

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

IRAN

U.N. Security Council to impose new sanctions against Iran

The U.N. Security Council unanimously voted to impose new sanctions against Iran for its refusal to stop enriching uranium. The new resolution imposes an embargo on all conventional weapons Iran can sell and freezes the assets abroad of 28 individuals, institutions and companies, including Bank Sepah, that are suspected of being involved in Iran's nuclear and missile programs. The text also calls on nations and international financial institutions to restrict new grants, credits and loans to Iran. The resolution also calls for a voluntary travel embargo on Iranian officials and Revolutionary Guard commanders subject to sanctions and urges restrictions on the sale of heavy weapons to Iran.

It asks the International Atomic Energy Agency to report back in 60 days on whether Iran has suspended enrichment and warns Iran could face further measures if it does not. But it also says all sanctions will be suspended if Iran halts enrichment and makes clear that Tehran can still accept a package of economic incentives and political rewards offered last year if it complies with the council's demands. Iranian President Mahmoud Ahmadinejad rejected the sanctions and said Iran had no intention of suspending its enrichment program 'even for a second'. Iran also announced it will partially suspend cooperation with the International Atomic Energy Agency.

Source: Reuters, AFP

Britain freezes ties with Iran over capture of sailors

Iran detained 15 British sailors and marines in what it said were Iranian territorial waters near Iraq. The group was captured at gunpoint in the Shatt al-Arab waterway, which divides Iran and Iraq, on March 23. The U.K. says they were in Iraqi waters conducting routine inspections of merchant shipping. Britain announced it is freezing all business ties with Iran and is seeking approval from the U.N. Security Council for a statement that would deplore the detention of the military personnel and call for their immediate release.

Source: Associated Press

SUDAN

Sudan closer to accepting UN peacekeepers

Ban Ki-moon, the United Nations Secretary General, said on Wednesday night he had broken the stalemate over deploying a joint African-UN peacekeeping force to Darfur, during a two-hour summit with Sudan's president, King Abdullah of Saudi Arabia and the heads of the African Union and Arab League. A joint declaration said all parties agreed on the need to move expeditiously ahead with the AU-UN peacekeeping operation, and that they would hold a technical meeting to finalize the next stage within days. Mr Bashir also agreed to boost humanitarian work in the western region.

Source: Financial Times

EGYPT

Constitutional amendments approved

According to the Egyptian Justice Ministry, the controversial 34 constitutional amendments have been approved by 75.9% of those who voted in the referendum. Government officials said that 9.7 million people, or about 27% of the country's 35.9 million eligible voters, voted at the referendum. However, some independent groups put the turnout for the vote at a mere 5%. The constitutional amendments include a ban on the creation of political activity or parties based on religion, as well as granting sweeping powers to security forces and diluting the judicial oversight in elections.

Source: Merrill Lynch

MAURITANIA

Presidential election leads to civilian rule

Economist and former minister Sidi Mohamed Ould Cheikh Abdallahi was elected Mauritania's president in historic polls that opened a new era of civilian democracy in the country. The Interior Ministry said Abdallahi won 53% of the vote compared to 47% for rival Ahmed Ould Daddah. The military, which seized power in 2005, pledged not to interfere in the outcome. Abdallahi's inauguration on April 19 will be the first transfer of power via elections since independence in 1960. The election of a civilian head of state sealed a democratic handover by a military junta which took power in the former French colony in a 2005 coup. Mauritania had suffered years of corruption, coups and authoritarian rule since independence. During his campaign, Abdallahi pledged to foster democracy, social justice and economic development in a nation which, despite its rich fisheries, minerals and oil, is mostly poor.

Source: Reuters, Christian Science Monitor

TURKEY

EU accessions talks still alive

The European Union has agreed to open negotiations on the Enterprise & Industrial Policy chapter, one of 35 policy areas that are required to be aligned with EU regulations. Turkey has previously only opened and provisionally closed one chapter since the start of accession talks in October 2005. Ankara is hoping to secure the opening of three more chapters by end-June, when Germany's six-month rotating EU presidency ends. However, this may prove to be too optimistic, considering that the politics of enlargement remain unsupportive. But the opening of a new chapter shows that the accession process is alive and talks are likely to see some technical progress this year despite the suspension of eight chapters due to the trade dispute with the Greek Cypriots.

Source: Merrill Lynch, Credit Suisse

OUTLOOK

JORDAN

IMF encourages continuation of reform agenda

The IMF concluded the 2006 Article IV consultation with Jordan. Executive Directors commended Jordan's strong economic performance, noting the critical role played by supportive macroeconomic and structural policies over the past decade. Looking ahead, Directors stressed that staying on course with the economic reform agenda will help sustain good economic performance, and address the large current account deficit and the still-high public debt. Directors welcomed the authorities' plan to introduce a new public debt ceiling of 60% of GDP by 2011. Directors agreed that the dinar is fairly valued and most observed that the exchange rate peg continues to serve Jordan well as a nominal anchor. They noted that the interest rate spread relative to U.S. rates has contributed to maintaining confidence in the peg. Directors noted banks' strong performance and welcomed the authorities' commitment to strict financial sector supervision. They commended the authorities for implementing core Financial Sector Assessment Program (FSAP) recommendations, including introducing a prompt corrective framework and improved off-site surveillance. They looked forward to the early passage by parliament of Anti-Money Laundering/Combating Financing of Terrorism legislation and to an FSAP follow-up later this year.

Source: IMF

BULGARIA

Economy to grow by 6% in 2007

The IMF expects Bulgaria's economic outlook to remain favorable in 2007, with GDP growth to remain around 6% in 2007 driven by buoyant domestic demand, and falling inflation. The external deficit and gross debt relative to GDP should stabilize around their 2006 levels due to strong export growth and terms of trade improvement, and gradually decline thereafter as import growth slows in line with more tempered FDI inflows and investment growth.

The outlook is based on an agreed 2007 budget surplus target of 2.3% of GDP, and assumes a pick-up in bank credit growth following the lapse of administrative credit controls at end-2006. Domestic demand should therefore remain buoyant in 2007 owing to higher private and public consumption, partly muted by slightly slower investment growth, as experienced by several other new EU member states. Inflation should continue to decline thanks to falling oil prices, the ongoing favorable base effects of last year's hiked excise taxes, and moderation of core inflation. The current account deficit should remain broadly unchanged from 2006 at 15.9% of GDP. A sudden reversal of capital flows to Bulgaria, including as part of a more generalized deterioration of the presently benign international environment, could force a disorderly adjustment of the external account. The Fund emphasized the need for continued structural reforms to increase the flexibility of the economy and maintain its competitiveness was critical, as well as to improve the business climate.

Source: IMF

ARMENIA

GDP growth at 8.5% in 2007-08

Armenia's real GDP growth has continued to exceed expectations, and is estimated at 10.5% in 2006. Growth is being boosted by a robust expansion in construction, partly as a result of new investment in industrial subsectors such as mining and energy, and partly owing to a boom in residential and office development in the capital, Yerevan. Expanding output in the services sector is also pushing growth upwards. Further development of these sectors is likely to support the economy in the 2007-08 period, for which average annual real GDP growth is anticipated at around 8.5%.

The loosening of the fiscal stance will be the main source of inflationary pressure in the short term, and compensation payments for the savings lost during hyperinflation of the early post-independence years will also push the rate of price rises upwards. The rapid expansion of monetary aggregates will be a further factor, as will higher import prices for wheat and some mineral products, and the poor harvest in 2006 will put upward pressure on domestic food prices. The annual average rate of inflation will remain between 3.5% and 4% in 2007-08, little changed from its estimated 2006 rate.

Strong inflows of transfers and the appreciating dram will support private consumption, drawing in imports of consumer goods. Surpluses on current transfers and income will only partly offset the growing trade and services deficits. This will result in a widening of the current-account deficit in US dollar terms, although robust economic growth will ensure that the deficit declines from an estimated 5.8% of GDP in 2006 to around 4.5% by 2008.

Source: Economist Intelligence Unit

GHANA

Strong GDP growth expected in 2007 and 2008

Despite a shortage of rain, which led to power shortages in the third quarter of 2006 that have affected mining output and are likely to have increased production costs for the industrial sector, Ghana's real GDP growth is estimated to have been both broad-based and robust, at 5.9% for the year as a whole. The current rate of real GDP growth is expected to be maintained during the 2007 and 2008, with the economy set to grow by 5.8% in 2007 and 6% in 2008. The current account is expected to post a deficit of the equivalent of 4.8% of GDP for 2006.

Despite a fall in the inflation rate to single digits in the early part of 2006, several factors will make it difficult for the Bank of Ghana to push inflation down much further. These include continued high international oil prices; expected tariff increases for utilities, most notably within the power sector; an expected loosening of fiscal policy that may include public-sector pay increases; and the BoG's pursuit of lower interest rates. As growth is expected to remain strong in 2007, inflation is expected to remain at around 9.8% for the year, thus missing the government's target of 7-9%. In 2008, the inflation rate is forecast to climb to an average of 10.5% for the year.

Source: Economist Intelligence Unit



ECONOMY & TRADE

UAE

New laws to help SMEs

Economy Minister Shaikha Lubna al Qassimi, said the UAE's amended federal companies' law will exempt Small and Medium Enterprises (SMEs) from some requirements that will be applied to larger businesses. The requirements will be implemented to satisfy WTO membership rules. Chief among these is the removal of the 51% local ownership law for companies outside free trade zones. In parallel, the UAE's upcoming Competition Law, modeled on the anti-trust laws in the US and other developed countries, will legislate against companies engaging in monopolistic and anti-competitive practices thereby affording greater business opportunities to SMEs. As is the norm in other parts of the world, SMEs will be excluded from the pending law, as their size means they would be unlikely to be able to carry out monopolistic practices.

Source: *Shuaa, Khaleej Times*

Foreign investment law to be ready by early 2008

A foreign investment law, which is in its early draft stages, could be ready by the end of this year or early 2008, according to the Ministry of Economy. The law is designed to make it easier for foreign investors to invest in the country and will seek to regulate incoming foreign investment into the UAE, introduce best practice, and provide investors with a "one stop" legal reference point for foreign investors. Although the new law will not standardize all laws and regulations throughout the country "it will, at least, provide foreign investors with certainties about the main issues they would be looking at," said a ministry advisor. Drafting the law is proving complicated because each emirate has different standards when it comes to foreign investment, whether it concerns incentives or land ownership.

Source: *Khaleej Times*

EGYPT

Removing energy subsidies in four to five years

Finance Minister Youssef Boutros Ghali indicated that Egypt plans to remove energy subsidies, totaling roughly 8% of GDP or equivalent to the entire budget deficit, within the next four to five years. Ghali, speaking in London, said, "Energy subsidies cost 8% of gross domestic product today. This cannot continue. It has to come down, and the only way you can do that is to raise energy prices." Further reductions in energy subsidies, which began last year, would help the country's fiscal position improve substantially. However, an elimination of subsidies is likely to have a negative impact on profit margins of some energy-intensive sectors such as cement.

Source: *Merrill Lynch*

Suez Canal fees to be raised

Revenues from the Suez Canal as climbed to \$326.4 million in February, versus \$267 million in February last year. The Suez Canal Authority is planning to raise fees by about 2.8% on all passing ships in April. The Canal's share of global trade traffic was 8.2% in 2006, up from 7.4% in 2005.

Source: *Shuaa Capital*

IRAQ

Iraq to raise oil prices by 15%

An official at the Iraqi Oil Ministry said that the Iraqi government will raise the prices of oil derivatives in order to reduce Iraq's \$140 billion debt. The government plans to increase the prices according to the provisions set by the International Monetary Fund (IMF) and Paris Club, which state that the Iraqi oil prices should increase to the level of international prices during their last meeting with Iraqi officials in order to help cut Iraq's debt by 80%, he said. However, Iraq plans to increase the prices by 15% only, less than the rates requested by the IMF and Paris Club due to the inability of Iraqi people to afford bigger raise, he stated. The prices will increase to 31 cents per liter of benzene instead of 27 cents, and 27 cents per liter of gas instead of 23 cents among other fuel price increase, he explained.

Source: *Iraq Directory*

MENA

Arab states look to launch customs union by 2014

Arab League Secretary-General Amr Musa declared that member states are set to launch a customs union by 2014. The plan is to divide this program into two phases: the first will be between 2007 and 2009 to remove the existing obstacles facing the implementation of the free trade zone, and the second will be between 2009 and 2013 to enhance the investment flow, Musa said in the opening session for the Economic and Social Council. Musa added that the period between 2014 and 2020 will witness the implementation of the customs union and the free trade zone, which will facilitate the free flow of investment and goods among the member states. Saudi Arabian Finance minister Ibrahim Al Assaf has said many member states still haven't implemented their obligations under the free trade zone, which aims to remove all tariff barriers and customs between the Arab countries.

Source: *Zawya Dow Jones*

TURKEY

FDI inflows at \$6.1bn in January

FDI inflows totaled \$6.1bn in January, more than twice the Current Account (CA) deficit. FDI inflows have covered 75% of the deficit for the past 12 months, helping ease concerns about the country's large CA deficit. Strong foreign interest in Turkish assets isn't surprising, considering that: Turkey is the sixth largest economy in Europe (PPP GDP); Turkey is nearly as large as Germany and France combined; Turkey is likely to overtake Germany as Europe's most populous country within two decades; and its real GDP growth has averaged roughly 7.5% for the past five years. Net FDI inflows are forecast at \$14bn for 2007 and \$18bn for 2008, which should enable the country to avoid a hard landing.

The latest two transactions generated \$1.3bn in FDI. First, Dutch insurer Eureko bought 80% of Garanti Insurance for US\$486mn. The company also paid \$133m for 15% of Garanti life, with an option to buy another 35% of the company. Second, Sama-Dubai purchased a piece of land from Istanbul municipality for \$705m. The latter follows a state-owned land sale worth \$800m two weeks ago.

Source: *Merrill Lynch*



BANKING

IRAN

Iran reducing US dollar reserves, using 20-currency basket

Central Bank Governor Ebrahim Sheibany said reserves in U.S. dollar now make up less than 20% of the central bank's foreign currency reserves, and that the bank is shifting to holding its foreign reserves in a basket of 20 currencies, particularly in euros. Sheibany said reserves currently are the highest in the bank's history, totaling more than \$50 billion. He said the country was succeeding in diversifying its income currencies and foreign reserves, with less than half of its oil income now paid in U.S. dollars. According to the Central Bank governor, almost all of Iran's European clients and some of its Asian customers had accepted making payments in non-dollar currencies. The central bank started pushing for a shift away from dollar payments for oil after the U.S. imposed sanctions on Bank Saderat Iran.

Source: *Zawya Dow Jones*

EGYPT

Central Bank keeps rates unchanged

The Central Bank of Egypt (CBE) left short-term deposit and lending rates unchanged at 8.75% and 10.75%, respectively, for the second straight time. Despite the continued upward trend in inflation, the Monetary Policy Committee's decision wasn't a surprise because the bank believes that inflation is largely due to the supply shocks and administrative price adjustments. In the statement accompanying its rate decision, the bank has indicated that it would not hesitate to hike rates if necessary to contain inflation. Minutes from CBE meeting show the central bank isn't concerned about inflation and therefore might stand pat through much of 2007. The CBE statement said that the monetary policy committee "judges that inflation may be reaching its peak."

In parallel, Egypt's headline CPI rose 0.2% in February, bringing 12-month inflation to 12.6% in February. Inflation is expected to remain at roughly 13% in March, before resuming a downward trend in the second quarter of the year. Inflation is likely to trend downward to the top end of the Central Bank of Egypt's target range of 6%-8% by June.

Source: *Merrill Lynch, Reuters*

KUWAIT

NBK may buy Turkish bank

National Bank of Kuwait is in talks to acquire a 'medium-sized' bank in Turkey as part of its overseas expansion. George Nasra, Chief Executive of NBK's investment banking unit, NBK Capital, said Kuwait's biggest lender hoped to conclude talks with the Turkish bank in the second half of the year. Nasra would not identify the counterpart. The Turkish lender is a 'fully fledged bank' which NBK would use to offer investment banking and corporate finance services, Nasra said, declining to put a price on any transaction.

Source: *Reuters*

SAUDI ARABIA

Morgan Stanley and Capital Group form investment bank

U.S. investment bank Morgan Stanley signed an agreement with the Saudi firm Capital Group to form Morgan Stanley Saudi Arabia (MSSA). The deal constitutes Morgan Stanley's first direct investment in Saudi Arabia. MSSA will offer clients a broad range of services, including investment banking, capital markets, sales and trading, asset management, and private wealth management. John Mack, chairman and CEO of Morgan Stanley said his firm's partnership with the Capital Group was part of its strategy to go local and global at the same time. The newly formed investment banking franchise will operate initially in Riyadh, Jeddah and Al-Khobar, and Morgan Stanley will have a controlling interest of over 50%. The new firm has already secured preliminary approval from the Capital Market Authority and expects full approval within a few months. Earlier this year, Goldman Sacks entered directly the Saudi market through a joint venture with the National Commercial Bank to form an investment bank.

Source: *Arab News*

KAZAKHSTAN

Rapid growth of bank assets raises concern

Amid rampant growth of banking sector assets, risks associated with banks' asset quality and reliance on external borrowing have continued to raise concerns about the banking sector's stability since early 2006. Prudential measures and modest rate hikes in 2006 did little to slow credit expansion. Monetary aggregates and credit growth accelerated in late 2006, with the household credit component particularly strong, up by 136% yoy in January 2007 from 112% yoy in mid-2006, raising concerns about the insensitivity of credit demand to borrowing costs. The banking sector's assets doubled in nominal terms during 2006 to reach 91% of GDP. The likelihood of financial distress at some banks could rise as the credit cycle matures, particularly in the event of a negative shock to the global credit markets, a sustained fall in world oil prices or a change in the domestic real-estate sector dynamics. In parallel, depending on inflation developments, the central bank may raise the reserve requirement ratio and a modest 50bp-75bp hike in the refinance rate is expected this year from the current rate of 9%.

Source: *Credit Suisse*

Foreign reserves at \$37.4bn

The FX reserves of the National Bank of Kazakhstan (NBK), including assets of the National Fund, were largely unchanged in the first two weeks of March and stood at \$37.4bn on March 15. The NBK's FX reserves stood at \$21.54bn mid-March, down from \$21.90 bn at end-February, while total reserves, including the National Fund assets, were unchanged at \$37.4bn. The pace of reserves accumulation seems to be slowing; in January, total reserves were up by \$2.4bn and the accumulation pace slowed to \$1.8bn in February. The average monthly change in total reserves in the 12 months to February was \$1.7bn. Meanwhile, USD/KZT volatility has increased, but the central bank, which manages the exchange rate closely, appears to have kept the currency range bound between USD/KZT 123.5 and USD/KZT 125.5 in recent weeks.

Source: *Credit Suisse*



BANKING

OMAN

No change on single currency stance

Central Bank Governor Hamood Sangour al-Zadjali indicated Oman has no intention of resuming discussions on the creation of a single GCC currency. This counters suggestions from elsewhere in the GCC that there is a strong chance of persuading Oman to rejoin the project. There needs to be significant progress on the single currency in order for the 2010 deadline to be credible. A failure in this regard would likely increase speculation of currency revaluations across the region, particularly for the Kuwaiti dinar and UAE's Dirham. Oman's withdrawal from the process could have significant connotations not just for the timing of the single currency, but also for speculation on revaluations elsewhere in the region.

Source: *Standard Chartered*

CBO changes capital requirements

The Central Bank of Oman is to double the minimum capital requirement of new commercial banks to \$260m. Meanwhile, any branches of foreign banks wanting to start business in the country must now have \$52m worth of capital, when previously it was half this level. The Executive President of the CBO said the capital requirements are not applicable to existing banks.

Source: *Gulf News*

RUSSIA

Central Bank revokes licenses of two banks

Russia's United Credit Alliance Bank has admitted serious breaches of the country's countermoney laundering regulations following an inspection by regulators. Examiners from the Central Bank of Russia decided that the bank had put in place inappropriate systems and controls to monitor money laundering and terrorist financing activity and did not send timely reports on suspicious transactions to the financial intelligence unit. The bank also failed to identify clients correctly, as required by law, did not maintain adequate reserves, and failed to present accounts to the central bank, breaching the rule on maintaining cost accounting and over-the-counter operations.

The Gorodskoi Razchotnoi Kooperativnyi Bank also lost its operating license. GRKB, breached the regulations several times. Auditors identified numerous suspicious transactions, worth more than 60bn roubles (£1.1bn), according to the Central Bank.

Source: *Complinet*

UAE

Mashreqbank seeks acquisitions

Mashreqbank, the UAE's fifth-largest lender by market value is looking to buy banks in the Arab world. Chief executive officer Abdul Aziz Al Ghurair said Mashreqbank is presently hunting for acquisitions to expand operations in Egypt, Jordan, Syria, Libya, Lebanon and Sudan. Mashreqbank and Dubai Investment Group made an unsuccessful bid for Egypt's state-owned Bank of Alexandria, which was privatized last year. Mashreqbank also intends to pursue opportunities in South Asia, particularly India and Pakistan, to build on strong business ties between the UAE and that region. Recently Ghurair said the bank could spend up to \$1 billion to buy a lender in India or Pakistan.

Source: *TradeArabia News Service*

SYRIA

Global House to establish \$500m Islamic bank in Syria

The Bahrain-based Global House Group of (GHG) announced plans to open an Islamic bank in Syria with a capital of \$500 million. According to GHG's chairman Ahmed Al-Dawsary, the bank will be launched in joint-venture with "a number of large financial institutions from the GCC, and several businessmen from Syria and across the Gulf". The bank's initial paid-up capital of the bank will be \$250 million. GHG also plans to open an insurance company and a brokerage firm which will start operations as soon as the Syrian stock exchange is opened. Outside the financial sector, GHG plans to invest over \$500 million in real estate, tourism and industrial projects in Syria. According to Al-Dawsary, the Group will announce in the coming few months the launch of a tourism project worth \$100 million on the highway that leads to Damascus International Airport.

Source: *Syria Report*

Stock Exchange Commission licenses first brokers

The Syrian Commission on Financial Markets and Securities (SCFMS) granted the first two preliminary licenses in Syria to two financial intermediation firms. The first is a \$7 million venture by the state-owned Commercial Bank of Syria and the second is a \$11.4 million joint-venture between Syrian and Egyptian investors, Pioneers Financial Investment Syria (PFIS). CBS applied to open an IPO management firm only while PFIS will offer consultancy, brokerage, investment management and IPO management.

Source: *Syria Report*

AMF provides \$52m to support financial reform

The Arab Monetary Fund extended a soft loan of \$52 million to the Ministry of Finance to finance the reform of the Syrian financial sector. The AMF will pay out the loan in two stages in amounts of \$30 million and \$22 million respectively. Terms of the loan were not disclosed. The cumulative AMF soft loans to Syria total \$142 million.

Source: *Syria Report*



ENERGY/ COMMODITIES

Cost of oil rises past \$64 a barrel

Oil prices rose to a six-month high above \$64 a barrel Wednesday amid rising tensions between Iran and the West and as inventories declined in the U.S. Though denied by the U.S. military, it was rumored that Iran fired a missile at an American ship in the Persian Gulf. Iran, one of the largest oil producers, is located along the Strait of Hormuz, through which much of the world's oil is transported. Traders worry that oil supplies could be disrupted if unrest escalates there. Falling U.S. inventories of crude oil, gasoline and distillates added to supply concerns, keeping prices high. Rumors about a military confrontation spurred panic buying in after-hours trading Tuesday, sending oil prices above \$68 in a matter of minutes. Prices fell back within a couple hours, although they remained higher than Tuesday's settlement price of \$62.93 a barrel. Another possible calming factor was word from Iran's foreign minister that a detained female British sailor would be freed. Iranian state TV aired video of the female captive, along with the 14 other British sailors and marines seized last week, saying the British boats had "trespassed" in Iranian waters. Light, sweet crude for May delivery on the New York Mercantile Exchange rose \$1.15 to settle at \$64.08 a barrel. It was the highest close since Sept. 11, 2006, but still a far cry from last year's record highs, which topped \$78 a barrel in July. Brent crude for May delivery rose \$1.18 to finish at \$65.78 a barrel on the ICE Futures exchange in London.

Source: Associated Press

Iraq, UN set plans to increase Iraq's oil production

The Iraqi Oil Ministry announced that the UN has set a plan to raise Iraq's oil crude production to reach 3.5 million barrels per day (bpd) by 2011. The plan aims to provide Iraq with an extra \$50 million in income from its oil exports, three times more than the current rates as said by the plan, he stated. He added that post-war Iraq now produces two million barrels per day and exports 1.5 million bpd of crude oil. Moreover, the UN plan also aims to raise Iraq's production by 700,000 barrels per day of refining products by 2011, he concluded.

Source: Iraq Directory

GCC eyes energy trading system

The GCC states are preparing to set up an established energy trading system. The system will follow the completion of the regional electric power grid by the first quarter of 2009. The ongoing second phase of the grid project, interconnecting Kuwait, Saudi Arabia, Bahrain, and Qatar is on schedule, while the construction of the control center and other sub-stations has already commenced. The board of directors of the GCC has realized that the asset of the GCC grid system can be utilized in energy trading, with the continuous increase in energy demand estimated at 8 to 9% annually in the coming years.

Source: Gulf News

Oil Market		Closing of March 21	Previous Price	Daily Δ
OPEC Basket	▲	60.37	60.00	0.7
Brent	▲	66.59	64.70	2.8
Dubai	▲	62.00	60.41	2.6
WTI	▲	63.91	62.48	2.2

Source: SHUACapital

Base metals: Prices on the smaller metals markets climb unrelentingly

The trend in base metal prices continues to paint a positive picture. However, the performances turned in by base metal prices on the smaller markets continued to outstrip the growth in aluminium and copper prices. The precipitous surge in prices is attributable primarily to the trend inventories. Nickel and zinc stocks have plunged by noticeably more than 50% since the outset of 2006. The noticeable fallback in inventory levels can be traced to robust demand, on the one hand, and to numerous production shortfalls, on the other. Volatility in the base metal markets has intensified too, amid the climbing prices in recent months. While further spurts in prices are certainly possible and probable in the coming weeks and months - especially for lead, nickel and tin - due to the tight inventory levels, we should point out the risks. The trends in prices for these metals will likely become increasingly unstable in the months ahead. With volatility currently being so high, even slight changes in fundamental data could spark pronounced swings in prices.

Source: Credit Suisse

Precious metals: Stronger correlation between individual precious metals markets

The past tendency of precious metals to increasingly show similar trends in prices has continued to prevail in 2007. Correlations between the returns on various precious metals have been steadily increasing since mid-2005. However, while gold and silver prices have historically shown a close correlation, the increase in the correlation between gold and the metals in the platinum group is a relatively new phenomenon. Platinum and palladium are mainly used in industrial applications. Consequently, the correlation between these two metals and gold prices had been rather low in previous years, but has recorded a noticeable increase only since mid-2005. In our view, the increase in the correlation is attributable to the growing interest on the part of investors in the precious metal sector, in general. As a result of the stronger correlation, the other precious metals should also benefit from the positive gold outlook, although silver and palladium in particular are more volatile than gold.

Source: Credit Suisse

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	194.7	184.3	178.1	3.3	25.1
LME metals price index	3899.6	3702.5	3612.9	5.9	42.6
Oil prices USD	60.7	59.0	64.9	2.3	-0.8
Oil prices SDRs	40.1	39.5	43.7	1.2	-5.4
Gold \$/troy oz	664.6	629.0	625.9	-1.9	20.8
Silver cents/troy oz	1333.0	1285.4	1240.2	-6.5	26.6
Platinum \$/troy oz	1236.0	1154.3	1175.5	0.9	18.9
Copper \$/MT	6807.5	6531.7	6936.7	15.9	32.3
Nickel \$/MT	47625.0	36563.3	30144.1	11.7	221.5
Aluminium \$/MT	2773.0	2752.5	2657.3	-0.7	13.4
Zinc \$/MT	3160.8	3843.9	3564.3	-8.8	26.9
Steel - HR coil dry \$/MT	600.0	600.0	552.8	0.0	29.0

Source: Credit Suisse

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								
Africa													
Algeria	-	-	-	-	BBB	10.3	17.4	12.0	9.1	8.4	19.4	18.0	0.8
	-	-	-	-	Positive								
Angola	-	-	-	-	CCC	2.3	43.7	49.5	22.3	4.6	216.9	21.1	7.3
	-	-	-	-	Stable								
Egypt	BB+	Baa2	BB+	BB+	B	-6.9	99.0	29.7	68.0	6.6	150.3	1.6	5.6
	Stable	-	-	Stable	Stable								
Libya	-	-	-	-	BB	26.6	6.0	9.7	-130.9	2.7	7.8	31.4	2.8
	-	-	-	-	Stable								
Morocco	BB+	Baa2	-	BB+	BB	-4.1	67.1	29.8	68.1	8.0	91.2	1.7	2.0
	Stable	-	-	Stable	Stable								
Nigeria	BB-	-	BB-	-	BB	-1.0	10.7	5.2	9.7	1.9	14.18	9.7	1.6
	Stable	-	-	-	Stable								
Tunisia	BBB	A3	BBB	BBB	BB	-3.3	59.6	57.7	77.1	15.3	275.3	-2.6	6.6
	Stable	-	-	Stable	Stable								
Sudan	-	-	-	-	CC	-3.8	58.7	71.2	355.0	4.0	-	-13.8	5.8
	-	-	-	-	Stable								
Middle East													
Bahrain	A	A1	A-	BBB+	A	10.1	28.8	58.7	23.9	13.4	343.5	13.9	0.1
	Stable	-	-	Stable	Stable								
Iran	-	-	B+	-	BB	7.3	26.2	9.9	31.0	4.5	25.4	5.7	0.0
	-	-	-	-	Negative								
Iraq	-	-	-	-	D								
	-	-	-	-	Stable								
Jordan	BB	Baa3	-	BB	B	-4.8	73.4	91.1	18.5	13.7	266.6	-21.5	10.7
	Stable	-	-	Stable	Stable								
Kuwait	A+	Aa2	AA-	A+	A	38.8	10.8	13.7	8.9	2.7	129.3	44.5	-4.5
	Stable	-	-	Stable	Stable								
Oman	A-	A1	-	BBB+	A	16.0	6.5	14.1	18.0	5.0	101.6	19.4	1.9
	Stable	-	-	Stable	Stable								
Lebanon	B-	B2	B-	B-	CCC	-12.5	178.1	105.2	179.5	30.4	209.2	-15.6	4.5
	Negative	-	-	Negative	Stable								
Qatar	A+	Aa2	-	A+	A	17.6	19.1	46.5	55.3	8.4	440.6	35.8	4.3
	Stable	-	-	Stable	Stable								
Saudi Arabia	A+	Aa3	A+	A+	A	18.0	10.8	8.4	21.1	3.7	130.0	30.8	0.3
	Stable	-	-	Stable	Stable								
Syria	-	-	-	-	CCC	-3.6	41.9	30.8	68.0	5.6	146.9	2.0	1.6
	-	-	-	-	Stable								
UAE	-	Aa2	-	A+	A	30.4	10.7	38.2	10.0	1.8	248.7	25.8	5.1
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	B	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
	-	-	-	Stable	Stable								
Central & Eastern Europe													
Ukraine	BB-	Ba3	BB-	-	BB	-2.5	19.6	42.8	58.7	2.8	188.4	-0.9	5.5
	Stable	-	-	-	Stable								
Russia	BBB+	A2	BBB+	-	BBB	7.2	10.9	30.4	81.3	3.6	96.9	14.4	0.8
	Stable	-	-	-	Stable								
Turkey	BB-	Ba1	BB-	BB-	B	-1.6	64.9	49.2	117.5	25.2	343.5	-8.2	4.5
	Stable	-	-	Stable	Stable								
Latin America													
Brazil	BB+	Ba1	BB	-	BB	-3.2	72.7	17.2	56.3	29.3	205.1	1.2	1.6
	Stable	-	-	-	Stable								

Sources: Moody's; EIU



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	5.25	21-Mar-07	No change	09-May-07
Eurozone	Refi Rate	3.75	08-Mar-07	No change	12-Apr-07
UK	Base Rate	5.25	08-Mar-07	No change	05-Apr-07
Japan	O/N Call Rate	0.50	20-Mar-07	No change	27-Apr-07
Australia	Cash Rate	6.25	06-Mar-07	No change	03-Apr-07
New Zealand	Cash Rate	7.50	07-Mar-07	Raise 25bps	25-Apr-07
Switzerland	3 month Libor target	2.25	15-Mar-07	Raise 25bps	14-Jun-07
Emerging Markets					
China	One-year lending rate	6.39	17-Mar-07	Raise 27bps	N/A
Hong Kong	Base Rate	6.75	08-Aug-06	No change	N/A
Taiwan	Discount Rate	2.75	28-Dec-06	Raise 12.5bps	29-Mar-07
South Korea	O/N Call Rate	4.50	08-Mar-07	No change	12-Apr-07
Malaysia	O/N Policy Rate	3.50	26-Feb-07	No change	27-Apr-07
Thailand	1D Repo	4.50	28-Feb-07	Cut 25bps	11-Apr-07
India	Reverse repo rate	6.00	31-Jan-07	No change	24-Apr-07
UAE	3M EBOR	5.50	N/A	N/A	N/A
Saudi Arabia	Repo Rate	5.20	29-Jun-06	Raise 20bps	N/A
Egypt	overnight lending	10.75	23-Mar-07	No change	N/A
Turkey	Base Rate	17.50	15-Mar-07	No change	14-Apr-07
South Africa	Repo rate	9.00	15-Feb-07	No change	12-Apr-07
Kenya	Central Bank Rate	10.00	Feb-07	No change	Apr-07
Nigeria	Monetary Policy Rate	10.00	22-Feb-07	New Policy rate	Apr-07
Ghana	Prime Rate	12.50	Feb-07	No change	May-07
Mexico	Target Rate	7.00	23-Mar-07	No change	27-Apr-07
Brazil	Selic Rate	13.00	07-Mar-07	Cut 25bps	08-Apr-07

Source: Standard Chartered - Countries in bold updated on March 29, 2007



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