - | B- | CC | | | | | | | | |
| | - | - | - | Negative | Stable | -5.5 | 45.8 | 21.4 | 70.5 | - | 139.6 | -4.9 | 0.3 |

# COUNTRY RISK METRICS

| Countries | LT Foreign currency rating | | | | | Central gvt. balance/ GDP (%) | Public debt (% of GDP) | External debt / GDP (%) | External debt/ Exports (%) | Debt service ratio (%) | External Debt/ Forex Res. (%) | Current Account Balance / GDP (%) | Net FDI / GDP (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | S&P | Moody's | Fitch | CI | EIU | | | | | | | | |
| **Central & Eastern Europe** | | | | | | | | | | | | | |
| Armenia | - | Ba2 | BB- | - | - | | | | | | | | |
| | - | - | Stable | - | - | -4.8 | 44.8 | 38.4 | 402.7 | - | 194.2 | -14.6 | 9.2 |
| Bulgaria | BBB | Baa3 | BBB- | - | BB | | | | | | | | |
| | Stable | Stable | Stable | - | Stable | -1.8 | 16.2 | 109.2 | 122.3 | 21.2 | 393.2 | -6.2 | 9.8 |
| Kazakhstan | BBB | Baa2 | BBB- | - | BB | | | | | | | | |
| | Stable | - | Stable | - | Stable | -2.8 | 16.0 | 86.4 | 182.9 | 30.3 | 350.4 | 3.2 | 8.8 |
| Romania | BB+ | Baa3 | BBB- | BBB- | BB | | | | | | | | |
| | Stable | - | Stable | Negative | Stable | -6.8 | 33.9 | 77.4 | 197.5 | 24.6 | - | -5.5 | 3.8 |
| Russia | BBB | Baa1 | BBB | - | BBB | | | | | | | | |
| | Stable | Positive | Stable | - | Stable | -5.6 | 9.3 | 31.9 | 124.7 | 13.4 | 99.2 | 4.5 | -0.6 |
| Turkey | BB | Ba2 | BB+ | BB | B | | | | | | | | |
| | Positive | Positive | Stable | Stable | Stable | -4.1 | 44.4 | 41.3 | 187.3 | 39.7 | - | -3.4 | 1.0 |
| Ukraine | B+ | B1 | B | - | CCC | | | | | | | | |
| | Positive | Positive | Stable | - | Positive | -5.5 | 39.2 | 79.0 | 164.9 | 35.9 | 330.0 | -2.0 | 4.0 |

*Sources: International Monetary Fund; Economist Intelligence Unit - The above figures are estimated for 2010*

# SELECTED POLICY RATES

| | Benchmark rate | Current (%) | Last meeting | | Next meeting |
|---|---|---|---|---|---|
| | | | Date | Action | |
| USA | Fed Funds Target Rate | 0.25 | 20-Sep-11 | No change | 02-Nov-11 |
| Eurozone | Refi Rate | 1.25 | 03-Nov-11 | cut 25bps | Dec-11 |
| UK | Bank Rate | 0.50 | 06-Oct-11 | No change | 10-Nov-11 |
| Japan | O/N Call Rate | 0-0.10 | 07-Sep-11 | No change | 07-Oct-11 |
| Australia | Cash Rate | 4.75 | 04-Oct-11 | No change | 01-Nov-11 |
| New Zealand | Cash Rate | 2.50 | 27-Oct-11 | No change | 8-Dec-11 |
| Switzerland | 3 month Libor target | 0.00 | 15-Sep-11 | No change | 15-Dec-11 |
| Canada | Overnight rate | 1.00 | 07-Sep-11 | No change | 25-Oct-11 |
| **Emerging Markets** | | | | | |
| China | One-year lending rate | 6.56 | 06-Jul-11 | Raise 25bps | N/A |
| Hong Kong | Base Rate | 0.50 | 20-Sep-11 | No change | 02-Nov-11 |
| Taiwan | Discount Rate | 1.88 | 30-Jun-11 | Raise 12.5bps | Q4-11 |
| South Korea | Base Rate | 3.25 | 13-Oct-11 | No change | 10-Nov-11 |
| Malaysia | O/N Policy Rate | 3.00 | 08-Sep-11 | No change | 11-Nov-11 |
| Thailand | 1D Repo | 3.50 | 19-Oct-11 | No change | 10-Nov-11 |
| India | Reverse repo rate | 8.50 | 25-Oct-11 | Raise 25bps | 16-Dec-11 |
| UAE | Overnight repo rate | 1.00 | 19-Dec-08 | Cut 25bps | N/A |
| Saudi Arabia | Repo rate | 0.25 | 16-Jun-09 | Cut 25bps | N/A |
| Egypt | Overnight Deposit | 8.25 | 24-Dec-09 | No change | N/A |
| Turkey | Base Rate | 5.75 | Oct-11 | No change | 23-Nov-11 |
| South Africa | Repo rate | 5.50 | 22-Sep-11 | No change | 10-Nov-11 |
| Kenya | Central Bank Rate | 11.00 | 05-Oct-11 | Raise 400 bps | Nov-11 |
| Nigeria | Monetary Policy Rate | 12.00 | 10-Oct-11 | Raise 275 bps | 22-Nov-11 |
| Ghana | Prime Rate | 12.50 | 20-Sep-11 | Cut 50bps | Nov-11 |
| Angola | Rediscount rate | 20.00 | 06-Apr-11 | Cut 50bps | N/A |
| Mexico | Target Rate | 4.50 | 14-Oct-11 | No change | 02-Dec-11 |
| Brazil | Selic Rate | 11.50 | 14-Oct-11 | Cut 50bps | 30-Nov-11 |
| Armenia | Refi Rate | 8.00 | 06-Sep-11 | Cut 50bps | N/A |
| Romania | Policy Rate | 6.25 | 01-Sep-11 | No change | N/A |
| Bulgaria | Base Interest | 0.22 | 01-Nov-11 | Raise 2 bps | N/A |
| Kazakhstan | Refi Rate | 7.50 | 01-Oct-11 | No change | N/A |
| Ukraine | Discount Rate | 7.75 | 10-Aug-10 | Cut 75bps | N/A |
| Russia | Refi Rate | 8.25 | 03-May-11 | Raise 25bps | N/A |

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