Issue 127
August 6, 2009

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Sovereigns' recovery will be long and painful

Moody's Investors Service indicated that economies around the world have started to see some tentative early signs of recovery, but that many governments will need to undergo lengthy balance sheet restorations even when the worst of the global recession is behind them. It said the current phase of the crisis is an ongoing crisis in public finances, as governments have leveraged up their balance sheets to compensate for private sector deleveraging. It considered that a sustained period of fiscal intervention is necessary until household and financial sector balance sheets become healthy again. The agency noted that a long period of private-sector wealth restoration and savings accumulation is getting underway following the collapse in equity and other asset markets. Moody's said most rating actions over the last 9 months have been downward, mostly in Europe, while upward rating action has been mainly outside Europe, with positive rating actions taken in Latin America, Asia and the Middle East. It cautioned that a major risk to sovereign credits is the possibility of much higher real interest rates. It said that such a scenario could spell more rating downgrades across the sovereign rating scale in the medium term, especially given how far countries' shock absorption capacity has already been eroded. According to Moody's, the economic recovery will proceed at varying speeds depending on the country, adding that the road to recovery will be rather long and risky for the most-affected governments.

Source: Moody's Investors Service

Basel Committee to raise understanding of operational risks

The Basel Committee on Banking Supervision issued two reports on operational risk, with the aim to improve supervisors and banks' understanding of outstanding issues in the measurement and management of operational risk, and to promote consistency in addressing these issues across jurisdictions. It said this will facilitate comparative analysis of banking institutions across jurisdictions by benchmarking losses at the national, regional and international levels, and by assessing capital levels relative to internal data and scenario analysis.

Source: Bank for International Settlements

EMERGING MARKETS

Corporate issuance at $59bn in first 7 months of 2009

Deutsche Bank indicated that corporations in emerging markets have raised $59bn on the bond market in the first 7 months of 2009, up $1bn from the volume of issuance in all of 2008. It expected corporate issuance to exceed $80bn this year, compared to $131bn raised in 2006 and $156bn of 2007, but above the levels seen in previous years. It noted that quasi-sovereign issues accounted for 75% of total corporate issuance so far this year, as government-owned and high-grade issuers have been better positioned to tap fragile capital markets. It added that investment grade corporates represent almost 89% of total supply, in contrast to 2007 and 2008. It said corporate issuance accounted for 55% of total emerging market issuance year-to-July, up 20% from the same period in 2008. The Emerging Europe, Middle East & Africa region (EMEA) represented 39% of the total, followed by Asia with 31% and Latin America with 30%. It noted that EMEA issuance reached $23bn, below 2008 levels of $37bn, with new issuance dominated by the UAE and Russia. In contrast, Latin America issuance almost doubled to $18 from $10bn last year, while Asia also gained ground, issuing $18bn so far this year relative to $9bn last year.

Source: Deutsche Bank

MENA

Equity markets up 16% in first 7 months of 2009

Arab stock markets rose by 16% in the first 7 months of 2009 compared to a drop of 12.4% in the same period last year and to a decline of 54.5% during 2008. The Cairo stock exchange increased by 34.3% in the first 7 months of the year, posting the best performance among Arab markets during the covered period. It was followed by the Tunisian stock market with a 25.4% rise, the Beirut bourse with a 24.4% increase, the Riyadh market with a 20.3% rise, the Abu Dhabi equity market with a 17% improvement, the Dubai bourse with an 11% increase, the Palestine exchange with a 10.7% rise, the Muscat stock market with a 7.4% increase, and the Casablanca exchange with a 0.8% improvement. In parallel, the Bahrain stock market posted the worst performance in the region with a 16.7% decrease year-to-July, followed by the Amman exchange with a 5.1% drop, the Doha bourse with a 2.6% decline, and the Kuwait exchange with a 1.3% drop. In comparison, emerging market equities improved by about 45% in the first 7 months of 2009.

Source: Local stock markets, Byblos Research

UAE

Central Bank curbs sale of structured products, to launch official inter-bank rate

The UAE Central Bank issued a circular dated August 2, 2009 requiring all banks to obtain permission in order to sell structured financial products to their retail customers. The circular stated that the Central Bank has decided that it is not desirable that banks operating in the UAE sell structured products to their retail customers, including high net worth individuals. It added that a written request to the Central Bank is required for any exceptions. In parallel, the Central Bank is discussing with local banks the launch of an official UAE inter-bank offered rate. It said the initiative's objectives are to form an official benchmark for the Dirham offered rate and to facilitate the process where fixed rates are a fair representation of prevailing market conditions. At present, the EIBOR rate is a compilation of the interbank lending rates reported by the main banks.

Source: Gulf News, Arabian Business

POLITICAL RISK OVERVIEW - JULY 2009

ALGERIA

Government forces arrested nine suspected terrorists in Algiers on July 11 and stopped a suicide bomb attack outside of a coast guard barracks on July 21st. Security services killed four militants in Tizi Ouzou province, on the county's central coast. Insurgents killed at least 14 government soldiers in an ambush west of Algiers on July 29th.

GUINEA

The ruling military junta ordered all border posts to maximum alert on July 11, claiming that drug smugglers from neighboring countries were planning an attack. Guinea's neighbors denied the allegations, and international observers including the African Union expressed concern that the plot may have been fabricated to distract from the transition process. Junta leader Captain Camara, who has promised to hold democratic elections this year and that no junta member will stand in them, threatened to arrest anyone doubting the credibility of the threats.

IRAN

Protestors of June's presidential election clashed with security services on the July 9 anniversary of 1999 student demonstrations. Thousands turned out on July 17 in Tehran for Friday prayers led by Hashemi Rafsanjani, who called for release of arrested demonstrators and greater media freedom. Former president Mohammad Khatami demanded a referendum on the election on July 19th. On July 22, opposition presidential candidate Mir-Hossein Mousavi confirmed his plan to form a broad coalition to oppose the election results and called for protests at religious ceremonies. Authorities released 140 detainees on July 28, but arrests continued. President Mahmoud Ahmedinejad fired several cabinet ministers on July 26th.

IRAQ

An intense bombing campaign marked the month leading up to Dozens were killed by bombs in Baghdad and Mosul throughout the month. Insurgents targeted military installations and members of the Sunni Awakening movement, which has supported the Baghdad government, in Anbar province. Police reported it arrested 300 suspected insurgents in Anbar on July 22nd. In Kurdistan, the ruling alliance of KPD and PUK parties lost support in July 25 regional parliamentary elections to the new Goran political movement, but managed to hang on to power in the autonomous region. At least seven members of the Iranian exile group Mojahedin-e Khalq were killed when Iraqi forces raided their base on July 28-29th.

MALI

Fighting between government forces and Al Qaeda in the Islamic Maghred intensified during the month following President Amadou Toumani Toure's declaration of total war against the militant group. AQIM claimed to have killed 28 soldiers in intense combat on July 4, but officials countered that the rebel group lost more fighters. On July 12, AQIM released a Swiss hostage, held since January, in exchange for a reported three million Euros in ransom. Government forces launched a €3m major offensive against the group on July 10th. Former Tuareg rebels announced on July 19 that they were ready to assist the government in fighting AQIM.

NIGERIA

Nine people were killed when militants affiliated with the Movement for the Emancipation of the Niger Delta attacked an oil storage and distribution facility run by the state oil company near Lagos on July 12th. A government-loyal militia threatened retaliatory attacks, and the Yoruba Council of Elders called the MEND strike an invitation to inter-tribal war. The day after the attack, suspected MEND leader Henry Okah was released from prison and MEND declared a 60-day cease fire on July 15th. Fighters from the radical Islamist group Boko Haram (BH) attacked government forces in three Northern states from July 26 to 29th. At least 400 people died in the fighting, and another 4,000 were forced to flee their homes. Government forces stormed BH headquarters on July 29, capturing leader Mohammed Yusuf. He was killed on July 30, reportedly shot while attempting to escape custody.

SUDAN

A Hague Tribunal ruled on July 22 that the disputed region of Abyei's borders do not include the region's richest oil field, which will remain under Northern control. The compromise verdict, which set the region's boundaries so that it would be likely to vote to join the South if it opts to split from Sudan in a 2011 referendum, was welcomed by both the North's ruling NCP and the South's ruling SPLM parties. The African Union announced after a ten-day summit in Libya that it would not cooperate with ICC demands for Sudanese President Bashir's arrest. President Bashir met with six Darfuri rebel groups in Cairo, but opposition militia JEM was not present and vowed to not abide by the results of the census due to be taken by the government, which it claims is illegitimate. Chad conducted air strikes in the Darfur area on July 16, prompting a Sudanese protest and retaliation two days later. UN Secretary General Ban Ki-Moon reported "grave concern" at the incidents.

SYRIA

On July 3, President Al Assad issued a formal invitation to U.S. President Obama to visit the country. U.S. State Department officials said such a meeting was unlikely to take place soon because Syria continued to transfer arms to the Hizbullah. Saudi Arabia appointed an ambassador to Damascus on July 6, filling a post that had been vacant since 2008. United States Middle East envoy George Mitchell visited Damascus on July 25 and promised to seek case-by-case exemptions from U.S. sanctions on telecommunications, information technology, and aircraft parts. A leading human rights lawyer was arrested on July 28th.

UKRAINE

U.S. Vice President Biden visited Kiev on July 20-22 and reiterated American support for the country's bid to join NATO. He urged Ukraine's leadership to cease political posturing. On July 8, 21, and 23, police stopped Russian military convoys traveling without permits to the naval base at Sevastapol. Ukrainian officials accused Russia of deliberately stoking tensions over the base. Moscow expelled two Ukrainian diplomats on July 29 following the expulsion of two of its officials from Kiev earlier that week. EU and Ukrainian officials announced on July 31 the conclusion of a debt deal which will help Ukraine pay for natural gas this winter in exchange for reforms in the country's domestic gas sector.

Source: International Crisis Group

OUTLOOK

GCC

Economic recovery to lag, outlook for budget and current-account balances improves on higher oil prices

Merrill Lynch maintained its economic growth forecast for the Gulf Cooperation Council at zero percent in 2009 and at 3% for 2010 due to the ongoing impact of the global crisis on the region. It said that although higher oil prices and the easing global credit crunch are clear positives for the region, problems in the real estate and banking sectors as well as the reversal of favorable demographics still suggest that the GCC recovery will be relatively slower in the short-term.

However, it revised upwards its forecast for the region's budget deficit to 0.8% of GDP in 2009 from its June forecast of 2.9% of GDP and to a surplus of 5.6% of GDP from a June forecast of 1.7% of GDP for 2010. It also revised upward its current account surplus to 5.1% of GDP in 2009 from 1.2% of GDP in June, and to 11.7% of GDP in 2010 from 5.2% of GDP earlier. It attributed the revisions to the improved outlook for global growth, triggering an increase in its oil price forecast to $59/bbl from $52/bbl for 2009 and to $75/bbl from $62/bbl for 2010. It noted that oil prices at $65/bbl represent the GCC's budget breakeven oil price, which means that after sharply drawing down their savings in 2009, the GCC countries are likely to start saving again in 2010.

Merrill Lynch forecast the GCC's average real GDP growth at 4% over the next 10 years compared to a potential growth of 6%, as the non-oil sectors will need to recuperate from the region's own real estate and banking crises, dependence on oil means a volatile growth trajectory, and the demographic window of opportunity is likely to weaken in the short-term with emigration. It noted, however, that there is room for improvement if the authorities can support medium-term growth through structural reforms, which would increase private sector involvement.

Source: Merrill Lynch

SYRIA

Economy to slow to 2.9% over 2009-10, inflation to fall

The Economist Intelligence Unit projected real GDP growth in Syria at 2% in 2009 and 3.8% in 2010, down from 5.1% in 2008. It attributed the economic slowdown to the sharp downturn in key export markets, restricted government spending due to falling oil revenues, and a depressed agricultural sector from the drought. It expected private consumption to be weak in 2009-10, in part from the falling contribution of displaced Iraqis as they return home in growing numbers. It anticipated foreign investment in Syria to be lower than previously expected due to the global economic crisis. It also projected fixed investment and imports to fall in 2009 and to slightly increase in 2010. The EIU expected the services sector to continue to expand in 2009 but at a slower pace. It anticipated construction activity to slow down, as financing becomes harder to secure and concerns rise about overheating in the real estate market. It also projected the industrial sector to benefit from investment in oil projects.

The EIU projected government revenues to decrease by 20.6% in 2009 before rising again by 32.4% in 2010 due to the partial recovery in oil prices. It noted that tax revenues will increase considerably with the introduction of a 10% value-added tax. It added that the government may receive additional revenues in 2009-10 from the conversion of existing mobile-phone contracts into longer-term licenses and from allowing a third operator to enter the market. It forecast government spending to increase by 5.6% in 2009 and 9.4% in 2010 which would largely offset the fiscal savings. It added that fuel subsidies are still a fiscal burden even though they were substantially reduced. It forecast the fiscal deficit to widen from 2.4% of GDP in 2008 to 8% of GDP in 2009 and to narrow to 4.3% of GDP in 2010.

The EIU projected inflation to decline considerably in 2009 to an average of 3.7% from a high of 15.8% in 2008 as international commodity prices continue to fall. It expected average inflation to increase to 7.9% in 2010 due to a partial recovery in commodity prices and to the introduction of VAT. Finally, the EIU projected the current-account deficit to increase from $705m or 1.4% of GDP in 2008, to $1.1bn or 2.1% of GDP in 2009 and $1.2bn or 2% of GDP in 2010, due to the widening trade deficit and to falling remittance inflows.

Source: Economist Intelligence Unit

NIGERIA

IMF says impact of crisis significant, calls for confidence-building measures

The International Monetary Fund indicated that Nigeria entered the global financial crisis from a position of strength, but the impact of the crisis has been significant. It said lower oil revenues have driven the fiscal accounts and balance of payments into deficit, activity in the non-oil sector is slowing, and oil production remains constrained by security-related disruptions. It added that Nigeria's capital markets have also been affected, but limited integration with the global financial sector has contained the impact. It noted that the reforms of recent years have been positive with oil savings, high foreign reserves, and a well-capitalized banking system preventing the type of economic crisis that Nigeria witnessed at the end of earlier oil price cycles.

The Fund emphasized the importance of developing a clear, consistent, and credible macroeconomic policy to improve confidence and reduce uncertainty over the short and long terms. It stated that the budget oil price rule continues to be the best way to support the fiscal stance and provide the adequate environment for private sector-led growth while meeting public spending priorities. It supported increased fiscal spending in 2010 as growth in 2009-10 is expected to fall below the high rates of recent years. It warned, however, that higher spending to support economic activity depends critically on financing and on an exceptionally uncertain outlook for the oil market. It expected a pickup in oil revenues in 2010 that should allow some decline in domestic borrowing from this year's peak levels, which is needed for a recovery of private sector borrowing. The IMF also called for a clear monetary policy framework with a well defined nominal anchor, which is critical for market expectations.

Source: International Monetary Fund

SYRIA

Insurers set up pool to offer third party coverage

Insurance companies operating in Syria have set-up a pool to offer third party car insurance. The pool, to be managed by the Syrian Insurance Federation (SIF), aims to organize the third party car insurance market, divide it evenly among insurance companies and put an end to speculation. Third party car insurance accounted for 44% of the total premiums generated in the first half of the year and grew by 32.6% from the same period of last year. The state-owned Syrian Insurance Company will have a share of 25% of premiums collected by the pool, while 75% will be divided equally between the 11 private companies. Several insurers are very dependent on this segment, with all insurance companies except one participating in the pool. The SIF will open offices in each of the Syrian governorates before the end of the year to offer the product.

Source: Syria Report

KUWAIT

Financial crisis continues to take its toll

The D&B Business Optimism Index for Kuwait covering the third quarter of 2009 shows that 52% of responding firms in the non-hydrocarbon sectors expect an increase in the volume of sales during the third quarter of 2009, 52% foresee a rise in net profits, and 51% expect a rise in new orders. Although a majority of firms forecast a pickup in sales during the third quarter, 69% of non-hydrocarbon firms expect to see no change in their number of employees and 12% plan to reduce their staffs. The survey also shows that the global financial crisis continues to affect the majority of businesses, with 66% in trade, hotels, transport & communication impacted; 57% in finance, insurance & real estate affected; 38% in construction hurt; and 47% in manufacturing & agriculture affected. Also, 25% of respondents in the oil & gas sector reported being affected by the financial crisis. In parallel, the availability of finance was the main concern in the non-hydrocarbon sectors with 45% of respondents expressing such concern, while prices of raw materials continues to be the main concern of 59% of manufacturers and 65% of construction firms. The main concern of hydrocarbon firms is related to transport costs, with 32% of respondents highlighting such costs as their main issue.

Source: Dun & Bradstreet

ALGERIA

Government takes measures to restrict imports

The Ministry of Finance banned banks from extending new consumer loans effective July 29, while a new government directive prevents companies from importing goods unless they have made payment in advance with a bank. The decisions aim to reduce the volume of imports as the country's trade surplus has narrowed significantly this year. Exports reached $20.7bn in the first half of the year, down 46.5% from the same period last year, resulting in a trade surplus of $1bn relative to $19.75bn in the first half of 2008. The narrowing of the trade surplus was due to a decline in the price and volume of hydrocarbon exports, which account for 97% of Algeria's exports, as well as to the continuing growth of imports. The government began to put pressure on banks to limit consumer lending earlier this year. The new lending restrictions do not apply to mortgages or existing consumer loans. Private sector credit is forecast to rise by 10% in 2009, and imports are expected to grow by just 2%.

Source: El Watan, Thomson Reuters, EFG Hermes

SUDAN

Public debt at $34bn at end-2008, non-concessional borrowing to be limited to $700m in 2009

The Ministry of Finance estimated public and publicly-guaranteed debt at $34bn at end-2008, up by about $15bn since end-2000. It attributed the bulk of the increase to a further buildup of arrears to Paris Club and non-Paris Club creditors, as well as to new drawings from China, India and Arab multilateral and bilateral creditors. Sudan contracted a total of $1.1bn in debt in 2008, of which $679m in concessional loans and $426m in non-concessional borrowing. The authorities mentioned that limited fiscal flexibility due to the decline in oil prices, the lack of access to more traditional forms of concessional finance, and pressing development needs associated with the various peace agreements, had forced them to borrow on non-concessional terms. The ministry plans to limit such borrowing to $700m in 2009, to be used to finance vital infrastructure and poverty-reduction projects. In parallel, the IMF urged Sudan to minimize the contracting or guaranteeing of non-concessional debt, as such borrowing weakens debt sustainability and could delay creditors' participation in a potential debt-relief operation.

Source: International Monetary Fund

UKRAINE

Outlook raised to positive on improved economic prospects

Standard & Poor's raised its outlook to ‘positive’ from ‘stable’ on Ukraine's foreign and local currency ratings, citing the country's progress on making the necessary budget and financial sector reforms to secure the latest tranche worth $3.3bn of a $16.4bn loan package from the International Monetary Fund. The agency also affirmed Ukraine's long-term foreign currency rating at ‘CCC+’ and short term foreign currency rating at ‘C’, as well as the long and short-term local currency ratings at ‘B-’ and ‘C’, respectively. It said the positive outlook reflects the improved economic prospects for Ukraine, primarily due to the level and flexibility of bilateral and multilateral support for the country. S&P noted that, with more than 60% of the IMF loan already disbursed, the government has been able to fund capital injections into the financial system worth more than 5% of GDP, while increasing its 2009 budgetary deficit target from 0% to 6% of GDP. It added that strong and coordinated banking measures have helped to improve depositor confidence. It warned, however, that political and economic risks still persist ahead of the January 2010 presidential elections, adding that the timing and extent of any economic recovery will depend on the external environment, Ukraine's terms of trade, and the commitment of the government to implement the remainder of the IMF program.

Source: Standard & Poor's

BANKING

EMERGING MARKETS

Negative rating action still high

Fitch Ratings indicated that banks in emerging markets continue to be affected to differing degrees by the ongoing global downturn, with Emerging Europe remaining the most impacted region. The agency said there were 4 positive rating actions for emerging market banks in the second quarter of 2009, constituting an improvement from none in the first quarter, but still lower than 10 such actions taken in the fourth quarter of 2008. In parallel, there were 60 negative rating actions in the second quarter, down from 72 in the first quarter and 140 in the fourth quarter of 2008. Further, there were 126 'negative' outlooks on emerging market bank ratings in the second quarter of 2009, up from 120 in the first quarter, 120 in fourth quarter of 2008, and 52 in the third quarter of last year. In parallel, the number of 'positive' outlooks declined to 3 in the second quarter from 5 in the first quarter, 8 in the fourth quarter of last year, and 27 at end-September 2008. Fitch said the ratio of 'positive' to 'negative' outlooks in emerging markets was -42 at end-June 2009, down from -24 at the end of March 2009, and -14 at end-2008. Still, it noted that 62% of bank outlooks in emerging markets remain at 'stable'. In Emerging Europe, 36% of outlooks are 'stable', 54% are 'negative' and none are 'positive', while in the Middle East & Africa 92% of outlooks are 'stable', 6% are 'negative' and none are 'positive'. In Emerging Asia, 71% of outlooks are 'stable', 27% are 'negative' and none are 'positive'. It added that there were 26 downgrades in the second quarter relative to 50 in the first quarter and 47 in the fourth quarter of 2008.

Source: Fitch Rating

JORDAN

Bank assets reach JD31bn at end-June 2009

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD31bn at the end of the first half of 2009, constituting an increase of 4.1% from JD29.8bn at year-end 2008 and a rise of 7% from end-June 2008. Resident private sector deposits reached JD15.2bn, up 6.5% from end-2008 and 10% year-on-year, while deposits of non-bank financial institutions rose by 28.3% annually to JD130.4m. Resident private sector loans were stagnant, rising marginally by 0.2% in the first half and by 0.5% year-on-year to JD12.5bn, while credit facilities to the non-resident private sector rose by 42.8% in the fist half of the year and by 37.5% annually to JD766.3m. Resident private-sector lending accounted for 40.4% of total assets relative to 43% a year earlier.

In parallel, central government deposits reached JD707m, up 12% year-on-year, while those of public non-financial institutions rose by 15.3% to JD671m.Claims on the public sector rose by 8.6% from end-December and by 35% year-on-year to JD4.7bn, with claims on the central government accounting for 88% of lending to the public sector compared to 85% a year earlier. Claims on the public sector accounted for 115.2% of total assets compared to 14.6% at end-June 2007. Further, deposits at the Central Bank of Jordan totaled JD5.28bn, up from JD3.9bn a year earlier and accounted for 17% of total assets. Capital accounts and allowances rose by 11.4% annually to JD4.2bn.

Source: Central Bank of Jordan, Byblos Research

Tougher rules ahead for bank ownership

The Central Bank of Jordan (CBJ) indicated that it will apply stringent rules for the ownership of stakes in the near future. It said that any institutional or retail investor aiming to acquire a stake exceeding 10% in any local bank will be required to fulfill certain requirements, including an adequate banking background, financial adequacy and source of funds. In parallel, the CBJ granted a foreign bank license to the National Bank of Abu Dhabi, the UAE's biggest bank, to offer commercial banking services in the country. The bank will become the 9th foreign bank licensed to operate in the country where 15 local banks already exist. The last foreign entrant was Dubai Islamic Bank, which started operations last month after buying a majority stake in the Industrial Development Bank of Jordan.

Source: Central Bank of Jordan, Thomson Reuters

BAHRAIN

Central Bank takes control of banks affiliated to Saad and Algosaibi groups

The Central Bank of Bahrain seized control of Awal Bank, which is owned by the Saad Group, and of The International Banking Corporation (TIBC), owned by the Algosaibi Group. The CBB said it will appoint an external administrator to identify creditors' claims and manage the distribution of the remaining assets. The two prominent Saudi groups recently ran into severe and unexpected difficulties and have entered debt restructuring discussions with their respective creditors, while a number of court cases have been filed by different parties over alleged financial irregularities. TIBC had assets of $3.8bn and Awal Bank had $7.6bn at end-2008. In parallel, Standard & Poor's downgraded its counterparty credit ratings rating on TIBC to default status 'D/D' from selective default 'SD/SD' after the CBB said there was a substantial shortfall in the bank's assets compared to its liabilities and seized the bank. S&P said earlier that GCC banks' total gross exposure to the two groups stood at $9.6bn.

Source: Standard & Poor's

ARMENIA

Working group to develop primary, secondary mortgage markets

The International Finance Corporation announced that a broad-based working group, conceived by the Central Bank of Armenia, will work to identify key constraints to the development of the primary and secondary mortgage markets in Armenia, recommend legislative remedies, advocate improved national mortgage lending standards, and introduce best international practices. The working group consists of representatives of the IFC, the World Bank, the Central Bank of Armenia, German development bank KfW, the U.S. Agency for International Development, and major stakeholders from the banking and finance sector. The IFC said its contribution is part of the IFC Armenian Banking Development Project that is aimed at improving the country's legal and regulatory framework related to insolvency, distressed asset management, and residential mortgage lending.

Source: International Finance Corporation

ENERGY / COMMODITIES

Oil eases towards $71.50, investors wary of risk

Oil prices declined on August 6 to $71.50, paring gains of nearly 1% in the previous session that came after U.S. government data showed a surprise decline in distillate supplies. U.S. services and manufacturing sector data that came in weaker than expected saw traders consider whether the pace of recovery from recession may be slower than hoped, even as Asian stocks edged up to near 11-month highs. U.S. light, sweet crude fell 26 cents to $71.71 a barrel, while ICE Brent crude fell 21 cents to $75.30 a barrel. The market is still trading at less than half the record highs of over $147 it hit in July 2008. U.S. inventories of distillates, which include heating oil as well as key fuels for industry such as diesel, fell by one million barrels last week, according to the U.S. Energy Information Administration, while demand was down 7.9% on the year. Employment reports showed a higher-than-expected loss of U.S. private-sector jobs in July. Energy markets have been looking to broader economic data for signs of an end to the recession and a potential rebound in oil demand. Optimism has helped lift crude from below $33 a barrel in December.

The wide price swings in oil in recent years have spurred calls for greater market regulation. The U.S. Commodity Futures Trading Commission, which oversees regulated futures exchanges, held its third and final hearing on August 5 into whether it should limit the number of futures contracts held by hedge funds, investment banks and other speculators in order to limit big movements in energy prices. Funds that invest heavily in the sector argued that they were not responsible for the wild volatility in energy prices.
Source: Thomson Reuters

BP to spend $2bn on Algeria energy projects

British Petroleum will invest up to $2bn over the next 5 years in Algerian oil and gas projects. The money will fund 3 exploration wells at a newly discovered gas field and maintain production at two gas fields operated with Norway's StatoilHydro and Algeria's Sonatrach.
Source: Thomson Reuters

OPEC oil output rises slightly in July

OPEC's oil production rose to 26.07 million barrels per day in July. The increase, from 26.02 million barrels per day in June was driven by higher levels of oil production in Saudi Arabia, Angola and Iraq, while militant attacks on oil facilities in Nigeria forced the country to curtail its production. Current production levels for the 11 countries bound by OPEC output targets represent a 2.97 million bpd reduction from September 2008. The group had agreed to curbs of 4.2 million barrels, meaning that compliance was 71%, down from 72% in June.
Source: Thomson Reuters

Iran and Iraq reach electricity supply deal

Iran has reached an agreement with the Iraqi Electricity Ministry to restart electricity supplies to the country. Under the new agreement, Iran will export 600 Megawatts through three lines to northern, central, and southern Iraq. Iraq has a 50% power shortage level.
Source: Aswat Aliraq

Base metals: Nickel outlook positive, but some volatility expected

Nickel prices are expected to rise to more than $20,000 a ton in the next twelve months, a 23% increase from their current levels of $16,300 a ton. The current nickel price represents a 51% decline from 2008 highs. Reduced production in the stainless steel industry has been the primary driver of weak nickel prices. The steel industry reported melt rates down 33.1% year-on-year in the period from January to April. Stainless steel inventories are declining worldwide, however, and a projected global economic recovery in 2010 will encourage distributors to revive steel orders. This pickup is expected to provide a boost to nickel demand. Near-term price volatility is expected as the market reacts to the results of a labor dispute at Vale's Canadian operations. China has also been importing nickel at potentially unsustainable levels, and the curtailment of these imports could remove some price support. Increased nickel demand in the rest of the world is expected to offset downward pressure from slowing Chinese demand, however, leading to a positive outlook for the industry overall.
Source: Merrill Lynch

Precious Metals: Gold gains as weak dollar, U.S. data boost haven appeal

Gold prices increased as a falling dollar and weak U.S. economic data boosted the precious metal's appeal as a haven investment. Gold climbed toward a two month high after service industries in the U.S. shrank more than forecast in July, and companies cut another 371,000 jobs, indicating rising unemployment will erode spending in the U.S. The dollar was little changed at $1.4416 per euro after touching $1.4447 on August 5, the weakest level since December 18th. Gold for immediate delivery increased by 0.1% to $964.40 an ounce. It reached $970.47 on August 4, the highest since June 5th. Gold holdings in the SPDR Gold Trust were unchanged for a fifth day at 1,072.87 metric tons as of August 5th.

Further US dollar weakness is expected to drive gold prices higher in the near and medium term. The recent announcement that IMF sales will take place within the European Central Bank sales agreement, while largely anticipated, has removed an element of uncertainty for the market and should provide further support going forward. Weak jewellery demand, slower ETF growth, and low inflation risks near-term will remove some price support, but gold prices are expected to continue to rise.
Source: Bloomberg, Standard Chartered

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	186.7	171.2	2.0	0.9	-25.6
LME metals price index	2686.7	2124.6	2298.5	12.7	-29.0
Oil prices USD	67.2	55.2	64.2	-4.0	-47.1
Oil prices SDRs	43.3	36.5	42.2	-4.2	-44.8
Gold $/troy oz	930.0	928.3	873.6	-0.9	3.5
Silver cents/troy oz	1340.0	1349.7	1249.1	-3.9	-21.7
Platinum $/troy oz	1180.0	1132.9	1088.0	-0.5	-31.6
Copper $/MT	5496.5	4388.8	4661.3	7.6	-31.7
Nickel $/MT	16847.5	12472.8	12957.0	5.3	-7.5
Aluminium $/MT	1818.8	1465.3	1750.1	12.6	-37.4
Zinc $/MT	1669.5	1388.9	1378.6	7.4	-10.4

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	-	-	-	-	CCC Stable	-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	- -	- -	- -	- -	CC Stable	-1.7	-	57.9	175.9	-	556.0	-1.8	-
Libya	A- Stable	- -	BBB+ Stable	- -	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- Negative	- -	BB- Stable	- -	B 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	BBB Stable	-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 Negative	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	B2 -	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 Stable	- -	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	BB Stable	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-	-	BB								
	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	-	Negative	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	-	CCC								
	Positive	Positive	Negative	-	Stable	-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

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	24-Jun-09	No change	12-Aug-09
Eurozone	Refi Rate	1.00	02-Jul-09	No change	06-Aug-09
UK	Base Rate	0.50	06-Aug-09	No change	03-Sep-09
Japan	O/N Call Rate	0.10	15-Jul-09	No change	11-Aug-09
Australia	Cash Rate	3.00	07-Jul-09	No change	01-Sep-09
New Zealand	Cash Rate	2.50	30-Jul-09	No change	N/A
Switzerland	3 month Libor target	0.25	18-Jun-09	No change	30-Sep-09
Canada	Overnight rate	0.25	21-Jul-09	No change	10-Sep-09
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	24-Jun-09	No change	12-Aug-09
Taiwan	Discount Rate	1.25	25-Jun-09	No change	Sep-09
South Korea	Target Rate	2.00	09-Jul-09	No change	11-Aug-09
Malaysia	O/N Policy Rate	2.00	29-Jul-09	No change	25-Aug-09
Thailand	1D Repo	1.25	15-Jul-09	No change	26-Aug-09
India	Reverse repo rate	3.25	28-Jul-09	No change	27-Oct-09
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 50bps	N/A
Saudi Arabia	Repo rate	0.25	16-Jun-09	Cut 25bps	N/A
Egypt	Overnight Deposit	8.50	30-Jul-09	Cut 50bps	N/A
Turkey	Base Rate	8.25	16-Jul-09	Cut 50bps	18-Aug-09
South Africa	Repo rate	7.50	25-Jun-09	No change	13-Aug-09
Kenya	Central Bank Rate	7.75	22-July-09	Cut 25bps	Sep-09
Nigeria	Monetary Policy Rate	6.00	07-Jul-09	Cut 200bps	Sep-09
Ghana	Prime Rate	18.50	21-July 09	No change	Sep-09
Mexico	Target Rate	4.50	17-Jul-09	Cut 25bps	21-Aug-09
Brazil	Selic Rate	8.75	22-Jul-09	Cut 50bps	02-Sep-09
Armenia	Refi Rate	5.50	07-Jul-09	Cut 50bps	N/A
Romania	Policy Rate	8.50	04-Aug-09	Cut 50bps	N/A
Bulgaria	Base Interest	1.71	30-Jul-09	Cut 50bps	N/A
Kazakhstan	Refi Rate	8.00	08-Jul-09	Cut 50bps	N/A

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com.lb

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+961) 1 335200
Fax: (+961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+249) 183 566 444
Fax: (+249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+374) 10 530 362
Fax: (+374) 10 535 296

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: melamm@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+32) 2 551 00 20
Fax: (+32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+44) 207 493 35 37
Fax: (+44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+357) 25 341433 / 4 / 5
Fax: (+357) 25 367139
E-mail: bybloscyprus@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+971) 2 6338400
E-mail: byblosbankuae@byblosbank.com