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COUNTRY RISK WEEKLY BULLETIN

THE WORLD IN 2007

WORLD

Benign slowdown

Expect world GDP growth in 2007 of 3.1%, after 3.8% in 2006 with growth in the US of 2.2% (3.3% 2006), Japan 1.8% (2% in 2006) and Euro-zone 1.9% (2.6% 2006). Expect inflation to remain under control, helped by stable or modestly lower commodity prices, including oil, though energy supply-side shocks remain a constant risk. Interest rates should be pretty flat, but tighter monetary policy is set to end a period of easy financing for emerging markets, bringing economic policy and stable government under closer scrutiny in 2007. Last minute negotiations may yield progress in the WTO Doha round, though time is running out. Expect bilateral trade pressures to intensify in any event, though world trade growth will still be around 5% (6% 2006). Politically, expect Iraq and the Middle East, including nuclear issues in Iran, to continue to dominate the US agenda, as in 2006. The global savings imbalance remains the key threat to our relatively benign base case.

LATIN AMERICA

Re-grouping

2006 was a year of elections and strong regional growth. In the elections Brazil, reelecting President Lula da Silva, and Mexico, electing centre-right Felipe Calderon, opted for continuity. Both face stiff challenges in 2007, as Brazil's growth disappointed and President Calderon won by the slenderest margin. Ecuador, Nicaragua and Venezuela chose the radical left, but Peru the pragmatic left. Ecuador's President Correa has set out his radical agenda. In Nicaragua President Ortega may be more moderate, though still aligned closely with Venezuela where President Chavez is extending his radical policies after his reelection. Yet from a policy perspective 2007 may need to be more a year of consolidation as external conditions turn less benign, though pragmatic policymakers start from a stronger base as country risk indicators have improved. Expect regional growth to slow to 3.9% from 4.8% in 2006. Only Argentina of the major economies has a presidential election in 2007.

ASIA

Re-balancing?

Still heavily dependent on US demand, expect regional growth to slow to 7.9% in 2006 from 8.6% in 2006. In China re-balancing and avoiding a hard landing remain priorities, but as this is a key political year, policy will remain cautious. Expect growth to slow. Hong Kong will elect a new Chief Executive with the incumbent as firm favourite. Expect South Korea's growth to moderate to 4%, though ASEAN should remain above 5%. In Thailand, September's military coup increased political uncertainty, but hardly dented growth, though this could change if there were more events like the mishandled capital controls in December or the recent bombings. In the Philippines and Indonesia, inflation is back under control, but the risk of political instability remains high. India's rapid GDP growth (8.5% 2006) threatens overheating, requiring corrective action in 2007 to ensure a soft landing. Sri Lanka is drifting towards civil war and Bangladesh is tense ahead of elections.

MIDDLE EAST

Middling?

Politics and diplomacy are likely to over-shadow regional economic successes in 2007, as they did in 2006. Key challenges remain international attempts to limit Iran's development of its nuclear sector outside IAEA guidelines, Lebanon's uncertain domestic politics, Iraq's continuing insurgency and the status of the Palestinian territories. Do not expect swift and satisfactory resolution of any of these issues. Meanwhile, oil and gas prices may ease with a slowing world economy, but hydrocarbon revenues are likely to continue to underpin fiscal and current accounts and solid growth in Saudi Arabia, Kuwait, Qatar and UAE. The latter remains the most dynamic economy, at the forefront of diversification from oil and gas. High liquidity has been channelled into foreign assets but also into local real estate and equity markets, where a correction is underway. Expect regional growth to slip under 5% in 2007 after four consecutive years of 5%+.

AFRICA

Challenging?

Regional growth will dip in 2007 as global commodity demand slackens, after four years of 5%+, but will remain above trend, aided by further debt forgiveness under HIPC and G8 initiatives. The ANC of South Africa will choose its successor to Thabo Mbeki and therefore the president-elect for 2009 but do not expect radical policy changes. Nigeria has presidential elections in Q2 but Olusegun Obasanjo is due to stand down and the political future is uncertain, with further violence likely. Elsewhere in West Africa, Cameroon, Liberia and Sierra Leone are improving (the latter two from a low base) but Côte d'Ivoire remains divided. East Africa is at risk of instability spreading from the Horn of Africa, where Ethiopia has strained relations with Somalia and Eritrea. In North Africa, high oil revenues are bolstering Algeria and Libya. In Egypt, President Mubarak has indicated that he may seek to remain head of state indefinitely.

CENTRAL & EASTERN EUROPE

Re-appraisal?

There are less pro-business, market-friendly governments in Poland, Ukraine and Slovakia after elections in 2006 and in the Czech Republic and Bosnia-Herzegovina stable coalitions have yet to emerge. Nonetheless, this will have limited economic impact. In Turkey and Hungary, however, deep macroeconomic imbalances have required tighter economic policies that have slowed growth and there will be no room for policy errors in 2007. Elections will dominate in 2007 in Estonia, Croatia, Serbia, Turkey and Russia. As of January 2007, Slovenia will benefit from euro adoption and Bulgaria and Romania from EU accession, though risk in the two latter will remain high owing to double-digit current account deficits (as % of GDP). Most CIS economies in the region will suffer from large increases in the price of gas imports from Russia. Overall, expect regional growth to slow to 5% in 2007 from 6.2% in 2006, mainly owing to less benign external conditions.

ECONOMY & TRADE

SYRIA

Syria and Iraq to boost Trade Cooperation

Iraqi Minister of Trade Abdullfalah al-Sudani voiced on Tuesday his country's desire to develop relations with Syria in all domains, indicating that the signed agreement between the two countries "constitute a good base for these relations."
He called on Syrian investors to invest in Iraq and establish joint projects with their Iraqi counterparts to serve the standing economic ties between the two countries.
His Syrian counterpart underlined the necessity of activating the signed economic and trade agreement between the two countries and increase trade volume. They agreed to put down mechanisms to implement the standing agreement and hold regular meetings of the technical committees in Damascus and Baghdad in order to increase the trade exchange between the two countries.
Source: Portal Iraq

Syrian tourism sector expects realization of huge investments

Syria's Minister of Tourism, Saadallah Agha al-Qalaa, expected that the local tourist market would attract new investments estimated at $ 3 billions, particularly in the building of new hotels. "The Tourism Ministry is backing tourist investment in historic houses in the old cities… it gave licenses to a number of activities to establish traditional hotels in Damascus, Aleppo, Homs and Hama," the Syrian minister added, according to SANA.
Source: Mena Report

SAUDI ARABIA

The Central Bank does not plan to change its currency peg this year

The Central Bank of Saudi Arabia has told Reuters that it does not plan to change its currency peg anytime this year. The Governor of the Central Bank of the UAE had said last Thursday that Central Bankers of the six GCC states could decide as early as March whether to hold on to their currency pegs to the US Dollar. Oman and Bahrain have since also ruled out changes to their currency pegs.
Source: SHUAA Capital

RUSSIA

Very strong FDI for 2006

According to preliminary data from the Central Bank, total net private sector inflows to Russia reached $41.5bn last year compared to $1bn in 2005. Of the $41.5bn inflow, $25bn were brought in by the banking sector and $16.5bn by other sectors (including non-financial enterprises and households). Separately, UNCTAD indicated that Russia's incoming FDI was $28.4bn in 2006, a 95% increase on 2005. FDI to Russia last year was the third largest in emerging markets, after China and Singapore. The data confirm a breakthrough in the FDI dynamics last year and help explain the strong increases in investment into productive capacity.
Source: Credit Suisse

IRAQ

Central Bank expects dinar appreciation

An official at the Iraqi Central Bank expected that the rise in the value of the dinar to have a positive impact by reducing inflationary pressures in the Iraqi economy and reduce the cost of prices. He pointed out that the coming conditions will be encouraging for lifting the value of the dinar against the dollar.
The dinar continued to rise against the dollar during the auction of the ICB, at a sale price of 1352 dinar last Sunday, compared to 1360 dinar last Thursday. The ICB expected an improvement in the rate of the dinar over the next couple of months. The last rise in the rate of the Iraqi dinar against the dollar exchange rate was in 1995, but then the exchange rate stabilized between 1400 and 1700 dinar to the dollar. The ICB explained that inflation suffered by the economy now is price-related, and not a monetary inflation, pointing out that the aim of the Bank is to limit the effects of monetary inflation.
Source: Portal Iraq

JORDAN

Outlook from negative to stable

Moody's Investors Service has on January 8 changed the outlook on Jordan's sovereign ratings to stable from negative, reflecting Moody's increased confidence in the country's ability to finance its large external current account deficit and the government's success in containing fiscal pressures. "Moody's originally placed Jordan's ratings on negative outlook in January 2006 as a precautionary measure in light of the dramatic increase in the external current account deficit and building fiscal pressures due to the country's soaring oil import bill and a cut in official external grants. However, since then, the Jordanian economy has displayed resilience in the face of these challenges, which are abating as oil prices have subsided over the past six months
Source: Investor Services

ENERGY

Oil prices hit 20-month low

Oil prices hit a 20-month low on Wednesday January 17, as US crude future reached $50.28, nearing the psychologically all-important $50 mark. Prices have been affected by unusually warm weather across much of the US and Europe, and have been further eroded by Saudi Arabia's insistence that the market requires no further production cuts from OPEC. The market for crude future has now fallen by 35% since its peak in July 2006, when futures were trading at $78.40 a barrel.
Source: TradeArabia News Service

Oil Market		Yesterday Closing	Previous Price	Daily Δ
OPEC Basket	▲	49.33	48.57	1.6
Brent	▼	51.18	51.33	-0.29
Dubai	▼	48.72	49.70	-2.01
WTI	▼	50.94	51.22	-0.54

Source: SHUAA Capital

UKRAINE

Central Bank intervenes in support of the hryvnia

The Central Bank of Ukraine (NBU) intervened in support of the hryvnia for the first time since early December. The intervention took place at the UAH 5.06 level. On Monday, Governor Lytvytsky said that the NBU remained committed to exchange rate stability. In interbank trading on Monday, the hryvnia fell below the weaker end of the 5.00-5.06 per USD trading corridor that the Central Bank has been defending since May 2005. Since the beginning of 2007, the central bank's targeted corridor for the hryvnia has widened to UAH 4.95-5.25 per USD from UAH 5.00-5.20 in 2006.

Source: Credit Suisse

List of privatization assets for 2007

The amended list of privatization assets for 2007 contains several large enterprises, including Ukrtelecom. The list was approved by the Rada yesterday, following its earlier rejection by President Yushchenko, on procedural grounds. The bill passed by the Rada removes 40 companies from the list of assets that were previously barred from privatization. These companies include Ukrtelecom, Odessa Port, Ukrneftprodukt, and 12 regional power generating companies, among others. The decision by the Rada removes, at least for now, the uncertainty about next year's privatization plans created by Yushchenko's initial rejection of the privatization program.

Source: Credit Suisse

TURKEY

Policy rate unchanged

The monetary policy committee (MPC) kept the policy rate unchanged and maintained its tightening bias. At its first rate-setting meeting of the year, the MPC kept the overnight borrowing and lending rates unchanged at 17.5% and 22.5%, respectively in view of still-high inflation expectations, rigidity in services sector inflation and global uncertainties.

Source: Credit Suisse

IRAN

Iran's non-oil exports on the rise

Iran's deputy commerce minister said that the value of Iran's non-oil exports in the first nine months of the current Iranian year (starting on March 21) has risen to US$ 11.6 billion, up 41% compared to the same period last year. He put the value of Iran's non-oil exports in the first nine months of the last Iranian year at $ 8.2 billion. Petrochemical, industrial and agricultural products have constituted the main part of the country's non-oil exports. Ghazanfari noted that the export of petrochemical products have risen by 37 percent compared to last year. Besides petrochemical products and minerals, export of vegetables, flowers, plants, wood and foodstuff has registered a noticeable growth. He named China and UAE as the main export destinations, followed by Iraq, India, and Japan.

Source: Mena Report

NIGERIA

Economic Growth Stood at 5.6% in 2006

Real GDP grew by an estimated 5.6% in 2006, according to government figures, well below the official target set at 10%. The main factor behind the weaker-than-expected growth was the decline in oil output, mainly owing to the Niger delta crisis. Meanwhile, the non-oil sector remained buoyant.

Source: Merrill Lynch

Nigerian announces oil warrants buyback

Nigeria announced on Thursday its intention to buy back its oil-linked warrants in a reverse Dutch auction sometime in the 1Q. Nigeria is also planning to pay an international bank to take over its remaining payments on the P-notes. Assuming that both transactions will be carried out in full, we estimate that the foreign debt/GDP ratio in Nigeria will be just 3.2% immediately after their completion and leave total government debt at 15.3% of GDP. Nigeria also plans to issue a Eurobond this year mainly to provide a sovereign benchmark for domestic corporations that are beginning to access external markets. The issuance of the Eurobond is likely to proceed after the April elections. In the rest of the note, we look at the valuation of the warrants, which are structured similarly to the Venezuelan oil obligations.

Source: Credit Suisse

GCC

GCC economic growth to slow down

A report by HSBC makes the case for slower economic growth across the GCC in 2007, based on lower oil production quotas and falling prices. The report estimates economic growth at 5.2% for GCC economies for 2007, which would be the slowest growth over the past 5 years. The estimates for Saudi Arabia's and the UAE are 4.5% and 6.2%, respectively. Nevertheless, HSBC remains very bullish on the region based on positive economic drivers, growth in public and private consumption, job creation and supportive demographic trends.

Source: SHUAA Capital

GCC implements unified customs' tariffs

GCC states began implementing unified customs' tariffs with other countries as of January 1, 2007, according to the Secretary General of the Gulf Cooperative Council, Abdul Rahman Al Attiyah. This step, which is in accordance with WTO measures, exempts other WTO members of tariffs on commodities and computer spare parts, among other products.

Source: SHUAA Capital

BANKING

UAE

S&P says UAE banks post rapid growth

Standard & Poor's said that leading banks in the UAE are delivering stellar financial performances due to rapid asset growth fed by the booming oil-fueled economy. However, the sector remains highly vulnerable to asset price and oil price volatility. "Although banks were able to absorb the effects of the sharp drop in local equity prices in 2006, S&P believes a tumble in real estate prices, although unexpected, would have more severe consequences.

Source: S&P

QATAR

Stable outlook for Qatar's banking system

Moody's Investors Service said the stable outlook for Qatar's rated banks reflects strong macro-economic conditions, solid financial metrics and improving bank franchises. Asset quality is also on an improving trend, with a relatively low ratio of non-performing loans to gross loans and adequate provision reserves. At the same time, Moody's ratings also incorporate the banks' significant funding and credit concentrations, growing competition from newly established and foreign banks (including those that will be based in the Qatar Financial Center) as well as concerns with regard to potential deterioration in asset quality following the aggressive loan growth, the correction of the Doha Securities Market and the still developing nature of the banks' risk management systems.

Source: Mena Report

JORDAN

Moody's assigns A3 rating to HBTF

Moody's Investors Service has assigned A3 long-term and Prime-2 short-term local currency deposit ratings to Jordan's Housing Bank for Trade and Finance (HBTF). Both ratings have stable outlooks and pertain solely to deposits denominated in Jordanian Dinars (JOD). The bank's existing Ba3/Not-Prime foreign currency deposit ratings and D+ financial strength rating (FSR) with stable outlooks are unaffected by this action. According to Moody's, the A3 long-term local currency deposit rating assigned to HBTF is at the country ceiling for local currency deposits in Jordan, and reflects the bank's intrinsic financial strength as well as its systemic importance to the country's financial system and economy. The bank had total assets amounting to JD4 billion ($5.7 billion) as on September 30, 2006.

Source: *TradeArabia News Service*

NIGERIA

Nigeria Inter-Bank Settlement System

The Nigerian national interbank payment and settlement network operator, is implementing ACI Worldwide's Base24-es platform to drive the Nigeria Central Switch for transferring payments messages around the country. The firm, which was established by the Nigerian Bankers Committee, will operate the central switch that will also be used for switching transactions between other third party processors. ACI says the implementation of the central switch will create a more efficient national payment infrastructure by electronically switching retail payment transactions between commercial banks. The platform will also support the integration of the Nigerian retail payment system with the West African Monetary Zone retail payment platform, says ACI.

Source: Finextra - UK

BAHRAIN

CBB streamlines standing facilities

The Central Bank of Bahrain (CBB) has introduced an overnight deposit and overnight lending facility to enable banks to better manage their short-term liquidity positions. It also withdrew previously-offered facilities of three-month and six-month tenures. "The CBB has restructured its position with regard to the standing facilities it offers on the lending and deposit side to Bahrain's commercial banks," said CBB banking operations executive director Dr Abdul Rahman Saif. "We have decided to consolidate our position on short-term tenors, in line with the trend among central banks globally and to follow a more market-oriented approach." With this, the standing facilities offered by the CBB on the deposit side are of overnight, one-week and one-month tenures and of overnight and one-week tenures on the lending side. The move to restructure the type of instruments offered by the CBB is a key component of CBB's plan to make the Bahrain money market framework more market-oriented and transparent. Last month, the CBB effected the consolidation of its treasury and foreign exchange operation.

Source: TradeArabia News Service

SAUDI ARABIA

Morgan Stanley to form Saudi Arabia venture

US investment bank Morgan Stanley, rapidly expanding in the Middle East, said it would form a joint venture with Capital Group, a securities firm based in Riyadh, Saudi Arabia. The venture will engage in underwriting, trading and wealth management, as well as an asset management business allowing Morgan clients to invest in the country. The office will start with 25 professionals but likely will double in size over the next year, Morgan Stanley's top executive for the region said. The deal to create Morgan Stanley Saudi Arabia is expected to be completed before the end of the first quarter. Terms of the transaction were not disclosed. The Capital Group was founded by Fahad Almubarak in 2001 and became the first securities firm licensed by Saudi Arabia.

Source: TradeArabia News Service

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	- -	- -	- -	- -	BBB Positive	7.7	28.2	16.3	9.1	8.4	23.1	14.2	0.5
Angola	- -	- -	- -	- -	CCC Stable	2.3	43.7	49.5	22.3	4.6	216.9	21.1	7.3
Egypt	BB+ Stable	Baa2 -	BB+ -	BB+ Stable	B Stable	-4.9	92.8	35.9	68	6.6	174.1	3.7	1.9
Libya	- -	- -	- -	- -	BB Stable	26.6	6.0	9.7	-130.9	2.7	7.8	31.4	2.8
Morocco	BB+ Stable	Baa2 -	- -	BB Stable	BB Stable	-5.6	69.1	31.2	68.1	8.0	100.0	-0.6	1.6
Nigeria	BB- Stable	- -	BB- -	- -	BB Stable	-1.0	10.7	5.2	9.7	1.9	14.18	9.7	1.6
Tunisia	BBB Stable	A3 -	BBB -	BBB Stable	BB Stable	-2.2	57.5	57.5	77.1	15.3	448.1	-2.5	2.3
Sudan	- -	- -	- -	- -	CC Stable	-3.8	58.7	71.2	355.0	4.0	-	-13.8	5.8
Middle East													
Bahrain	A Stable	A1 -	A- -	BBB+ Stable	A Stable	7.3	25.1	55.3	23.9	13.4	286.5	7.9	0.7
Iran	- -	- -	B+ -	- -	BB Negative	7.3	26.2	9.9	31.0	4.5	25.4	5.7	0.0
Iraq	- -	- -	- -	- -	D Stable								
Jordan	BBB Stable	Baa3 -	- -	BB Stable	B Stable	-5.2	81.0	102.9	18.5	13.7	271.6	-11.5	6.4
Kuwait	A+ Stable	Aa2 -	AA- -	A+ Stable	A Stable	27.0	12.4	18.3	8.9	2.7	158.1	45.2	0.5
Oman	BBB+ Stable	A1 -	- -	BBB+ Stable	A Stable	13.6	10.3	16.5	18.0	5.0	116.9	12.1	1.0
Lebanon	B- Negative	B2 -	B- -	B- Negative	CCC Stable	-12.7	177.7	109.2	179.5	30.4	273.5	-19.0	6.7
Qatar	A+ Stable	Aa2 -	- -	A+ Stable	A Stable	15.1	20.0	39.9	55.3	8.4	352.1	56.6	4.3
Saudi Arabia	A+ Stable	Aa3 -	A+ -	A+ Stable	A Stable	11.0	16.1	10.2	21.1	3.7	104.0	26.3	0.2
Syria	- -	- -	- -	- -	CCC Stable	-3.6	41.9	30.8	68.0	5.6	146.9	2.0	1.6
UAE	- -	Aa2 -	- -	A+ Stable	A Stable	28.2	7.9	12.6	10.0	1.8	77.9	21.9	7.9
Yemen	- -	- -	- -	B- Stable	B Stable	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
Central & Eastern Europe													
Ukraine	BB- Stable	Ba3 -	BB- -	- -	BB Stable	-4.2	18.8	15.3	58.7	2.8	102.3	6.9	2.5
Russia	BBB+ Stable	A2 -	BBB+ -	- -	BBB Stable	5.7	12.1	25.6	81.3	3.6	92.5	11.2	0.8
Turkey	BB- Stable	Ba1 -	BB- -	BB- Stable	B Stable	-3.2	62.8	46.7	117.5	25.2	329.4	-5.6	2.5
Latin America													
Brazil	BB Stable	Ba1 -	BB -	- -	BB Stable	-3.3	69.5	24.2	56.3	29.3	300.0	1.2	2.0

Sources: Moody's; EIU