

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate default rate at 12% in third quarter

Moody's Investors Service stated that the rate of global speculative-grade corporate defaults reached 12% in the third quarter of 2009, up from 10.6% in the second quarter of the year and compared to 2.8% in the third quarter of 2008. The agency expected the global speculative-grade default rate to rise to a peak of 12.5% in the fourth quarter of this year and to decline sharply to 4.5% by the end of the third quarter of 2010. It noted there were a total of 50 defaults in the third quarter, down from 89 defaults in the first quarter and 83 in the second quarter. In comparison, there were only 62 defaults in the first three quarters of last year. Measured on a dollar volume basis, the global speculative-grade bond default rate closed at 18.1% in the third quarter, up from 16.5% at the end of the previous quarter. Last year, the global dollar-weighted default rate was much lower at 2.6%. It added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 28.1% at the end of the third quarter, down from 36.3% in the previous quarter and 26.8% a year earlier.

Source: Moody's Investors Service

EMERGING MARKETS

New agreement to promote investments in developing countries

The Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, and the Japan Bank for International Cooperation (JBIC), the international arm of the Japan Finance Corporation, announced plans to cooperate in the promotion of private sector investment in developing countries. The agreement aims to facilitate cooperation between MIGA and JBIC in promoting private sector participation in infrastructure in developing countries and mobilizing private capital flows, and ensuring general cooperation in specific projects where both MIGA and JBIC are involved. The agency said the partnership will enable the two institutions to work closely on political or non-commercial risks in developing countries, joint policy dialogue with those countries on the relevant topics, and claims cooperation. MIGA provides political risk insurance for eligible investments in developing economies.

Source: Multilateral Investment Guarantee Agency

IFIs pledge continued drive to support Central & Eastern Europe

The European Bank for Development and Reconstruction, the European Investment Bank, and the World Bank Group warned against complacency in the face of significant challenges that stand in the way of economic recovery in Central & Eastern Europe. They noted that coordinated international action has helped stave off a systemic crisis in the region, adding that more needed to be done and pledged renewed action to support the region's return to growth. The three international financial insti-

tutions (IFIs) noted that they are on track in delivering on their joint action plan with commitments of already €16.3bn by end-September 2009 in crisis-related financial support for the region. They stressed, however, that efforts need to be continued to support the region's recovery. Launched by the three IFIs last February, the action plan in support of banking systems and lending to the real economy in Central & Eastern Europe aimed to support banking sector stability and lending to the real economy in the region with a financing plan of up to €24.5bn for 2009-2010; commit to make joint assessments of large bank groups' financing needs; and rapidly deploy assistance in a coordinated manner.

Source: World Bank Group

MENA

Region has inadequate microfinance infrastructure

The Economist Intelligence Unit's Global Microfinance Index ranked the Middle East & North Africa region in last place among eight regions in developing economies in terms of the environment for microfinance. The index evaluates microfinance as a commercially viable and sustainable activity and compares regions across three broad categories that are the regulatory framework, the investment climate and institutional development. It assigns a 40% weight to each of the regulatory framework and institutional development categories, and a 20% weight to the investment climate category. The MENA region ranked in last place on each of the regulatory framework and the institutional development categories, while it ranked in third place for its investment climate. Yemen had the most developed regulatory framework and ranked highest for its institutional development in the MENA region, while Morocco had the most favorable investment climate for microfinance in the MENA region. Sub-Saharan Africa has the best legal and regulatory frameworks, Eastern Europe and Central Asia has the strongest investment climate of any region, and South Asia ranks highest for its institutional development.

Source: Economist Intelligence Unit

SYRIA

Syrian-Iranian bank to be established

The government granted a formal license to a new commercial bank to be established jointly by the state-owned Commercial Bank of Syria (CBS) and Bank Saderat of Iran. The two banks are under US sanctions. The CBS and Bank Saderat will hold a 25% stake each in Aman, a Saderat subsidiary will have a 16% share, and the Syrian agent of Iranian car manufacturer Iran Khodro a 5% stake. The remaining 29% will be offered through an IPO. Aman will be the 15th commercial bank operating in Syria and the 12th to offer conventional banking services.

Source: Syria Report

POLITICAL RISK OVERVIEW - SEPTEMBER 2009

ALGERIA

Algeria hosted talks in early September between military leaders from Mali, Mauritania and Niger to coordinate efforts to fight terrorism. Algeria deployed seven elite anti-terror police units to boost security in the Kabylie region.

ARMENIA

A joint statement issued on August 31 by Turkey and Armenia, together with mediators from Switzerland, stated Ankara and Yerevan will conduct six weeks of diplomatic consultations before signing two protocols that establish formal diplomatic ties and help develop bilateral relations. Armenian President Sarkisian held a meeting on September 17 with more than 50 opposition party leaders concerned about the process of rapprochement with Turkey. Turkish Prime Minister Erdogan said that the normalization of Turkish-Armenian relations is conditional on an acceptable resolution of the Nagorno-Karabakh conflict with Azerbaijan. Armenia responded that the protocols, which aim at establishing diplomatic relations between the two states, make no reference to the conflict.

IRAN

International tensions over Iranian nuclear activities increased ahead of October 1st talks with the UN Security Council, after Iran notified the IAEA on September 21 of a previously undisclosed second uranium enrichment facility. European states and the U.S. warned of further sanctions and urged Iran to cooperate. Iranian officials said the IAEA would have access to the new facility. Revolutionary Guards held a 2-day missile tests on September 27 and 28th. Protests over the re-election of Ahmadinejad as president continued, with thousands of anti-government protesters joining the official Jerusalem Day rallies in Tehran and other cities on September 18th. Reformist leaders Musavi, Karrubi and Khatami joined the marchers. Some clashes with security forces were reported. Supreme Leader Khamenei warned that the opposition to the regime would be met by harsh response. The Parliament approved 18 of 21 Cabinet ministers nominated by President Ahmadinejad on September 3rd.

IRAQ

Iraq stationed thousands of extra police on the border with Syria in response to a series of bombings blamed on militants. Baghdad accuses Damascus of sheltering. Prime Minister Maliki formally asked the UN Security Council to launch an inquiry into the bombs on September 6th. President Talabani called for easing of tensions with Syria on September 8th. Syrian and Iraqi foreign ministers met in Istanbul on September 17 but no tangible progress was made. U.S. Vice President Biden held meetings with leaders in Baghdad and Erbil in an ongoing push to resolve key political disputes. Former Deputy Prime Minister Barham Salih was appointed Prime Minister of the Kurdistan region on September 16th. Several insurgent attacks killed scores across the country, particularly in the North.

SUDAN

U.S. Envoy Gration arrived in Juba on September 9 to continue bilateral discussions between the Sudan People's Liberation Movement (SPLM) and the National Congress Party (NCP). The two parties failed to make progress on the 2 remaining

issues of the Comprehensive Peace Agreement (CPA) implementation, regarding census results and rules governing 2011 secession referendum. At least 20 people have been killed in reportedly heavy fighting in the North of Darfur between government troops and the Sudan Liberation Army of exiled rebel leader Elnur. President Bashir urged the Darfur rebels to join the peace talks in Qatar. More than 100 people were killed in tribal clashes in the southern state of Jonglei, bringing the death toll from southern tribal fighting at over 2,000 since January. The Interior Minister in the government of Southern Sudan announced on September 23rd that hundreds of troops were deployed to secure the region. The SPLM continues to accuse the NCP of distributing arms to destabilise the South

SYRIA

The foreign ministers of Iraq and Syria met for talks in Turkey on September 17 to defuse diplomatic tensions after Iraq accused Syria of sheltering the perpetrators of bomb attacks in Baghdad that killed nearly 100 people. Deputy Foreign Minister Fayssal al-Mekdad visited Washington on September 27 to discuss Iraq and U.S. sanctions on Syria. President Assad visited Saudi Arabia on September 23 to improve Syrian-Saudi relations. Syria and Turkey signed an agreement on September 16 to end visa requirements and strengthen economic cooperation. Syria appealed for a UN inquiry into Mehlis report that implicated Syria in the assassination of Lebanese Prime Minister Hariri.

UKRAINE

Ukrainian Prime Minister Tymoshenko and Russian Prime Minister Putin struck a deal on September 1 to allow Ukraine to import less Russian gas than previously agreed, saving Ukraine's economy from potential fines before an election early next year. PM Tymoshenko also said Ukraine had stopped buying Russian gas for storage as it had sufficient supplies in its underground facilities to ensure the smooth transit to Europe this winter. PM Tymoshenko's warmer ties with Russia over recent months have prompted speculation that Moscow may be backing her in the January 2010 presidential election. Russia is expected to lend Ukraine \$2bn to support the former Soviet republic's economy ahead of next year's election.

YEMEN

A government offensive against Houthi-led rebels in northern Saada and Amran provinces continued for the second month. The army killed more than 140 rebels after foiling an attempted attack on Saada City. More than 80 people, including a large number of civilian refugees, were killed in a government airstrike on September 16th. The government rejected rebels' ceasefire proposal on September 1, insisting on 6 conditions set out in August. Rebels and the government traded accusations of blame, as ceasefires to allow humanitarian aid into the area rapidly broke down. The UN estimated a total of 150,000 people were displaced in the North since 2004 including 55,000 people in recent fighting. In the South, armed clashes between Southern Movement supporters and security forces were reported in Zinjibar on September 28 and in Dhali and Lahj on September 30th.

Source: *International Crisis Group*

OUTLOOK

EMERGING MARKETS

Net private capital inflows at \$349bn in 2009 and \$672bn in 2010, bank lending to drop drastically

The Institute of International Finance estimated total net private capital flows to emerging markets at \$348.6bn in 2009, constituting a drop of 46.3% from \$649bn in 2008 and far below the peak level of \$1,252bn in 2007. It said capital flows to emerging markets resumed in the second quarter of this year and picked up in the third quarter. It added that the recent dynamic in capital flows mirrors the uneven recovery of the global economy. It expected net capital inflows to emerging markets to revive in 2010 to about \$672bn. It said prospects of higher economic growth in emerging markets, along with high interest rates, are likely to attract sizeable amounts of speculative capital to many of these economies.

The IIF forecast net direct investment to decline to \$343bn in 2009 from \$512.5bn in 2008, but to improve to \$459.4bn in 2010. It estimated net portfolio investment in emerging markets at \$82.2bn this year relative to outflows of \$81.7bn in 2008, and expected inflows of \$74bn in 2010. Also, it forecast net commercial bank lending to shift from a net inflow of \$102.7bn in 2008 to a net outflow of \$82.7bn in 2009, but for inflows to resume at \$48.5bn in 2010. It forecast net non-bank private lending to see inflows of \$6.2bn in 2009 from inflows of \$116bn in 2008, but to rebound to \$90bn in 2010. It also projected net lending by official creditors to reach \$63.6bn this year and \$43.4bn next year.

The IIF noted that new regulations requiring banks to hold high risk-based levels of capital could lead them to reduce emerging market lending, especially to the weaker companies and economies. It noted that the last emerging markets capital flow cycle was dominated by rapid growth in bank lending to emerging market economies. It added that the current upswing will be based more around equity-related flows, leading to a significant change in the debt-equity mix in the external financing of emerging economies in the coming two years. It expected a trend of increased intra-emerging market financial flows in coming quarters in terms of both debt and equity due to a likely decline in the appetite of emerging market investors to raise their exposure to mature economies.

Source: *Institute of International Finance*

ANGOLA

Economic growth to slow to 0.2% in 2009, current account to post deficit of 3.4% of GDP

The International Monetary Fund projected Angola's real GDP at 0.2% in 2009 and 9.3% in 2010 relative to a growth of 13.2% in 2008 compared to growth in oil exporting countries of 1.9% in 2009 and 5.5% in 2010. It expected the country's real non-oil GDP to grow by 8.2% in 2009 and 11.4% in 2010, down from 14.8% in 2008, and compared to non-oil GDP growth of 4.6% in 2009 and 5.9% in 2010 in oil exporting countries. The IMF forecast Angola's annual average inflation rate at 14% in 2009 and 15.4% in 2010, up from 12.5% in 2008 and compared to inflation rates of 10.6% and 8.9% in 2009 and 2010, respectively, for oil exporting economies. It estimated total investment at

17.4% of GDP in 2009 and 15.1% in 2010 relative to 15.8% of GDP in 2008. Also, it expected the growth of broad money at 7.3% this year and 26.9% next year, down from 93.5% last year. The Fund projected the central government's fiscal balance to post a deficit of 4.8% of GDP in 2009 and a surplus of 0.6% in 2010, compared to a deficit in oil exporting peers of 6.1% in 2009. It estimated public revenues at 38% of GDP this year and 39.3% of GDP in 2010, and total expenditures at 42.8% of GDP in 2009 and 38.7% of GDP in 2010.

The IMF expected Angola's current account is projected to post a deficit of 3.4% of GDP in 2009 and a surplus of 2.2% of GDP in 2010 compared to a surplus of 7.5% of GDP in 2008. In comparison, oil exporting countries are forecast to post current account surpluses of 1.6% of GDP this year and 7.9% of GDP next year. The Fund expected the country's gross official reserves to reach 4.9 months of imports of goods and services at end-2009 and 4.3 months of imports of goods and services at end-2010, down from 5 months at end-2008.

Source: *International Monetary Fund*

DEM REP CONGO

Economic growth to average 4% in 2009-10, inflation is key challenge

The International Monetary Fund projected the Democratic Republic of Congo's real GDP growth at 2.7% for 2009 and 5.4% in 2010, down from 6.2% in 2008. In parallel, it forecast growth of 1.1% in 2009 and 4.1% in 2010 for Sub-Saharan Africa (SSA), and at 2.8% in 2009 and 2.9% for the region's fragile countries. It expected the country's real per capita GDP to contract by 0.3% in 2009 and to grow by 2.3% in 2010 relative to a contraction of 1% in SSA this year and a growth of 1.9% next year. It forecast the country's annual average inflation rate at 39.2% in 2009, up from 18% a year earlier, compared to average inflation of 10.5% in SSA and 13.7% for fragile countries this year. It also forecast the country's average inflation to decline to 14.6% in 2010 relative to 7.2% for SSA and 7.3% for fragile countries. Further, it expected broad money to grow by 9.7% this year and 18.6% next year relative to 36.2% last year. It added that claims on the non-financial private sector would account for 51% and 47.6% of broad money in 2009 and 2010, respectively, relative to 49% and 50% for fragile countries during the same years.

The Fund projected the central government's fiscal balance to post a deficit of 11.4% of GDP in 2009 and 17.9% of GDP in 2010 up from 4.7% of GDP in 2008. It estimated public revenues at 17.8% of GDP in 2009 and 2010, and total expenditures at 29.2% of GDP in 2009 and 35.7% of GDP in 2010. The IMF expected the country's external debt to official creditors to reach 124.5% of GDP at end-2009 and 118.4% of GDP at end-2010. It estimated total investment at 22.7% of GDP in 2009 and 32.8% in 2010 up from 21.9% of GDP in 2008. Further, the country's current account deficit is projected at 14.6% of GDP in 2009 and at 23.7% of GDP in 2010, compared to 15.3% of GDP in 2008. The Fund expected the country's gross official reserves to reach 1.9 months of imports of goods and services at end-2009 and 2.1 months of imports of goods and services at end-2010, up from 0.1 months at end-2008.

Source: *International Monetary Fund*



ECONOMY & TRADE

MENA

Agreement to assist cross-border financing in the Arab world

The Multilateral Investment Guarantee Agency (MIGA) and the Dubai International Financial Centre (DIFC) signed a Memorandum of Understanding to promote foreign direct investment (FDI) in the Middle East & North Africa region. The agency said the two sides will explore opportunities for co-branding of existing political risk insurance products, joint business development efforts, and development of a mutual referral process. It added that public and private sector enterprises could benefit from improved access to cross-border financing as a result of MIGA's provision of political risk insurance, which helps international investors mitigate non-commercial risks. It noted that the program will leverage the strengths and expertise of both sides to enable cost-efficient, cross-border financial structures, as the goal of the program is to help develop efficient and liquid capital markets in the region. The types of investments that MIGA can ensure include equity, shareholder loans, certain shareholder loan guarantees, management contracts, asset securitization, capital market bond issues, and leasing, services, franchising and licensing agreements.

Source: *Multilateral Investment Guarantee Agency*

JORDAN

Remittance inflows down 6% year-to-August

Figures released by the Central Bank of Jordan show that remittance inflows totaled \$2.3bn in the first 8 months of 2009, down 5.8% from \$2.53bn in the same period last year. Remittance inflows reached \$712m in the first quarter of the year, down 1.8% from the same period last year, and \$818.5m in the second quarter of 2009, down 2% from the second quarter of 2008. Jordan was the 21st largest recipient of remittances among developing economies in 2008 and the 4th largest recipient in the MENA region. Remittances to Jordan totaled \$3.7bn and were equivalent to 18.5% of GDP in 2008. There are about 600,000 Jordanian expatriates working mainly in Saudi Arabia and the UAE.

Source: *Central Bank of Jordan, World Bank, Byblos Research*

IRAQ

Spending up 14% in 2010 budget draft, IMF discussions in progress

The Ministry of Finance said Iraq's preliminary budget proposal for 2010 sets spending at \$66.7bn, constituting an increase of 14% higher from the 2009 budget of \$58.6bn, which was revised downward several times due to a sharp fall in oil prices from last year's record highs. About \$49.6bn of the proposed budget has been allocated for operational expenses and \$17.1bn for investment spending. The 2010 budget is calculated based on an average oil price of \$60 per barrel, as well as on expected oil exports of 2.15 million barrels per day, slightly higher than current levels, which averaged around 2 million barrels per day in August. The proposal needs to be approved by the Cabinet and Parliament. In parallel, the International Monetary Fund stated that it had made "good progress" on talks with Iraqi authorities on a new economic program that could be supported

by the Fund. Iraqi authorities previously said the country need \$7bn in financial support to cover its budget deficit.

Source: *Al Arabiya, AFP*

ARMENIA

Businesses could cut energy costs by nearly 15%

The International Finance Corporation indicated that businesses in Armenia could save nearly 15% on energy costs by making energy-efficiency improvements, increasing competitiveness for companies that undertake such improvements, and strengthening Armenia's energy security. It added that Armenia can further decrease the energy intensity of its economy and increase industrial competitiveness by taking advantage of its energy-efficiency potential. The IFC survey of 100 local companies, finds that Armenia's industrial sector, which comprises 24% of the country's gross domestic product, underestimates on average by more than 70% the potential energy and monetary savings related to energy efficiency. It suggests that industry could achieve important reductions in energy costs and total operational costs through improved energy efficiency. It noted that the companies surveyed plan to increase investments in energy efficiency seven-fold by 2011, which represents a significant market opportunity for financial institutions. It also recommended increasing awareness about energy efficiency among businesses, developing energy consumption monitoring and management measures, and understanding the benefits of energy-efficiency financing.

Source: *International Finance Corporation*

RUSSIA

External debt at \$487bn at end-September, private capital outflows at \$32bn in third quarter

Figures released by the Central Bank of Russia show that Russia's external debt totaled \$487.4bn at the end of September, constituting an increase of \$11.8bn in the third quarter of the year and growth of \$6.9bn since the beginning of 2009. The external debt of the banking sector contracted by \$4bn in the third quarter, while most of the growth came from the corporate segment where external debt increased by \$10.7bn. Overall, the growth in external debt decelerated in the third quarter compared to the previous quarter due to the pick-up in borrowing by corporates on the domestic market via issuing rouble-denominated bonds. The greater preference for issuing debt in rouble was partly due to the mounting expectations in July-August of another wave of currency devaluation. In parallel, net private sector capital outflows reached \$31.5bn in the third quarter of 2009 compared to net inflows of \$4.4bn in the second quarter of the year. The monthly breakdown shows that July and August had the largest share of capital outflows at \$16bn and \$9.4bn, respectively, while such outflows slowed down to \$6bn in September after expectations of a major rouble devaluation dissipated.

Source: *Deutsche Bank*



BANKING

SYRIA

Bank capital requirements to increase to \$216m

The government has approved a draft text requiring private commercial banks operating in Syria to increase their minimum share capital to SYP 10bn, or about \$217m, constituting an increase of more than six times from the current minimum level of SYP 1.5bn. Last July, the Central Bank of Syria said the minimum requirement would be raised to around SYP 4bn–SYP 4.5bn or \$80m–\$100m, but indicated last month that the capital would be set at \$300m. Further, the minimum capital for Islamic banks will increase to SYP 15bn, or \$326m, from SYP 5bn currently. Banks will have a 5-year period to implement the capital increase. The government attributed the decision to the need to be in line with Basel II standards and to hedge against the risks posed by the growing integration of local banks into global markets. The Government also decided to increase the nominal capital of the state-owned Real Estate Bank, the Savings Bank, the Industrial bank and the Popular Credit Bank to SYP 10bn each. The country's two other state banks, the Agricultural Cooperative Bank and the Commercial Bank of Syria, have capital of SYP 15bn and SYP 70bn, respectively.

Source: *Syria Report*

QATAR

Sovereign wealth fund to increase stake in local banks

The Ministry of Finance announced that the Qatar Investment Authority (QIA), the country's sovereign wealth fund, will acquire 5% of the shares of local banks this coming December, raising its stake to 10% in each bank. Last January, the QIA declared it bought a 5% stake in Qatar Islamic Bank, Qatar International Islamic Bank, Commercial Bank, Doha Bank and Ahli Bank. The QIA said it will not receive any dividend distribution on the results of 2008 or 2009. Last October, the QIA announced that it will buy up to 20% of listed banks' capital to boost confidence in the market, and that the transactions would take place through private placements.

Source: *Gulf Times, Dow Jones Newswires*

UAE

UAE banks disclose exposure to troubled Saudi groups, Bahrain banks to raise provisions

Commercial banks in the UAE have disclosed their exposure to troubled Saudi conglomerates AH Alghosaibi & Brothers (AHAB) and the Saad Group. The two groups have defaulted on loans and are locked in legal battles with each other, putting in doubt the fate of about \$20bn in debt owed to more than 100 banks around the world. Abu Dhabi Commercial Bank declared exposure of \$609m, equivalent to 1.4% of its total assets, followed by Mashreqbank with \$560m, or 2.1% of assets, Union National Bank with \$60.5m (0.3%), National Bank of Fujairah with \$25.4m (0.8%), Sharjah Islamic Bank with \$15m (0.4%) and National Bank of Umm Al-Qaiwan with \$12.5m (0.3%); while Abu Dhabi Islamic Bank did not disclose specific exposures but took provisions of \$228m and First Gulf Bank said it needs more time to calculate its exposure. The UAE Central Bank required lenders to phase-in provisions of 50% against

loans to AHAB and 75% against loans to Saad Group by the end of next year. In parallel, the Saad Group has reportedly restructured about \$2.6bn in outstanding loans to Saudi Arabian banks, while the Central Bank of Bahrain asked banks to increase provisions for bad debts to 50% to cover their exposure to Awal Bank and The International Banking Group, the two banks owned by AHAB and Saad Group.

Source: *Economist Intelligence Unit, Dow Jones Newswires*

MOROCCO

Central Bank cuts reserve requirement by 200bps, leaves rates unchanged

Morocco's Central Bank, Bank al-Maghrib, reduced reserve requirements by 200 basis points from 10% to 8%, constituting the third reduction in 15 months. Bank al-Maghrib previously reduced reserve requirements from 15% to 12% in December 2008 and from 12% to 10% in June 2009. Liquidity at Moroccan banks remains tight, with the loan-to-deposit ratio reaching 92% at end-August 2009, up from 89% at end-2008. Loans grew by 15% year-on-year in August, down from an average 26% in 2008, driven by strong 29% annual growth in real estate lending. Bank al-Maghrib has been injecting 15bn Moroccan dinars, equivalent to 2% of banking sector assets, in the banking system in order to improve liquidity. In parallel, it left discount rates unchanged at 3.25%, saying that inflation forecasts were in line with the price stability objective, but that there was still a risk to inflation from international commodity prices.

Source: *Bank al-Maghrib, EFG Hermes*

NIGERIA

Central Bank injects \$1.3bn in four more troubled banks

Following the audit of 14 more banks in Nigeria, The Central Bank of Nigeria (CBN) announced plans to inject NGN 200bn, or \$1.3bn, into Bank PHB, Equitorial Trust Bank, Spring Bank and Wema Bank for being undercapitalized, and replaced the management teams of the first three banks for extending loans to companies and individuals without adhering to corporate governance and risk management practices. It also found Unity Bank to have insufficient capital but to be still liquid. It considered that nine out of the 14 banks audited had adequate capital and liquidity to support their current level of operations. It said the four banks will receive liquidity support and long term loans totaling NGN 200bn to ensure they meet minimum capital requirements, and gave Unity Bank and Wema Bank until end-June 2010 to recapitalize. Last August, the CBN took over Intercontinental Bank, Union Bank of Nigeria, Oceanic Bank International, Finbank and Afribank for being undercapitalized and posing a risk to the entire banking system, as they accumulated about \$7.6bn in bad debts. It also injected NGN 400bn, or \$2.6bn, of Tier 2 capital in the five banks to ensure they meet minimum capital requirements and replaced the banks' management teams. The move was a result of the audit of 10 banks. The now-completed audit of 24 banks operating in the country found 10 banks to have liquidity or capitalization problems, while management at 8 out of the 10 institutions was replaced.

Source: *Standard Chartered*



ENERGY / COMMODITIES

Oil rallies above \$70 on recovery expectations

Oil prices rose above \$70 a barrel on October 8, retrieving some of the previous session's losses, supported by signs of global economic recovery and a weaker U.S. dollar. Oil prices dropped by almost 2% on October 7 after U.S. government data showed a larger-than-expected build in gasoline and distillate stocks last week, increasing doubts over the pace of fuel demand recovery in the United States. U.S. crude for November delivery rose 62 cents to \$70.19 a barrel as the contract closed \$1.31 lower at \$69.57 a barrel on October 7th. London Brent crude gained 62 cents to \$67.82. The weaker dollar supports oil because it makes commodities priced in dollar cheaper for those holding alternative currencies. Still, some analysts doubt whether oil will rise beyond the \$75 mark, as the market remains well supplied and the global economic recovery remains fragile. The Energy Information Administration reported gasoline stocks jumped 2.9 million barrels last week, nearly three times the build that analysts had expected. Distillate stocks, which include diesel and heating oil, rose by 700,000 barrels, more than double the forecast 300,000-barrel build.

Source: Thomson Reuters

Goldman raises oil demand outlook, expects price to reach \$85 in 2009

Goldman Sachs said global oil consumption was recovering more quickly than its previous estimates and raised its demand forecast, while maintaining its price outlook. It said Chinese oil demand has risen to levels seen before the global economic recession. The bank expected global oil demand to average 85.1 million barrels per day in the fourth quarter of 2009. It forecast demand to average 84.727 million bpd this year, down from 86.304 million bpd last year, then to rise to 86.405 million bpd next year. The bank maintained its oil price forecast because the higher demand will be met by an increase in supplies, especially from the CIS countries and Russia. It expected U.S. crude futures to reach \$85 per barrel by the end of this year and to average \$90 in 2010.

Source: Goldman Sachs

South Sudan to build its first oil refinery

The semi-autonomous region of Southern Sudan will start building its first oil refinery in Warrap State. The refinery project, which is expected to take about three years to complete, will start by establishing a joint venture company with any oil company interested to partner with the government. The joint venture will then sign a contract with a national or international company that will implement the project on the ground. The Government of Southern Sudan, represented by Nilepet Oil Company, will have the biggest share in the \$10m joint venture.

Source: Sudan Tribune

Algeria, Morocco launch new electricity link

Algeria and Morocco completed a project to link their power networks at 400 kilovolts. Energy officials say the measure will enable Algeria to export some 1,000 megawatts to Spain. The project between Algeria's Sonelgaz and Morocco's Power Office is expected to provide the North African power network with record protection and also reactivate a real power market in the region.

Source: Echorouk

Basic Metals: Government stimulus packages to support metals in 2010

Following a steep decline of prices in the fourth quarter of 2008, metal markets have recovered during the past few months due to output cuts implemented by metal producers. In addition, metal demand stabilized due to significant government support to the economy. Fiscal stimulus packages have targeted many metal intensive industries such as the auto sector. China was the first country to aggressively implement stimulus packages and the country's metal imports rose sharply. However, some of these purchases went into inventories and China has recently moved towards reducing stocks, which is one reason imports have slowed. Although demand in the world is now accelerating, it remains relatively weak overall.

The stimulus packages will be carried over into 2010 and the global economy is expected to expand by 4.2% in 2010, compared to a 0.9% contraction this year. This suggests that metal demand should be strong. At the same time, production growth will lag for most base metals. Therefore, a gradual decrease of supply surpluses is expected. In the medium term, an economic slowdown is possible once the fiscal stimuli run out. As Chinese market participants may not be as active buyers as in the first half of 2009, base metal prices are expected to underperform in the near term. As world recovery strengthens, most prices are expected to rise through 2010.

Source: Merrill Lynch

Precious Metals: Gold to keep rising after reaching record

Gold, trading at a record for a third consecutive day, is expected to keep rising as a weaker dollar and concern that inflation will accelerate support investor demand. Gold is expected to increase to \$1,150 an ounce by the end of the year. Gold already rose by 20% this year and is heading for a ninth consecutive annual gain. Gold is often bought as a hedge against a weaker dollar and higher inflation. Bullion holdings in exchange-traded funds have jumped to records. Gold for immediate delivery traded at \$1,054.26 an ounce, while December gold futures on the New York Mercantile Exchange's Comex division climbed as high as \$1,059.60 an ounce. Prices may also be supported by demand for jewelry. The October-December period is the busiest season for jewelry sales in India, spurred by the wedding season and the Diwali holiday. India's gold demand from jewelers and retail investors is starting to recover and will maintain the country as the world's largest buyer of the metal.

Source: Bloomberg

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	187.1	183.4	172.5	-2.1	-10.8
LME metals price index	2815.1	2499.9	2207.3	-1.6	-2.6
Oil prices USD	70.5	64.1	57.3	3.3	-28.7
Oil prices SDRs	44.7	41.6	37.7	2.3	-30.4
Gold \$/troy oz	1007.7	942.2	897.5	6.0	14.8
Silver cents/troy oz	1655.0	1422.6	1280.8	12.3	34.8
Platinum \$/troy oz	1292.0	1202.4	1073.0	4.7	27.9
Copper \$/MT	6081.5	5277.6	4465.8	-2.5	-4.7
Nickel \$/MT	17562.5	15342.7	12982.0	-5.2	9.9
Aluminium \$/MT	1857.5	1651.3	1618.7	1.5	-21.8
Zinc \$/MT	1915.3	1620.3	1399.2	5.3	16.3

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	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	B+	-	BB-	-	B								
	Stable	-	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	Negative	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-	BB								
	-	-	-	Stable	Stable	16.7	10.6	79.3	125.2	2.3	287.4	11.4	2.4
Yemen	-	-	-	B	CC								
	-	-	-	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	-	Negative	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
	Positive	Positive	Negative	-	Stable								

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	23-Sep-09	No change	04-Nov-09
Eurozone	Refi Rate	1.00	08-Oct-09	No change	05-Nov-09
UK	Base Rate	0.50	08-Oct-09	No change	05-Nov-09
Japan	O/N Call Rate	0.10	17-Sep-09	No change	14-Oct-09
Australia	Cash Rate	3.25	06-Oct-09	Raise 25bps	03-Nov-09
New Zealand	Cash Rate	2.50	10-Sep-09	No change	29-Oct-09
Switzerland	3 month Libor target	0.25	17-Sep-09	No change	10-Dec-09
Canada	Overnight rate	0.25	10-Sep-09	No change	20-Oct-09
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	24-Sep-09	No change	04-Nov-09
Taiwan	Discount Rate	1.25	24-Sep-09	No change	Dec-09
South Korea	Target Rate	2.00	10-Sep-09	No change	09-Oct-09
Malaysia	O/N Policy Rate	2.00	25-Aug-09	No change	28-Oct-09
Thailand	1D Repo	1.25	26-Aug-09	No change	21-Oct-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	8.25	17-Sep-09	Cut 25bps	05-Nov-09
Turkey	Base Rate	7.25	17-Sep-09	Cut 50bps	15-Oct-09
South Africa	Repo rate	7.00	22-Sep-09	No change	22-Oct-09
Kenya	Central Bank Rate	7.75	23-Sep-09	No change	Oct-09
Nigeria	Monetary Policy Rate	6.00	02-Sep-09	No change	Nov-09
Ghana	Prime Rate	18.50	23-Sep-09	No change	Nov-09
Mexico	Target Rate	4.50	18-Sep-09	No change	16-Oct-09
Brazil	Selic Rate	8.75	02-Sep-09	No change	21-Oct-09
Armenia	Refi Rate	5.00	08-Sep-09	Cut 25bps	N/A
Romania	Policy Rate	8.00	29-Sep-09	Cut 50bps	N/A
Bulgaria	Base Interest	1.46	01-Oct-09	Cut 11bps	N/A
Kazakhstan	Refi Rate	7.00	04-Sep-09	Cut 50bps	N/A
Ukraine	Discount Rate	10.25	11-Aug-09	Cut 75bps	N/A
Russia	Refi Rate	10.00	30-Sep-09	Cut 50bps	N/A



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