



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global executives support government intervention and tighter regulations

A survey of 418 executives and business leaders from around the world showed that 60% of executives believe that the current crisis has fundamentally changed capitalism and lean towards more government intervention. It also found that 68% of respondents support the degree and scope of government intervention in the global banking sector so far, and 48% support similar intervention in other troubled sectors. Executives considered that the top 3 strategies for boosting liquidity of businesses and consumers are the reduction of income tax, the reduction of sales or indirect taxes, and the rise in discretionary government spending. The survey also indicated that 73% of respondents are in favor of further regulation of the banking sector through strict limits on the use of financial instruments, stricter accounting rules, and more frequent government reviews of bank's risk management policies and practices. It noted that 53% of respondents believe that the long term impact of the governments' response to the credit crisis will be positive on their businesses. Further, 57% believe that the crisis will decrease their companies' risk appetite in the next 2 years, a figure that drops to 17% when asked about the next 2 to 5 years.

The survey also noted that the crisis already changed the business model of 25% of the respondents' companies and 24% believe it will do so in the coming future. Also, 26% of firms have already reduced their reliance on bank financing and 24% intend to follow this strategy in the near future. The survey added that 59% of respondents believe that when recovery resumes, growth will be much harder to achieve. Finally, 61% of respondents believe that their companies will pay more attention to cash management, 53% will improve risk management capabilities, 41% will improve their forecasting and planning capabilities, and 30% will reduce their debt-to-assets ratios. *Source: Economist Intelligence Unit*

Global downgrade potential declines slightly

Standard & Poor's said the number of issuers poised for downgrades reached 1,004 issuers at the end of May, which is 24 issuers less than April's count due to materialized downgrades. The agency said the reduction comes after record highs were reached in nearly every month since January 2008. It added that the May figures are 266 issuers more than levels seen a year ago and 127 more than the trailing 12-month average of potential downgrades. S&P defines potential downgrades as entities that have either a 'negative' outlook or ratings on CreditWatch with negative implications across rating categories 'AAA' to 'B-'. It said the global ratio of potential downgrades to potential upgrades increased to 7 to 1 at the end of first-quarter 2009 from 2 to 1 in the first quarter of 2008, with banks display the highest downgrade propensity.

Source: Standard & Poor's

EMERGING MARKETS

IMF to strengthen actions to help face global economic crisis

The International Monetary Fund declared it will build upon ongoing efforts to respond rapidly and boldly to the needs of its members during the current global crisis and will continue to mobilize commitments for increased resources, complete the overhaul of the Fund's lending framework, further strengthen the quality of its surveillance, and consider reforms in the key area of the Fund's own governance. It added that it will strengthen the global financial safety net by taking steps to boost its resources further, strengthen its concessional lending capacity, and adapt its lending tools for low-income countries. The Fund will also monitor and analyze the policy responses by member countries to cope with the impact of the crisis, consider the key issues that countries will have to deal with upon exiting from the crisis, and ensure that Fund-supported programs enable countries to restore stability as effectively as possible. *Source: International Monetary Fund*

MENA

Capital access in region still better than emerging markets

The Milken Institute's annual survey on capital access around the world shows that capital access in the MENA region was among the highest in developing countries with a score of 4.88 points for 2008, better than Emerging Europe with 4.80 points, Asia with 4.50 points, the Americas & Caribbean region with 4.18 points and Africa with 3.03 points. Also, the average score of 14 countries in the MENA region on the Capital Access Index rose from 4.68 points in 2007 to 4.88 points in 2008, while the score of Arab countries reached 4.83 points, up from 4.56 points in 2007. The rankings of 10 countries improved and 4 declined, while the scores of 11 countries improved and 3 regressed. Egypt and Syria posted the highest increase in the rankings, rising by 11 spots each, while Mauritania posted the steepest decline in the region with a drop of 12 spots. Also, the UAE posted a 13% increase in its score, highest in the region and Mauritania posted the steepest decline in 2008. The index measures how well countries support economic activity by providing businesses with access to capital, both domestic and foreign. It serves to help nations understand where financing barriers exist that could dampen their global competitiveness. *Source: Milken Institute, Byblos Research*

POLITICAL RISK OVERVIEW - MAY 2009

ALGERIA

Al-Qaeda in the Islamic Maghreb (AQIM) leaders Abdelmalek Droukdel and Mokhtar Belmokhtar were given 20-year prison sentences in absentia. In operations against the AQIM in Tizi Ouzou region, 2 soldiers and 3 militants were killed on May 7th. Nine soldiers were killed in a militant attack in Biskra on May 25th.

ARMENIA

The campaigning for the mayoral elections, the first in 15 years, started on May 2nd. Armenia pulled out of NATO military exercises on May 6 due to NATO's support for Azerbaijan. Armenia started importing natural gas from Iran through a recently constructed pipeline. Armenian-Turkish relations weakened after the Turkish Prime Minister declared that their mutual border will remain closed until Armenia withdraws from the Nagorno Karabakh region.

EGYPT

Around 30 members of the Muslim Brotherhood (MB) were arrested on May 14-15 on several charges including the establishment of cells abroad. Seven people suspected of ties to an al Qaeda-linked cell were arrested on May 23 for being in connection with the bombing of a Cairo bazaar in February. The dissident Ayman Nour was burnt by an unknown attacker on May 24th. The U.S. President announced on May 8 his intention to deliver a speech in Cairo in June.

IRAN

The official campaign for the presidential elections scheduled for June 21 began after the Guardian Council approved 4 main candidates on May 20th. Current President Ahmadi-Nejad will face the reformists Mir-Hossein Musavi and Mehdi Karroubi, and the conservative Mohsen Rezaei. President Ahmadi-Nejad said on May 25 he was willing to debate global security issues with U.S. President Obama at the new UN session in September, but will not discuss the nuclear program outside the framework of the IAEA. More than 25 people were killed by a suicide bombing on May 28 in a Shiite mosque. The attack was claimed by the Baluchi Sunni Islamist Jundullah group. The authorities hanged 3 people on May 30 for being involved in the attack. Gunmen opened fire on Ahmadi-Nejad electoral campaign office in Zahedan on May 29th. Iranian airstrikes and shooting hit areas in Iraqi Kurdistan on May 2 and 4th. The leaders of Afghanistan, Pakistan and Iran held a trilateral security summit in Tehran on May 24th.

IRAQ

Two bombings killed 17 people in Baghdad on May 6th. At least 37 people were killed in Baghdad's Shula area by a car bomb on May 20th. Bombings in Baghdad and Kirkuk killed over 20 people on May 21, including U.S. troops. An agreement concluded on May 10 between the Kurdistan Regional Government and the Oil Ministry allowed the Kurdish region to export oil via Turkey starting June. The revenues will go to a federally-managed fund. Security forces reported killing 30 Islamist militants in Diyala on May 5th. Sunni Awakening militia leaders were arrested on charges of attacking civilians on May 18th. Iraq's anti-corruption commission said on May 27 it was preparing almost 1,000 arrest warrants for allegedly corrupt government officials. The Supreme Court fixed January 30, 2010 as the date for the next legislative elections. In a public

COUNTRY RISK WEEKLY BULLETIN

appearance, Shiite Mehdi Army leader Muqtada al-Sadr met Turkish leaders in Ankara on May 1st.

SUDAN

Tensions with Chad increased following Chadian invasions in pursuit of rebels on Sudanese territory. President of South Sudan Salva Kiir rejected the legitimacy of the April-May national census that gave a scientific calculation on allocations of power and wealth in Sudan. The government invited new international NGOs to begin operations in Sudan and said that it allows existing operations to expand. The government of South Sudan announced attacks on armed cattle raiding, as further 49 people were killed in raids. More than 160 members of Arab tribes and 75 police were killed in severe late month clashes near the Darfur border. The commander of the URF rebels Abu Garda surrendered to The Hague to face ICC war crimes charges over attacks on AMIS peacekeepers in 2007.

SYRIA

The U.S. renewed sanctions imposed on Syria amid continuing concerns about the country's support for the Palestinian group Hamas and for Lebanon's Hezbollah. During their second visit to Damascus, U.S. Assistant Secretary of State Jeffrey Feltman and National Security Council official Daniel Shapiro raised concerns with Damascus about Islamic fighters transiting Syria to enter Iraq, following a report that increasing numbers of foreign fighters are making the crossing. Israeli Prime Minister Netanyahu said on May 8 that Israel will never withdraw from the Golan Heights. Israel stated on May 20 that it was ready for talks with Syria without preconditions, but said that President Bashar Assad was only interested in conducting a peace process with Israel, instead of actually reaching a peace accord. Kurd dissident Mishaal al-Tammo was sentenced to 3-1/2 years in prison on May 12th. Dissident writer Michel Kilo was freed on May 19 after 3 years in prison.

TURKEY

Turkish Prime Minister announced a new cabinet on May 1 after last March elections and amid the ongoing global financial crisis. President Gul discussed prospects of peace in the Middle East with Syrian President Assad. At least 20,000 people gathered in Ankara on May 17 protesting the Prime Minister's violations of the country's secular principles. A Turkish court ruled that President Abdullah Gul should stand before trial for a fraud case in 1990. Four assailants opened fire on May 4 on a wedding reception in the village of Sultankoy, killing 44 people and wounding 17 more. The attack was attributed to personal reasons. Conflicts between Turkish state-backed militia and PKK militants continued as five people were killed by a roadside bomb in the Sirnak province on May 9th. Around 3 PKK members and 2 village guards were killed in a clash in the Siirt province during a clash on May 15th. Turkish air force bombed PKK positions in North Iraq on May 28th. Over 30 suspects linked to the PKK were arrested on May 28th.

UKRAINE

The Constitutional Court has ruled as unconstitutional the parliamentary resolution to organize the next presidential elections on October 25 and rejected the proposed date. The elections are set for January 2010. Russia refused Ukraine's request on May 20 to postpone a payment of \$5bn for gas storage.

Source: International Crisis Group

June 4, 2009

OUTLOOK

GCC

No growth in 2009, UAE and Saudi Arabia best positioned for upturn

Merrill Lynch maintained its economic growth forecast for the Gulf Cooperation Council at zero percent in 2009 due to the increasing impact of the global financial crisis on the region. It said OPEC's decision last December to reduce oil output by 4.2 million barrels per day (bbl/d) from last September's level to support falling oil prices is likely to result in an 8.2% contraction in the oil sectors of these countries. It estimated that every 100,000 bbl/d cut in oil production reduces GDP growth by about 0.3% for Saudi Arabia, 1.5% for Kuwait and 1% for the UAE. It also forecast non-oil GDP in the region to grow by 2.9% in 2009, down from 6.6% in 2008.

However, it revised its forecast for the GCC budget deficit to 2.9% of GDP in 2009, down from its February forecast of 4.9% of GDP due to the recent increase in global oil prices. It also changed its budget balance forecast for 2010 from a deficit of 3.9% of GDP to a surplus of 1.7% of GDP. Merrill Lynch maintained its expectations for the region's current account surplus at 1.4% of GDP this year, but revised it upwards to 5.2% of GDP for 2010 from an earlier forecast of 4% of GDP. It noted that GCC economies are still predominantly dependent on oil, as hydrocarbons account for 32% of GDP, 74% of total exports and 84% of budget revenues. It said the recent rise in oil prices led it to revise upwards its average price oil assumption from \$45 per barrel (bbl) to \$52/bbl in 2009 and from \$50/bbl to \$62/bbl in 2010. Merrill Lynch indicated that Oman, Bahrain and the UAE will be the worst affected in terms of budget balance, with the first two constrained by their lack of oil wealth, while the UAE will likely require greater spending to stabilize its financial system and use fiscal stimulus to support the economy following the collapse of the real estate sector.

Merrill Lynch considered that the UAE is the best positioned country in the region to benefit from a pick up global economic activity, higher oil prices, weaker US dollar and easing credit crunch, followed by Saudi Arabia. It added that the rest of the region should also benefit from improving global prospects, but to lesser degrees, as Qatar has limited growth opportunities beyond the gas sector, Oman and Bahrain depend more on services, and Kuwait has shaken investors' confidence with problems at investment firms.

Source: Merrill Lynch

IRAN

Ineffective economic policies, slow structural reforms to restrain growth

The Institute of International Finance projected Iran's economic growth at 3.1% in fiscal year 2008/09 and forecast growth at 1.9% in 2009/10 and at 2.1% in 2010/11 due to the contraction in the oil sector and weaker non-oil sector growth. It forecast agricultural output to increase and manufacturing to modestly expand. It also expected a continued growth in demand for banking, trade and communication services but at lower levels than in previous years, reflecting lower government spending and decreasing domestic investments. It also forecast the overall fiscal deficit to increase to 4.4% of GDP in 2009/10 from

0.7% of GDP in 2008/09 and then to ease to 2.9% in 2010/11. It expected inflation to remain high due to ineffective monetary policy management, reaching 17.6% in 2009/10 compared to 25.4% in 2008/09. The IIF considered that oil price movements to be the main determinant of the current account balance over the next two years, and forecast it to shift from a surplus of 4.3% of GDP in 2008/09 to deficits of 2.5% of GDP in 2009/10, and 1.6% of GDP in 2010/11.

The IIF considered that economic performance over the short term will face several challenges. It said that risks to the outlook are mainly related to the unsuccessful economic policy that failed to deliver sustained high levels of economic growth, lower inflation and a strong fiscal position. It added that a lack of progress with structural reforms reinforces the state's inefficient role in the economy at the expense of private sector development. Further, the lax fiscal stance and loose monetary policy of the past 4 years have aggravated market distortions without creating efficiency gains or reducing unemployment. Also, high government spending has nearly depleted the Oil Stabilization Fund and is maintaining expectations of continued high spending. Finally it said that the continuing impact of sanctions has constrained economic growth by reducing trade, investment and credit flows, adding that they will induce substantial capital outflows and discourage inflows.

Source: Institute of International Finance

EMERGING MARKETS

Recovery in Emerging Europe to take longer time

Standard & Poor's indicated that economic recovery in Emerging Europe is likely to take longer than in other emerging markets due to the region's high private sector debt, as well as excess stock of investment in non-tradeable sectors such as construction, finance and retail. It added that external and banking system pressures have also contributed to current fiscal strains and to rising public sector debt. As a result, the agency expected growth prospects over the medium term to remain considerably below the averages seen during the 2005-07 boom, with only three out of 20 economies seeing a cumulative positive GDP growth over the next two years. S&P considered that the major contributor to higher savings rates will be a substantial decline in imports and a rise in net exports. It noted that as the private sector adopts austere measures to rebuild its balance sheets, the public sector is likely to face its own challenging adjustments with a sharp decline in tax revenues. It expected that the region's governments will continue to struggle to keep up with the decline of past fiscal windfalls through 2011. It added that the region's governments do not have easy access to deep local currency capital markets as other West European economies do. As a result, they are not well positioned to offset the impact of private savings by raising public spending.

S&P noted that the sharp slowdown in external financing flows is a major strain on Emerging Europe's economies, as they previously funded the large credit-driven current account deficits of the region. It considered that risks to funding availability have widened, as parent banks of subsidiaries in Emerging Europe continue to grapple with difficult circumstances in capital markets, as well as the asset side of their balance sheets.

Source: Standard & Poor's

ECONOMY & TRADE

MENA

Steps outlined to develop insolvency and creditor-rights systems in region

The Hawkamah Institute for Corporate Governance issued a declaration that outlined a roadmap for the development of insolvency and creditor-rights systems in the Middle East and North Africa region. It called for the modernization of insolvency and creditor rights regimes in the region according to international best practices and standards; as well as to address common problems such as liquidation and reorganization procedures, informal work-out and court-led procedures, priority of claims; and special procedures for financial institution insolvencies and the role of regulators. Also, it encouraged policy makers, legislators and regulators to work towards building and addressing the legal, regulatory and institutional frameworks necessary for sound insolvency regimes in the region. Further, it called for strengthening the institutional framework of regulators and the judiciary, and for enhancing the capacities necessary for effective and efficient implementation of insolvency laws. It also called for establishing a regional forum on insolvency and creditor rights to engage, educate and inform more stakeholders in the reform process, and to serve as a platform for sharing international and regional best practices.

Source: *Hawkamah*

Equity markets rise by 15% year-to-May

Arab stock markets rose by 14.8% in the first 5 months of 2009 compared to a drop of 7% in the same period last year and to a decline of 54.5% during 2008. The Cairo stock exchange increased by 29%, posting the best performance in the first 5 months of 2009. It was followed by the Saudi stock market with a 23.5% rise, the Tunis bourse with an 18% increase, the Palestine market with a 16% rise, the Dubai equity market with a 14.8% improvement, the Abu Dhabi market with 12% rise, the Kuwait bourse with a 4.7% increase, the Amman exchange with a 3.9% rise, the Doha stock market with a 1.4% rise, and the Muscat exchange with a 1.1% improvement. In parallel, the Bahrain stock market posted the worst performance in the region with a 10% decrease during the first 5 months of the year, while the Casablanca and Beirut exchanges ended the covered period unchanged. In comparison, emerging markets equities improved by about 33% in the first 5 months of 2009.

Source: *Local stock markets, Byblos Research*

SAUDI ARABIA

Government-backed firm to buy mortgages from financial institutions

The Finance Ministry indicated that the government plans to set up a company to buy mortgages from financial institutions and help develop national sukuk and debt markets. The company would be formed in conjunction with the kingdom's first mortgage law, which should come into effect before the end of the year. The firm would play a similar role to the American Federal National Mortgage Association, or Fannie Mae, which is a primary purchaser of eligible home loans from issuers. It securitizes the loans into mortgage-backed securities and sells them to investors, and was created to establish a secondary market for government-backed mortgages. The ministry added that

the Saudi mortgage law would also be a key trigger for the development of the local bond market, as developers issue bonds or sukuk to raise funds for home finance. The level of home ownership in Saudi Arabia is estimated by the government at 62% of the population, but most home financing has up to now been done through traditional family financing means and government loans. The ministry said with a mortgage law in place, borrowers would be able to secure loans at lower costs because of the legal backing.

Source: *Reuters*

BAHRAIN

Sovereign ratings affirmed

Fitch Ratings affirmed Bahrain's Long-term foreign currency Issuer Default Rating (IDR) at 'A' and long-term local currency IDR at 'A+', with 'stable' outlooks. It also affirmed Bahrain's Country Ceiling at 'A+' and short-term foreign currency IDR at 'F1'. The agency said Bahrain can finance higher fiscal deficits resulting from the downturn in world oil prices without significant strain on its debt ratios, while the wholesale and domestic banks have for the most part been resilient to financial shocks. It forecast the fiscal deficit at 7% of GDP in 2009, wider than the 'A' median, and pushing up the debt burden to 26% of GDP in 2009. However, the agency believes that the government will be able to finance wider fiscal deficits in 2009-10. It indicated that the general government debt burden will remain below the 'A' median in 2009-10, but cautioned that if oil prices stay relatively low beyond 2010, a further fiscal adjustment will likely be necessary to stabilize the debt. Fitch noted that the wholesale banking sector appears to be weathering the global banking crisis but medium-term concerns persist, as domestic lenders' exposure to falling real estate markets and a slowdown in lending following a boom will cause their balance sheets to weaken.

Source: *Fitch Ratings*

UAE

Tourism to account for 17.4% of GDP by 2019

The World Travel & Tourism Council expected the tourism sector to account for 20.2% of the UAE's GDP in 2009 and to decline to 17.4% of GDP in 2019. It forecast the broad tourism and travel economy to generate demand of \$79.3bn in 2009, growing to \$136.2bn in 2019. It projected the sector's real growth rate at -0.8% in 2009 and to average 2.8% during the 2010-19 period. The WTTC said personal travel and tourism would generate \$14bn this year, growing by 3.8% annually in real terms to reach \$25.6bn in 2019, while business travel should generate \$2.4bn in 2009 and grow by a yearly average of 4.9% in real terms to \$4.9bn in 2019. It estimated capital investment in the travel and tourism economy at \$24.8bn in 2009 and at \$30.5bn within 10 years. Further, it forecast the export of tourism services at \$36.5bn this year and at \$71bn in 2019, posting a real annual growth of 4.4% over the 2010-19 period. It expected travel and tourism exports to generate 15.6% of the UAE's total export revenues. It said the travel and tourism economy is providing jobs to 584,000 people, or 15.7% of total employment currently, with the figure increasing to 635,000 jobs or 13.4% of total employment by 2019.

Source: *World Travel & Tourism Council*

BANKING

GCC

Banks facing a wave of mergers and acquisitions

Consulting firm AT Kearney expected a wave of mergers and acquisitions in the GCC banking industry due to changing conditions in the global and regional financial markets. It said that the banking market in the GCC is largely fragmented, despite unprecedented growth of the sector in recent years. It added that several domestic markets already have a consolidated banking sector, but no single bank stands out on a regional level, as the top three banks account for just 14% of market share in the region. It noted that GCC banks are still small compared to the big international banks and eventually will need to grow externally to compete. It added that the declining market capitalization of regional banks in the wake of the financial crisis has created favorable conditions for acquisitions and the large proportion of public ownership in some of the banks may also facilitate takeovers.

Source: AT Kearney

QATAR

Government to buy banks' real estate portfolios

The government announced plans to buy the real estate portfolios and investments that Qatari banks want to sell for a total value of up to 15bn riyals, or \$4.1bn. It said the program aims to support the real estate sector and allow strong economic growth. The Central Bank of Qatar (CBQ) will implement the deal and pay for the property portfolios using cash and 10-year government bonds carrying a fixed coupon of 6.5% annually. The initiative is in response to a decline in residential property prices, which fell by about 30% in the last six months, with an increasing number of residential projects likely to be cancelled or delayed. CBQ figures show that 13% of total credit facilities as at June 2008, or about \$7.4bn, are allocated to real estate. However, this only accounts for the direct exposure to the sector. "Investments" also refers to all investments, including conventional and Islamic loans made to real estate and contracting, which constitute a significant portion of the loan book of all the banks. The buyout will occur in three tranches, with the first and probably the largest to take place before the end of June. The initiative, which follows the decision to buy off some of the equity investments from banks last October, will make a substantial difference to the banks' loan book risk levels.

Source: Gulf Times, EFG Hermes, Standard Chartered

SUDAN

Central Bank imposes new restrictions on hard currency transfers

The Central Bank of Sudan (CBS) announced it is imposing a new ceiling on the amount of hard currency available to individuals traveling outside the country. The CBS said that foreign exchange bureaus are only allowed to sell the equivalent of €1,500 to travelers compared to €3,000 previously. Also, only one third of the amount would be allowed to be carried in cash while the balance will be wired to the buyer in the destination country. Further, the traveler would have to submit supporting documents as proof to his destination and address. The exchange bureaus were also barred from dealing with diplomatic missions, regional or international organizations working in

Sudan. The CBS attributed the new rule to its depleting foreign currency reserves, adding that the decision is in line with the policy of the Bank to reduce demand for foreign currencies. Last March, the CBS imposed restrictions on currency transfers to limit the decline of foreign reserves. The measures prohibited banks from paying beneficiaries of incoming foreign transfers in foreign currency. It also set 10 categories of people allowed to buy foreign currency, including travelers for leisure or medication, students, participants in conferences, foreign workers and pilgrims. The CBS had foreign currency reserves of \$1.4bn at the end of December, down from \$2.3bn at the end of last August, and equivalent to about 1.3 months of import cover.

Source: Reuters

UAE

New lending program to support SMEs

The government announced a plan to set up a loan program to encourage and support small and medium sized enterprises (SMEs) in the country. The Ministry of Economy, with the support of the UAE Central Bank, will launch the program with several hundred bank branches across the emirates to provide loans to entrepreneurs looking to launch SMEs. The Central Bank said conditions for loans for those applying to start SMEs should be clearly defined, accessible and applicable. He added that the Central Bank's role will be to support the Economy Ministry. The program will require an independent legal framework to administer as the government will thoroughly study financial plans for start-up SMEs.

Source: Dow Jones Newswires

ARMENIA

Loans reach \$1.7bn, deposits at \$1.4bn at end-April

Figures released by the Central Bank of Armenia show that commercial banks' total loans reached \$1.7bn at the end of April 2009. Loans in local currency decreased by 16.8% from year-end 2008, accounting for 51.3% of total loans, while loans in foreign currency grew by 26.1% over the same period and accounted for 48.7% of overall lending. Long-term loans reached \$1.3bn, accounting for 79% of total loans while short-term loans accounted for the rest. The sector's total deposits grew by 13% in the first 4 months of the year to \$1.4bn. Deposits in local currency fell by 20.7% year-to-April and constituted 28.1% of total deposits, while deposits in foreign currency grew by 20.7% and accounted for the rest. Around 19% of total deposits were non-resident. Of the resident deposits, demand deposits accounted for 37.9% while fixed deposits accounted for 62.1%.

Source: Central Bank of Armenia

ENERGY / COMMODITIES

Oil steadies at \$66 a barrel amid recovery hopes

Oil steadied at \$66 a barrel on May 4 after a 3.5% decline the previous day, amid expectations that an economic recovery would eventually decrease oil inventories, despite a rise in U.S. crude stocks. Oil prices came under pressure from Asian equity markets, which followed Wall Street's losses, after government data showed a record 25.3% cut in Japanese firms' first quarter spending on plant and equipment. U.S. crude for July delivery fell 12 cents to \$66 a barrel, after falling \$2.43 a day earlier. London Brent crude increased 1 cent to \$65.89. Oil's retreat on May 3 followed a report by the U.S. Energy Information Administration that U.S. crude inventories rose 2.9 million barrels.

Saudi Oil Minister Ali al-Naimi said producer cartel OPEC would wait until crude inventories fall to around 53 days of forward cover before considering raising output, nearly 10 days below current levels. Oil stood around \$3 a barrel off the nearly seven-month high of \$69.05 hit on May 2nd. The dollar's recovery from a 2009 low against the euro also put some pressure on oil. A stronger dollar tends to depress the value of commodities denominated in dollar. Some traders are awaiting the U.S. employment data due on June 5th. U.S. non-farm payroll jobs likely fell by 520,000 jobs last month, but economists expect the U.S. unemployment rate to rise to 9.2% in May, the highest since September 1983.

Source: Thomson Reuters

Yemen to open first LNG plant

The Oil Ministry said Yemen will inaugurate its first liquefied natural gas plant on June 16, at Balhaf on the south coast, and begin exporting in August. In addition to the first shipment destined for South Korea, LNG from Yemen will also be exported to Europe and North America. Yemen will be able to export 6.7 million tons of gas annually, equivalent to 180,000 barrels of oil per day, when a second liquefying unit becomes operational towards the end of the year.

Source: AFP

Iran to fully finance Tebriz-Eraskh oil pipeline

The Armenian Energy & Natural Resources Ministry stated that Iran will fully finance the Tebriz-Eraskh oil pipeline at a cost of \$250m, with a condition that Armenia will later repay the amount. This arrangement was recently reached since Armenia suffers from financial problems and cannot pay its share in the project, in which both countries are taking part on a parity basis.

Source: AmeriInfo

Abu Dhabi to add 400,000 bpd to refining capacity

The Abu Dhabi National Oil Company is proceeding with its five-year investment plan to add 400,000 barrels a day to its current domestic refining capacity to meet increasing future demand. ADNOC will also continue to increase gas production to meet rising domestic demand and allow for a greater proportion of oil that would have otherwise been used for power generation to be exported

Source: Khaleej Times

Base metals: Metals prices strengthen from recent lows on signs of economic recovery

Standard & Poor's increased its price assumptions for 2009 for copper, nickel, and lowered its 2009 price assumption for aluminum due to ongoing weak demand and supply. In recent months, prices have strengthened on hopes of global economic recovery, and as producers have cut production. Standard & Poor's continued to expect near-term prices for base metals to be relatively weak, as demand in industrial end markets such as auto and construction remains depressed due to the global slowdown. Despite production cutbacks by companies in response to the difficult industry conditions, which are partly due to cash losses being generated by high-cost assets, the agency sees that inventories are still high in certain segments. Standard & Poor's lowered its aluminum price assumptions to \$1,433 a metric ton for 2009, to \$1,654-\$1,874 for 2010-11, and to \$1,985 for the long term. It raised its copper price assumptions for 2009-11 to \$3,860 a ton and kept its long-term price unchanged at \$3,308 a ton. It also raised its nickel price assumptions for 2009-11 to \$11,025 a ton and for the long term to \$12,128. Further, it maintained its 2009 zinc price assumption at \$1,323 a ton, but has lowered them for 2010-11 to \$1,323-\$1,433 and for the long term to \$1,544.

Source: Standard & Poor's

Precious metals: Gold advances on speculation of weaker dollar, faster inflation

Gold rose in New York and London on June 4 on speculation that inflation and a weaker dollar will increase the metal's investment appeal. Platinum climbed to an eight-month high. Gold futures for August delivery rose \$6.40, or 0.7%, to \$972 an ounce. The metal, which dropped 1.9% on June 3, last traded above \$1,000 on February 24th. Gold for immediate delivery in London rose \$6.71, or 0.7%, to \$969.78 an ounce. Platinum gained 1.5% to \$1,257 an ounce, the highest since September 23rd. The metal, mainly used in autocatalysts, was last at \$1,244.75, up \$6, or 0.5%. Platinum futures for July rose 0.4% to \$1,249.80 an ounce. Platinum and palladium have advanced this week on better-than-expected U.S. auto sales and on speculation that General Motors Corp. and Chrysler LLC will emerge from bankruptcy better able to compete in world markets. Silver futures for July delivery in New York fell 0.4% to \$15.245 an ounce.

Source: Bloomberg

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	181.8	161.1	193.3	8.9	-28.6
LME metals price index	2175.3	1875.3	2552.5	5.8	-44.7
Oil prices USD	63.2	46.2	76.0	26.1	-50.8
Oil prices SDRs	41.0	30.8	49.6	22.1	-47.9
Gold \$/troy oz	952.3	891.8	868.7	4.7	4.7
Silver cents/troy oz	1450.0	1232.0	1309.8	11.7	-20.1
Platinum \$/troy oz	1134.0	1027.4	1227.0	-1.0	-47.4
Copper \$/MT	4660.5	3690.8	5232.9	8.3	-44.4
Nickel \$/MT	13307.5	10721.9	14026.3	20.9	-42.3
Aluminium \$/MT	1394.0	1413.0	1997.5	-0.3	-52.9
Zinc \$/MT	1456.8	1240.0	1435.3	8.7	-31.9

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								
	-	-	-	-	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+	Ba1	BB+	BBB-	BB								
	Stable	-	Stable	Stable	Stable	-7.7	74.5	17.8	51.4	5.4	105.9	-1.5	4.1
Ethiopia					CCC								
	-	-	-	-	Stable	-3.5	-	10.9	250.0	-	-	-6.1	-
Ghana	B+	-	B+	-	B								
	Stable	-	Negative	-	Negative	-10.8	-	39.0	103.6	-	-	-13.7	-
Ivory Coast	-	-	-	-	CC								
	-	-	-	-	Stable	-1.7	-	57.9	175.9	-	556.0	-1.8	-
Libya	A-	-	BBB+	-	BB								
	Stable	-	Stable	-	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+	Ba1	BBB-	BBB-	BB								
	Stable	-	Stable	Stable	Stable	-2.6	51.8	24.1	73.9	5.7	74.1	-0.1	3.3
Nigeria	BB-	-	BB-	-	B								
	Negative	-	Stable	-	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	Baa2	BBB	BBB	BB								
	Stable	-	Stable	Stable	Stable	-3.1	49.8	50.6	105.6	12.3	235.5	-3.3	3.8
Middle East													
Bahrain	A	A2	A	A	BBB								
	Stable	-	Stable	Stable	Stable	-3.4	18.2	187.7	321.7	4.6	63.8	6.2	0.4
Iran	-	-	B+	BB-	B								
	-	-	Stable	Stable	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	Ba2	-	BB	B								
	Stable	-	-	Stable	Stable	1.3	51.4	65.6	122.2	4.8	198.6	-10.0	11.4
Kuwait	AA-	Aa2	AA-	AA-	A								
	Stable	-	Stable	Stable	Stable	22.6	4.9	40.4	134.2	6.2	229.7	23.6	-9.9
Lebanon	B-	B2	B-	B-	CCC								
	Stable	-	Stable	Stable	Stable	-10.8	145.6	97.5	614.9	20.4	199.0	-12.0	9.0
Oman	A	A2	-	A	A								
	Stable	-	-	Stable	Stable	-1.9	3.5	21.4	68.7	-	113.0	-4.0	4.0
Qatar	AA-	Aa2	-	AA-	A								
	Stable	Stable	-	Stable	Stable	1.7	4.1	52.5	189.8	7.3	359.3	24.3	7.8
Saudi Arabia	AA-	A1	AA-	AA-	BBB								
	Stable	-	Stable	Stable	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-	BBB								
	-	-	-	Stable	Stable	16.7	10.6	79.3	125.2	2.3	287.4	11.4	2.4
Yemen	-	-	-	B	CCC								
	-	-	-	Stable	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	-	-	-2.2	13.9	32.5	496.8	1.2	311.3	-9.0	5.9
	-	-	Stable	-	-								
Bulgaria	BBB+	Baa3	BBB-	-	BB	-0.4	13.7	101.8	159.2	22.5	250.5	-15.3	9.8
	Stable	-	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB-	-	BB	1.7	6.0	86.4	267.8	56.6	528.0	-3.1	1.5
	Negative	-	Negative	-	Stable								
Romania	BBB-	Baa3	BB+	BBB-	BB	-4.9	16.2	61.9	171.7	21.8	319.6	-8.2	5.1
	Negative	-	Stable	Negative	Stable								
Russia	BBB+	Baa1	BBB	-	BBB	1.5	7.4	40.1	155.9	17.4	193.3	-0.7	0.4
	Negative	Positive	Negative	-	Negative								
Turkey	BB-	Ba3	BB-	BB-	BB	-3.9	43.5	56.0	238.4	41.2	587.4	-5.0	2.4
	Stable	-	Stable	Stable	Stable								
Ukraine	CCC+	B1	B	-	CCC	-1.1	20.7	80.4	202.3	28.5	411.6	-2.8	2.1
	Negative	Positive	Negative	-	Stable								

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		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	29-Apr-09	No change	24-Jun-09
Eurozone	Refi Rate	1.00	07-May-09	Cut 25bps	04-Jun-09
UK	Base Rate	0.50	07-May-09	No change	04-Jun-09
Japan	O/N Call Rate	0.10	22-May-09	No change	16-Jun-09
Australia	Cash Rate	3.00	05-May-09	No change	02-Jun-09
New Zealand	Cash Rate	2.50	30-Apr-09	Cut 50bps	11-Jun-09
Switzerland	3 month Libor target	0.25	12-Mar-09	Cut 25bps	18-Jun-09
Canada	Overnight rate	0.25	21-Apr-09	Cut 25bps	04-Jun-09
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	30-Apr-09	No change	24-Jun-09
Taiwan	Discount Rate	1.25	26-Mar-09	No change	June 09
South Korea	Target Rate	2.00	12-May-09	No change	11-Jun-09
Malaysia	O/N Policy Rate	2.00	26-May-09	No change	29-Jul-09
Thailand	1D Repo	1.25	20-May-09	Cut 25bps	15-Jul-09
India	Repo rate	3.25	21-Apr-09	No change	24-Jul-09
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 50bps	N/A
Saudi Arabia	Repo rate	0.50	14-Apr-09	Cut 25bps	N/A
Egypt	Overnight Deposit	9.50	20-May-09	Cut 50bps	N/A
Turkey	Base Rate	9.25	14-May-09	Cut 50bps	16-Jun-09
South Africa	Repo rate	7.50	28-May-09	Cut 100bps	25-Jun-09
Kenya	Central Bank Rate	8.00	20-Mar-09	Cut 25bps	July 09
Nigeria	Monetary Policy Rate	8.00	08-Apr-09	Cut 175bps	June 09
Ghana	Prime Rate	18.50	12-May-09	No change	July 09
Mexico	Target Rate	5.25	15-May-09	Cut 75bps	19-Jun-09
Brazil	Selic Rate	10.25	29-Apr-09	Cut 100bps	10-Jun-09
Armenia	Refi Rate	7.50	07-Apr-09	Cut 25bps	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	9.00	14-May-09	Cut 50bps	N/A



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