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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Downgrade potential at highest level ever

Standard & Poor's said the number of global issuers poised for downgrades increased to 977 in February 2009, up by 277 issuers from 700 issuers in February 2008, and constituting the highest level ever recorded. It defined potential downgrades as entities that have either a negative outlook or ratings on CreditWatch with negative implications across rating categories 'AAA' to 'B-'. The agency said the ratio of potential downgrades to potential upgrades increased to more than 6 times in February 2009 compared with two times at the beginning of 2008. S&P added that the increase of potential downgrades that began in June 2008 seems to have no limit. It noted that the housing and financial sectors continue to show the highest downgrade risk, which is indicative of further unfavorable rating actions if credit conditions continue to deteriorate. In terms of absolute numbers, financials lead with the most downgrade potential, closely followed by media and entertainment, consumer products, and utilities.

Source: Standard & Poor's

EMERGING MARKETS

Fixed income trading volume down 36% to $4,173bn in 2008

Trading in emerging markets debt instruments stood at $4,173bn in 2008, constituting a drop of 36% from $6,489bn in 2007 and representing the lowest annual volume since $3,073bn in 2003. Trading in the fourth quarter of the year totaled $823bn, down 13% from $946bn in the previous quarter and down 40% from $1,366bn in the fourth quarter of 2007. The fourth quarter volume is less than half of trading volumes in the second quarter of 2007. The sharp annual and quarterly decline are attributed to global financial market turmoil. Also, US government intervention into the banking system is expected to crowd out investment in emerging markets, particularly for corporates. The volume of trades in local Treasury instruments stood at $2,873bn in 2008, down 34% from $4,264bn in 2007. In parallel, sovereign and corporate Eurobonds' trading volume stood at $1,281bn last year, down 40% from $2,110bn in 2007. Sovereign Eurobond volumes declined by 38% to $856bn, while the volume of traded corporate bonds fell by 42% to $390bn in 2008. Local instruments accounted for 68% of total emerging markets debt trades, up from 66% in 2007 and 57% in 2006. Sovereign Eurobonds accounted for 21% of total debt trading, unchanged from the previous year and corporate bonds represented 9% of trading relative to 10% in 2007. The most frequently traded instruments in 2008 were Brazilian debt securities at 20%, followed by Turkish instruments at 9% and South African debt securities at 8%. Other frequently traded instruments were from Argentina and Russia.

Source: EMTA

MENA

Region makes progress in closing digital gap

The International Telecommunication Union's 2009 ICT Development Index shows that Arab countries closed significantly the digital divide in the 2002-07 period, as the region's average level of information & communication technology (ICT) development increased by 46.3% to reach 3.10 points in 2007, up from 2.12 points in 2002. But the level of ICT development in the region is still below the global level of 3.39 points. The index tracks the digital divide in countries and measures their progress towards becoming information societies on the basis of ICT access, usage and skills. The rankings of 10 Arab countries improved and 7 declined, while the level of ICT development improved in all Arab countries. The UAE is the most developed Arab country in terms of ICT, ranking as the 32nd most ICT-developed country in the world, while Yemen is the least ICT-developed country in the region. Saudi Arabia posted the highest increase in the region in both ranking (18 spots) and scoring (1.49 points), while Palestine posted the steepest decline in ranking (12 spots) and Yemen the lowest increase in scoring (0.43 points). Five Arab countries were classified in the 'Upper' ICT development category, 9 were classified in the 'Medium' category, and two countries in the 'low' category. The average ICT cost in the region accounted for 8.02% of GNI per capita, significantly lower than the global average of 15.08%.

Source: ITU, Byblos Research

SUDAN

World court issues arrest warrant for President Bashir

The International Criminal Court (ICC) issued an arrest warrant for Sudanese President Omar al-Bashir over alleged atrocities in Sudan's western Darfur province. It is the first time that the Hague-based war crimes tribunal sought the detention of a serving head of state. The ICC said that al-Bashir commited five counts of crimes against humanity, including murder, torture and rape, as well as two counts of war crimes. No charges were filed on genocide. The United Nations estimates that 300,000 people have died and more than 2.2 million have fled their homes since rebels in Darfur rose up against the Khartoum government in February 2003. President Bashir's government denies ordering the deliberate murder of civilians in Darfur, and says that the death toll is much lower than the UN and the ICC estimates. The indictment comes at a time of great political instability in Sudan. Darfur rebels are expanding their operations into neighboring states as the country prepares for national elections this year, and relations between Khartoum and the southern part of Sudan are coming under increasing strain. President Bashir said the ICC was a tool of imperialists targeting Sudan for its oil, natural gas and other resources. He also announced the expulsion of 10 foreign aid agencies accusing them of breaking all regulation and laws.

Source: Christian Science Monitor, Reuters

POLITICAL RISK OVERVIEW - FEBRUARY 2009

ALGERIA

Islamist rebels from al-Qaeda in the Islamic Maghreb (AQIM) killed nine security guards working for a state gas company on February 23rd. Two bomb attacks killed seven civilians on February 12 in Tebessa, East of Algiers. President Bouteflika formally announced his intention to run for a controversial 3rd term in April's elections. Islamic militants killed eight Algerian soldiers in two separate attacks on February 15th. Security forces reported killing six militants. Several militants were killed or arrested in the region of Tizi Ouzou during the month.

ARMENIA

The Armenian National Congress (HAK), the opposition movement supporting former President Ter-Petrossian, announced on February 9 its intention to resume the public rallies that were suspended in October 2008. Despite official ban, the first rally took place on March 1, the first anniversary of violent clashes between Ter-Petrossian supporters and security forces during 2008 presidential elections. Thousands of protesters participated, asking for early elections. Foreign Minister Nalbandyan met with his Turkish counterpart, Babacan, on the sidelines of the Munich Security Conference on February 7 for talks on normalizing Turkish-Armenian relations.

EGYPT

A bomb attack in the historic Cairo area killed a tourist and injured at least 20 people on February 22nd. Ayman Nour, the opposition challenger to President Mubarak in the 2005 election, was released on February 18 after 3 years in prison. At least 40 members of the Muslim Brotherhood were detained during a rally in solidarity with Gaza Palestinians on February 6 in Cairo. The Border with Gaza was re-sealed on February 5th. The authorities prevented a senior Hamas official carrying $9m and €2m in cash from entering Gaza via Rafah.

IRAN

The International Atomic Energy Agency (IAEA) report on February 19 stated that Iran had more low-enriched uranium than previously disclosed. IAEA Director-General Mohamed ElBaradei said on February 17 that Iran had slowed down centrifuge expansion for political reasons. At the Munich security summit on February 7th, Western leaders expressed readiness to engage with Iran but also to toughen sanctions if no progress is achieved. Former president Khatami confirmed on February 9 his candidacy for the June presidential elections. Interior Minister Mahsouli affirmed respect for Bahrain's sovereignty after the Gulf States condemned the comments of a senior Iranian official recalling historic Iranian claims over Bahrain.

IRAQ

Provincial elections held on January 31 saw major gains for Prime Minister Nouri Al-Maliki's coalition in Basra. President Obama said on February 27 that he plans to withdraw most U.S. troops from Iraq by August 2010, while up to 50,000 troops will remain for limited missions until the end of 2011. Attacks targeting Shiite pilgrims heading to Karbala for a major religious ceremony killed 40 on February 13 and over 20 during previous days. A female suicide bomber killed 15 Iraqis in an attack in Khanaqin on February 5th. Iraq's parliament remained deadlocked on the election of a new speaker after Sunni parties did not agree on a candidate.

SUDAN

U.S., British and French diplomats told African Union and Arab League delegates that they oppose suspending an ICC indictment of President Bashir over atrocities in Darfur. The government signed a deal in Qatar with the Justice and Equality Movement (JEM) on February 17th. Under the agreement, the Khartoum government and the JEM agreed to exchange prisoners and to discuss ways to stop the fighting in Darfur. Following the deal, the JEM accused the government of several air and ground attacks. The government announced on February 4 that Muhajariya was taken from rebels after weeks of fighting. The government announced on February 15 that it has began field investigations into alleged right abuses that occurred in Darfur in 2003-2004. Some 50 people were killed, 100 wounded in clashes between the SPLM and the southern militia in the southern town of Malakal on February 24th.

SYRIA

President Assad met with U.S. congressional delegations in Damascus on February 18 and 21, including one headed by Senator John Kerry, head of the Senate Foreign Relations Committee. Senator Kerry said that Syria could help achieve a Palestinian unity government that could restart peace talks with Israel. President Assad also met with the EU external relations commissioner Ferrero-Waldner on February 16th. Syria's ambassador to the U.S, Imad Moustapha, met with Jeffrey Feltman, the State Department's top diplomat for the Middle East on February 26 to discuss how to mend the relationship between the two countries. The IAEA reported finding on February 19 new traces of uranium in samples collected from the alleged nuclear weapons site Al Kibar.

TURKEY

More than 80 Kurdish protestors were detained after several clashes with the police in many cities of Turkey for the 10th anniversary of the continued imprisonment of Abdullah Ocalan, the leader of the Kurdistan Workers' Party. The leader of Turkey's Kurdish lawmaker's legislator, Ahmet Turk, is now subject to immunity removal for addressing the parliament on February 24th in his native language, breaking the law that bans speaking Kurdish in schools, parliament and other official settings. A Turkish court also sentenced a pro-Kurdish member of parliament, Aysel Tugluck, for 18 months in jail for spreading PKK propaganda. Around 20 people were arrested on February 18 in Istanbul for belonging to the Turkish Hezbollah organization.Thirteen Kurdish rebels were also killed in Turkish air force raids in northern Iraq on February 6th.

UKRAINE

Both President Yushchenko and Prime Minister Tymoshenko issued statements blaming each other for the country's galloping financial crisis. Finance Minister Pynzenyk resigned on February 12 over disagreements with the Prime Minister. As the International Monetary Fund is likely to suspend loan payments to Ukraine, the government sent letters to Russia, the U.S., the European Union, China and Japan asking for emergency loans. Around 1,000 people protested in Sevastopol on February 21 asking for extraordinary elections. The government threatened to expel the Russian ambassador for anti-government statements on February 17th.

Source: International Crisis Group

OUTLOOK

SAUDI ARABIA

Economy well positioned to weather global recession, non-oil sector to support growth

Merrill Lynch considered that Saudi Arabia is better positioned than other GCC countries to weather the global recession, as its large savings and relatively low systemic risks offer sufficient room to pursue countercyclical policies, while the large domestic market in a closed economy increases the effectiveness of these policies. It said the non-oil sector has led growth, accounting for about 70% of the economic expansion since 2003. It added that non-oil growth has averaged 4.6% since 2002, led by the finance, construction, transport, communication and petrochemicals sectors. However, Merrill Lynch noted that oil still accounts for 88% of total exports, 87% of budgetary revenues and 31% of GDP, which reflects Saudi Arabia's continued dependency on oil. It projected real GDP growth to contract by 0.2% in 2009 due to output declines in the oil sector, and to recover slightly in 2010 to 2.8%. It estimated that every reduction in oil production of 100,000 barrels per day cut reduces Saudi growth by about 0.3%, adding that with the hydrocarbon sector stagnating, the non-oil sector is expected to provide a stable source of growth.

Merrill Lynch estimated that the budget surplus will erode completely and turn into a deficit of 7% of GDP in 2009 and 5.5% of GDP in 2010, as the authorities are likely to maintain a loose fiscal policy stance. It also expected the current account to post a deficit of 0.7% of GDP in 2009, down from a surplus of 29% of GDP in 2008, before recording a slight surplus of 1.2% of GDP in 2010. It noted that the fall in global food and commodity prices should also ease price pressures in the Kingdom, with inflation falling from 10% in 2008 to 6% in 2009 and 4% in 2010. Merrill Lynch considered that Saudi Arabia is well placed to respond to the domestic impact of the ongoing global financial stresses with gross foreign assets at $456bn and with considerably less leverage in the economy compared to regional peers, as well as due to $400bn in investment spending planned for the coming years.

Source: Merrill Lynch

YEMEN

Slowdown in global economic growth and decline in oil prices raise risks to economic stability

The International Monetary Fund estimated Yemen's economic growth at 3.9% in 2008, up from 3.3% in 2007 and non-oil GDP growth at 4.8% last year compared to 5.3% in 2007. It said non-oil growth has been solid in recent years, progress has been made on a number of structural reforms, and the financial system has remained resilient to the global financial crisis. But it noted that downside risks to macroeconomic stability and fiscal and external sustainability have risen considerably in recent months due to the slowdown in global economic growth and the decline in oil prices. It indicated that authorities face the medium-term challenge of diversifying the economy and government revenues in light of the expected depletion of oil reserves and related receipts. The Fund said oil reserves could be depleted in 10-12 years in the absence of major oil discoveries, while the start of a new liquefied natural gas project in 2009 will only partly compensate for the expected decline in crude oil.

The IMF called for a proactive policy response through further macroeconomic adjustment and accelerated structural reforms, to be supported by concessional lending from the international community. It noted the high risk of debt distress despite a decline in the gross public debt to 38% of GDP and the external debt to 22.3% of GDP at end-2008. It considered that an ambitious fiscal consolidation effort to be the cornerstone of successfully adjusting to declining oil prices and production, as the fiscal deficit remains sizeable at 5.6% of GDP in 2008 relative to 5.8% of GDP in 2007. It stressed the need to prioritize public spending through the gradual elimination of fuel subsidies as well as to reduce the large public sector wage bill. It noted that fuel subsidies, equivalent to about 14% of GDP, continue to absorb a large part of the budget and, together with the public sector wage bill, account for about 50% of government expenditures.

Source: International Monetary Fund

ALGERIA

Real GDP growth at 2.5% in 2009, key risk is low oil prices

The International Monetary Fund estimated Algeria's real GDP growth at 3% in 2008 and projected growth at 2.5% in 2009 due to lower hydrocarbon exports. It added that the economic outlook is encouraging despite the challenging international environment, but that medium-term risks may become significant. It noted that Algeria's economy and financial system are relatively insulated from the global financial turmoil given the predominantly state-owned banking sector, minimal external debt, and prudent management of foreign reserves. It projected non-hydrocarbon GDP growth, which represents 55% of total GDP, at about 6% in 2009 relative to 5.8% in 2008, provided the government and the national hydrocarbon company Sonatrach use their savings to continue their substantial investments. It estimated average inflation at 3.9% in 2008 and expected it to remain below 4% in 2009.

The Fund considered that the most important risk in the medium term for Algeria would be continued low international oil prices, which would significantly weaken the external and fiscal balances, force a slow down of the Public Investment Program (PIP) and other investments, and reduce growth. It said the significant decline in oil prices and the high level of imports would shift the current account balance from a surplus of 20% of GDP in 2008 to a deficit of 3% in 2009, but foreign reserves that reached $139bn at end-2008 would still cover more than two years worth of imports. It warned that Algeria continues to face important medium-term challenges, as it needs sustained efforts to diversify the economy and reduce dependence on the hydrocarbon sector, improve productivity and the business climate, both of which are lagging relative to trading partners, and reduce high youth unemployment. Also, the global financial crisis and declining oil prices highlight the pressing need to accelerate structural reforms to diversify the economy. The IMF endorsed the authorities' decision to maintain the high level of public spending in the short term to provide support to the economy and mitigate the impact of the global economic downturn.

Source: International Monetary Fund

ECONOMY & TRADE

EMERGING MARKETS

Low-income economies need $25bn in concessional loans

The International Monetary Fund indicated that the global financial crisis is now hitting the world's poorest and most vulnerable countries, putting at risk the major achievements of higher growth, lower poverty, and greater political stability that many low-income countries have made over the past decade. It said the economic outlook for low-income countries has deteriorated dramatically, as the global crisis is squeezing exports severely, while also curtailing inflows of foreign direct investment and remittances. As a result, many countries will face sharply lower fiscal revenues and some may also experience pressure on their foreign exchange reserves. The IMF identified 22 low-income countries that face the most acute financing constraints and that need at least $25bn in additional concessional financing. It noted that if global growth and financing conditions deteriorate further, the number of vulnerable countries could almost double, while additional financing needs could approach $140bn.

Source: International Monetary Fund

DEMOCRATIC REPUBLIC OF CONGO

Grant of $100m to face financial crisis

The World Bank extended to the Democratic Republic of Congo (DRC) a $100m grant to be drawn from a $2bn fund created by the Bank last December to speed assistance to developing countries trying to cope with the financial crisis. The Bank said the DRC is suffering job losses as mines close or lay off workers amid falling demand for copper and other minerals it exports. Also, planned investments in infrastructure are threatened by falling export revenues, while the country is faced with continued conflict at its eastern borders. The grant will help finance short-term costs of importing essential goods and commodities, pay teachers' salaries and state water and electricity bills. The World Bank created the Financial Crisis Response Fast Track Facility to accelerate delivery of $2bn in grants and long-term, interest-free loans from the Bank's $42bn fund for the world's poorest countries. The DRC is the first country to benefit from this initiative.

Source: World Bank

GHANA

Outlook revised to negative

Fitch Ratings changed the outlook on Ghana's Long-term foreign and local currency Issuer Default Ratings (IDRs) to 'negative' from 'stable', and affirmed the Long-term foreign and local currency ratings and the Country Ceiling at 'B+'. It attributed the outlook revision to twin fiscal and current account deficits of 15% and 24% of GDP respectively in 2008 and to double-digit inflation. It said the magnitude of the macroeconomic imbalances leaves Ghana poorly placed to face adverse global economic conditions. It added that external shocks contributed to derailing Ghana's relatively short track record of macroeconomic stability, but fiscal deterioration has been evident since 2006 with fiscal outcomes far in excess of budgeted shortfalls. The agency noted that current imbalances could rapidly erode the benefits Ghana has gained from external debt relief, adding that it will take time to rebuild a track record of fiscal discipline. It said Ghana will have to revert to funding from bilateral and multilateral institutions, along with higher domestic borrowing, as private capital inflows decline from 2008 levels. Fitch said Ghana is facing tight fiscal financing constraints in the near term, while a weak balance of payments threatens to put further downward pressure on its currency and international reserves. It noted that the recent discovery of oil, if properly managed, could improve sovereign creditworthiness over time.

Source: Fitch Ratings

ARMENIA

IMF to extend $540m loan as part of new Stand-By Arrangement

The International Monetary Fund indicated that it will approve Armenia's request for a $540m loan as part of a new 28-month Stand-By Arrangement with the Fund. It noted that Armenia would be able to draw about $239m immediately. The IMF said that Armenia has been adversely affected by the global economic and financial crisis after many years of strong economic performance. In response, the Armenian authorities have put together a strong and credible economic program to address the deterioration in the country's external outlook, restore confidence in the currency and financial system, and protect the poor. It noted that the comprehensive policy package developed by the Armenian authorities in consultation with IMF includes the return to a floating exchange rate regime, which would allow the exchange rate to move in line with market fundamentals to cushion the economy from the external shocks and safeguard foreign exchange reserves. It added that the authorities will also implement supporting monetary, fiscal and financial sector policies, as well as targeted structural reforms.

Source: International Monetary Fund

UKRAINE

Ratings downgraded by two notches

Standard & Poor's downgraded Ukraine's foreign currency debt rating by two notches from 'B' to 'CCC+' and the local currency rating from 'B+' to 'B-', with a 'negative' outlook. It attributed the downgrades to the uncertainty surrounding progress of the IMF program and the unfavorable domestic political environment. It said the absence of broad political backing for necessary budgetary revisions and banking system reform has raised the risk of not implementing the agreement with the IMF. In turn, this increases risks of Ukraine missing out on payments of $1.9bn from a $16.4bn loan from the IMF, which could lead to a sovereign default. The agency said the worsening external environment has triggered a sharp deterioration in Ukraine's terms of trade via depressed export prices. It expected GDP growth to decline substantially this year and for the currency to depreciate on the back of capital outflows and falling export receipts. The new foreign currency rating is seven notches below investment grade and is the lowest in Europe. Fitch Ratings already downgraded Ukraine's foreign currency ratings to 'B' from 'B+', citing increased risks of a banking and currency crisis as well as risks to the successful implementation of the IMF-supported reforms program.

Source: Standard & Poor's, Fitch Ratings

EMERGING MARKETS

Multilateral institutions pledge €24.5bn to support banks in Central and Eastern Europe

The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group announced a joint action plan to provide €24.5bn to support the banking sectors in Central and Eastern Europe and to fund lending to businesses hit by the global economic crisis. The financial support will include equity and debt finance, credit lines, and political risk insurance. Under the two-year plan, the EBRD will provide up to €6bn to the financial sector in 2009-10 in the form of equity and debt finance to banks and directly to SMEs, and trade finance. The EIB will provide €11bn in SME lending facilities of which €5.7bn is already available for rapid disbursement. The World Bank Group will provide support of about €7.5bn, of which €2bn from the International Finance Corporation. The World Bank also intends to increase lending in Europe and Central Asia by up to €16bn in 2009-10, including €3.5bn for addressing banking sector issues in emerging Europe; while MIGA will provide political risk insurance capacity of up to €2bn for bank lending.

Source: World Bank

GCC

Islamic financial institutions resilient to market dislocation but face risks

Standard & Poor's said Gulf Islamic financial institutions (IFIs) and Takaful companies are feeling the impact of the global financial crisis less than most of their conventional counterparts because Sharia law prohibits interest-based financial products. It noted that IFIs did not invest in the structured products that have hurt the financial profiles and performance of many conventional banks, so most of them should be equipped to weather the financial downturn. It said the main sources of stress for the IFIs are the liquidity dry-up, mounting pressure on the real estate sector in the GCC, the sharp correction in regional stock markets, and certain investments made by IFIs in European or U.S. companies and real estate. It expected their financial performance to deteriorate due to booking some market-related provisions covering their exposure to the dropping values of stock markets and to Sharia-compliant investment products. Also, the anticipated slowdown in loan growth, the higher cost of funding because of tight liquidity, and the increased cost of risk in the GCC stand to limit their growth.

Source: Standard & Poor's

BAHRAIN

Central Bank cuts reserve requirement to 5%

The Central Bank of Bahrain (CBB) reduced reserve requirements for banks by 200 bps from 7% to 5%. The monetary easing measure aims at making more cash available for banks to encourage lending. The CBB has been taking a series of monetary loosening measures due to tightening liquidity and credit regionally. the CBB has cut its benchmark deposit and lending rates by an overall 125bps and 250bps, respectively, since the last quarter of 2008. It also introduced a US dollar lending facility and guaranteed deposits. Money supply growth declined to 19.7% annually, its lowest level in over 20 months.

Source: EFG Hermes, Reuters

TURKEY

Difficult year for banks

Capital Intelligence indicated that the Turkish banking sector faces a difficult year in 2009, with economic weakness causing earnings pressure on the back of rising non-performing loans and narrowing margins. It said banks have so far retained access to international wholesale markets with the majority of maturing debt being rolled over, reflecting the currently sound condition of the banking sector with capital ratios, loan asset quality, earnings and liquidity metrics generally of good standard. However, access to international markets could become more difficult if either domestic or global conditions deteriorate further. It noted that pressure on banks' loan asset quality is already being felt with the NPLs-to-gross loans ratio at 3.7% at end-January 2009 against 3.4% in December 2008. it said the rise is across most loan categories, including credit cards, consumer and commercial loans, but the loan loss reserve coverage for the sector is adequate at 80%. The agency expected Turkish banks' returns and profitability to weaken, the cost of risk is to rise as non-performing loans increase, and for margins to contract due to both higher funding costs and higher provisions.

Source: Capital Intelligence

ARMENIA

Central Bank floats currency, raises policy rate

The Central Bank of Armenia (CBA) declared that it is limiting its supplier role in the foreign exchange market and is returning to a floating exchange rate regime. It attributed its decision to deteriorating economic conditions from worsening terms of trade and a slowdown in capital inflow, adding that the decision would allow the exchange rate to find a new level that is more in line with current economic fundamentals. The CBA added that an average range of 360-380 dram per US dollar would be more in line with equilibrium macroeconomic conditions. The dollar was trading at about 306 drams prior to the floatation and reached about 372 drams afterwards. The CBA expected the currency depreciation to support economic growth through higher competitiveness and the creation of new jobs. It forecast annual economic growth to range between 1% and 3% in the first quarter of 2009.

In parallel, the CBA raised the refinancing rate by 100 basis points from 6.75% to 7.75%. It said that the deflationary environment in international markets and slowing domestic demand have contributed to lower inflation, but noted that the depreciation of the currency and the increase in gas tariffs could make Armenia exceed its inflation target. The CBA forecast inflation to reach 2.7% at the end of June and 5% at end-2009. It lowered the refinancing rate by 25 bps in each of January and February and cut it by 50bps last December as inflationary pressures subsided, after previously raising the rate 7 times in 2008. The CBA said monetary policy will continue to emphasize price stability, while it will intervene in the foreign exchange market only to reduce excessive volatility. Foreign reserves reached $1.26bn by end-January 2009, down 24% from $1.66bn at end-2007.

Source: Central Bank of Armenia

ENERGY / COMMODITIES

Oil declines under $45 after 9% jump

Oil eased below $45 on March 5, after surging nearly 9% overnight on government data showing a surprise drop in U.S. crude stocks, which could mark recovering demand in the U.S. Traders are waiting the release of weekly U.S. initial jobless benefit claims and January factory orders as well as February unemployment data for further clues on the health of the U.S. economy. Prices were also supported by the remarks of China's Premier Wen Jiabao that the country would achieve 8% growth this year,a level considered key to maintain employment growth, despite the deepening global recession. The U.S. Energy Information Agency said crude stocks declined by 700,000 barrels last week. Demand for gasoline over the past four weeks also rose 2.2% from a year ago. Year-on-year gasoline demand has increased in the last several weeks, possibly indicating the start of a rebound in demand.

Oil prices have traded in a narrow band around $40 since mid-December, pressured by falling demand from the global economic downturn, but drawing support from expectations OPEC might cut production again when it meets on March 15th. OPEC planned to lower oil output by 4.2 million barrels per day from production levels in September in a bid to boost falling prices, and OPEC members had already met at least 81% of their target. Angola, which currently holds the presidency of the 12-member group, said it will not support further production cuts when the group meets on March 15th. Ecuador also said it sees no need for more reductions at the next meeting, while other OPEC members have yet to make a decision. But Venezuela, Algeria and Libya have raised the possibility of a further cut.
Source: Reuters

IAEA agrees to UAE’s nuclear plans

The International Atomic Energy Agency (IAEA) Board of Governors approved the UAE's ratification of the additional nuclear inspection measures known as the 'additional protocol'. The protocol was developed by the nuclear watchdog to verify nuclear activities by IAEA's member states to ensure their commitment to the Non-Proliferation Treaty. The agreement is part of the UAE's plan to develop a peaceful nuclear program to meet its growing energy needs.
Source: IAEA

Qatar to deliver LNG to UK

Qatar plans to launch the world's first fully integrated value chain liquefied natural gas venture next month. The $13.2bn venture at Ras Laffan will supply gas to the South Hook terminal in Wales, in the United Kingdom. It is being jointly set up by Qatar Petroleum, ExxonMobil and Total. Qatargas 2 terminal is large enough to meet about 20% of the UK's natural gas needs.
Source: Gulf Times

Natural gas well drilled in Jordan

A new natural gas well at the Risha gas field in Jordan will provide between 8 million and 10 million cubic feet of gas a day. The new well will raise the country's total gas production from Risha to up to 35 million cubic feet per day.
Source: Ameinfo

Base metals: Further weakness likely near term

The base metal markets have trended lower in recent weeks, with nickel hit particularly hard, while copper was the only market to make gains within a very weak picture. Worries about demand and the deteriorating economic backdrop remain the driving force. The worst hit has been Japan, where demand indicators showed extreme weakness for aluminium and copper. Inventories have also continued to build on the LME. While some markets have turned higher in late February and early March, a downtrend in the short term in the base metals sector is expected. Copper and nickel are looking most vulnerable, with other markets supported by prices already trading deep into the cost curve. In the second half of this year demand is expected to improve and the US dollar to weaken, which should help support a renewed rally in prices.
Source: Standard Chartered

Precious metals: Gold's rally stops, prices to increase on the longer term

There has been a significant rally in the precious metal sector in recent weeks, although gold was hit by a sharp correction in early March. The initial driver was panic buying of safe haven assets, as equity markets dropped and worries about the banking sector intensified. Strong inflows into Exchange-Traded Funds (ETFs) were recorded for all markets through the middle of February. However, this rally was founded almost entirely on risk aversion, with gold jewellery demand notably absent. When ETF buying slowed, prices fell back once more. Still, gold is expected to find a floor soon and prices are expected to head higher in the second half of 2009 as the US dollar weakens. Silver was particularly hit hard by this recent reversal in sentiment and is expected to be an underperformer through this year. Platinum and palladium are expected to track gold upwards in the second half of 2009 despite the weakness in demand from the automotive sector.
Source: Standard Chartered

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	155.2	176.8	216.8	-2.3	-38.5
LME metals price index	1710.3	2216.1	3080.5	-0.7	-57.7
Oil prices USD	42.8	62.2	91.4	-6.2	-57.0
Oil prices SDRs	29.1	41.1	58.4	-5.3	-53.5
Gold $/troy oz	973.9	833.7	871.4	9.8	4.2
Silver cents/troy oz	1381.0	1128.8	1433.8	20.6	-23.5
Platinum $/troy oz	1041.0	979.1	1455.0	12.2	-51.5
Copper $/MT	3350.0	4329.1	6312.3	9.8	-59.4
Nickel $/MT	9727.5	12305.8	18495.2	-11.9	-65.8
Aluminium $/MT	1293.3	1830.2	2385.9	0.3	-54.7
Zinc $/MT	1100.8	1284.5	1685.0	-0.6	-55.4

Source: Credit Suisse

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 Stable	7.0	13.8	1.5	4.1	1.9	1.6	15.4	0.6
Angola	- -	- -	- -	- -	BB Stable	3.2	8.8	8.4	9.0	12.6	-	-3.0	1.2
Egypt	BB+ Stable	Ba1 -	BB+ Stable	BBB- Stable	BB Stable	-7.7	74.5	17.8	51.4	5.4	105.9	-1.5	4.1
Ethiopia	-	-	-	-	B Negative	-3.5	-	10.9	250.0	-	-	-6.1	-
Ghana	B+ Stable	- -	B+ Negative	- -	B Negative	-10.8	-	39.0	103.6	-	-	-13.7	-
Ivory Coast	- -	- -	- -	- -	CCC Stable	-1.7	-	57.9	175.9	-	556.0	-1.8	-
Libya	- -	- -	- -	- -	BB Stable	-17.3	7.8	17.5	31.1	4.9	-	-15.8	3.1
Mauritania	- -	- -	- -	- -	- -	-5.1	-	73.8	183.3	-	-	-13.4	-
Morocco	BB+ Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-2.6	51.8	24.1	73.9	5.7	74.1	-0.1	3.3
Nigeria	BB- Stable	- -	BB- Stable	- -	BB Stable	-5.7	23.6	6.1	20.6	0.6	-	-13.2	2.4
Sudan	- -	- -	- -	- -	C Stable	-6.8	107.5	62.7	532.4	6.3	-	-10.1	2.7
Tunisia	BBB Stable	Baa2 -	BBB Stable	BBB Stable	BB Stable	-3.1	49.8	50.6	105.6	12.3	235.5	-3.3	3.8
Middle East													
Bahrain	A Stable	A2 -	A Stable	A Stable	A Negative	-3.4	18.2	187.7	321.7	4.6	63.8	6.2	0.4
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	-3.7	19.1	5.5	35.1	4.3	22.9	-4.6	0.2
Iraq	- -	- -	- -	- -	CC Stable	-34.4	-	71.8	214.4	3.8	157.7	-22.4	0.9
Jordan	BB Stable	Ba2 -	- -	BB Stable	B Stable	1.3	51.4	65.6	122.2	4.8	198.6	-10.0	11.4
Kuwait	AA- Stable	Aa2 -	AA- Stable	AA- Stable	A Stable	22.6	4.9	40.4	134.2	6.2	229.7	23.6	-9.9
Lebanon	B- Stable	B3 -	B- Stable	B- Stable	CCC Stable	-10.8	145.6	97.5	614.9	20.4	199.0	-12.0	9.0
Oman	A Stable	A2 -	- -	A Stable	A Stable	-1.9	3.5	21.4	68.7	-	113.0	-4.0	4.0
Qatar	AA- Stable	Aa2 -	- -	AA- Stable	A Stable	1.7	4.1	52.5	189.8	7.3	359.3	24.3	7.8
Saudi Arabia	AA- Stable	A1 -	AA- Stable	AA- Stable	BBB Stable	9.8	9.9	8.5	28.3	4.0	89.1	6.1	0.2
Syria	- -	- -	- -	- -	CCC Stable	-8.3	38.5	13.0	71.4	1.0	162.7	-5.1	1.9
UAE	- -	Aa2 -	- -	AA- Stable	A Negative	16.7	10.6	79.3	125.2	2.3	287.4	11.4	2.4
Yemen	- -	- -	- -	B Stable	CCC Stable	-17.2	-	29.6	161.9	-	-	-16.9	

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	-	-	-2.2	13.9	32.5	496.8	1.2	311.3	-9.0	5.9
Bulgaria	BBB+	Baa3	BBB-	-	BBB								
	Stable	-	Stable	-	Stable	-0.4	13.7	101.8	159.2	22.5	250.5	-15.3	9.8
Kazakhstan	BBB-	Baa2	BBB-	-	BB								
	Negative	-	Negative	-	Stable	1.7	6.0	86.4	267.8	56.6	528.0	-3.1	1.5
Romania	BBB-	Baa3	BB+	BBB-	BB								
	Negative	-	Stable	Negative	Stable	-4.9	16.2	61.9	171.7	21.8	319.6	-8.2	5.1
Russia	BBB+	Baa1	BBB	-	BBB								
	Negative	Positive	Negative	-	Negative	1.5	7.4	40.1	155.9	17.4	193.3	-0.7	0.4
Turkey	BB-	Ba3	BB-	BB-	BB								
	Stable	-	Stable	Stable	Stable	-3.9	43.5	56.0	238.4	41.2	587.4	-5.0	2.4
Ukraine	CCC+	B1	B	-	B								
	Negative	Positive	Negative	-	Negative	-1.1	20.7	80.4	202.3	28.5	411.6	-2.8	2.1

Sources: Moody's Investors Service; Economist Intelligence Unit - The above figures are estimated for 2009
** Figures last updated in February 2009*

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	0.25	28-Jan-09	No change	17-Mar-09
Eurozone	Refi Rate	1.50	05-Mar-09	Cut 50bps	02-Apr-09
UK	Base Rate	0.50	05-Mar-09	Cut 50bps	N/A
Japan	O/N Call Rate	0.10	19-Feb-09	No change	18-Mar-09
Australia	Cash Rate	3.25	03-Mar-09	No change	06-Apr-09
New Zealand	Cash Rate	3.50	29-Jan-09	Cut 150bps	12-Mar-09
Switzerland	3 month Libor target	0.50	11-Dec-08	Cut 50bps	12-Mar-09
Canada	Overnight rate	0.50	03-Mar-09	Cut 50bps	21-Apr-09
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	29-Jan-09	No change	18-Mar-09
Taiwan	Discount Rate	1.25	18-Feb-09	Cut 25bps	Mar-09
South Korea	Target Rate	2.00	12-Feb-09	Cut 50bps	12-Mar-09
Malaysia	O/N Policy Rate	2.00	24-Feb-09	Cut 50bps	29-Apr-09
Thailand	1D Repo	1.50	25-Feb-09	Cut 50bps	08-Apr-09
India	Repo rate	4.00	27-Jan-09	No change	21-Apr-09
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 50bps	N/A
Saudi Arabia	Repo rate	0.75	19-Jan-09	Cut 25bps	N/A
Egypt	Overnight Deposit	10.50	Feb-09	Cut 100bps	N/A
Turkey	Base Rate	11.50	19-Feb-09	Cut 200bps	19-Mar-09
South Africa	Repo rate	10.50	05-Feb-09	Cut 100bps	Mar 09
Kenya	Central Bank Rate	8.50	28-Jan-09	No change	01-Apr-09
Nigeria	Monetary Policy Rate	9.75	09-Feb-09	No change	01-Apr-09
Ghana	Prime Rate	18.50	24-Feb-09	Raise 150bps	Apr 09
Mexico	Target Rate	7.50	20-Feb-09	Cut 25bps	20-Mar-09
Brazil	Selic Rate	12.75	21-Jan-09	Cut 100bps	11-Mar-09
Armenia	Refi Rate	7.75	04-Mar-09	Raise 100bps	N/A
Romania	Policy Rate	10.25	06-Jan-09	No change	N/A
Bulgaria	Base Interest	5.25	01-Sep-08	No change	N/A
Kazakhstan	Refi Rate	9.50	05-Feb-09	No change	N/A

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