Issue 143
December 3, 2009

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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global economy stable but highly vulnerable

The International Monetary Fund stated that the global economy remains stable and is improving, but added that it is still highly vulnerable. It said the major advanced economies in particular remain fragile and still depend on policy support, adding that financial conditions have improved, but are far from normal. The Fund noted that indicators show a return of confidence, but banking systems in many advanced economies remain undercapitalized, weighed down by bad legacy assets and increasing non-performing loans. The Fund said it is still too early for a general exit from accommodative fiscal, monetary, and financial sector policies and noted that such exit should instead await a sustained recovery in private demand, as well as financial stability. It added that exit strategies must differ as the pace of recovery differs among countries. It indicated that plans for fiscal consolidation should be the top priority, especially in advanced economies, while a related challenge to exit strategies is managing capital flows to emerging markets. It stressed that other tools include lower interest rates, reserves accumulation, tighter fiscal policy, and financial sector prudential measures. Also, supervision and supervisory capacity should be increased. The fund noted that the world economy will need a new engine in order to have sustained global growth. It said that the leading candidates are the surplus countries, noting that China and other emerging Asian economies are shifting from exports toward domestic demand, aided by expansionary fiscal policies.

Source: International Monetary Fund

MENA

Equity markets up 18% in first 11 months of 2009

Arab stock markets rose by 18% in the first 11 months of 2009 compared to a drop of 54.5% in the same period last year and to a similar decline of 54.5% during 2008. The Tunis stock exchange increased by 42.1% in the first 11 months of the year, posting the best performance among Arab markets during the covered period. It was followed by the Saudi stock market with a 32.3% rise, the Beirut markets with a 31% increase, the Muscat stock market with a 16.8% improvement, the Palestine exchange with a 13.7% rise, the Abu Dhabi equity market with an 11.6% growth, and the Doha bourse with a 4.5% improvement. In parallel, the Bahrain stock market posted the worst performance in the region with a 20% decrease year-to-November, followed by the Kuwait exchange with an 11% drop, the Casablanca stock market with a 7% decline, and the Amman bourse with a 6.3% drop. In comparison, emerging market equities improved by about 72.6% in the first 11 months of 2009.

Source: Local stock markets, Byblos Research

UAE

Abu Dhabi sovereign ratings affirmed, outlook stable

Standard & Poor's Ratings affirmed its 'AA' long-term and 'A-1+' short-term sovereign credit ratings on the Emirate of Abu Dhabi, with a ‘stable’ outlook, and kept the Transfer & Convertibility assessment at 'AA+'. It said the ratings on Abu Dhabi are supported by the government's very strong asset position that provides significant financial flexibility, and that allowed Abu Dhabi to face the global economic downturn with a high degree of resilience. It noted that the ratings are also supported by the country's high level of political stability and wealth, underpinned by its rich resource endowment, and by policies that reinforce Abu Dhabi's integration with the global economy. It estimated the government's net asset position to be more than 300% of GDP in 2009 and 320% in 2010, one of the highest in the world. In parallel, S&P considered that the ratings are constrained by the geopolitical risks that face all sovereigns in the region, the limited disclosure on the government's assets, and the contingent liabilities arising from the banking system and the public sector of the UAE as a whole. It noted that high levels of debt in the UAE public sector, along with its complicated and close linkages with the private sector, create a dependence that suggests a contingent liability for Abu Dhabi, which is the wealthiest emirate in the UAE.

Source: Standard & Poor's

ARMENIA

Reopening of Turkish border to have positive impact

The International Monetary Fund expected the reopening of the Turkish-Armenian land border to have a positive impact on the Armenian economy in the medium term, with the direct impact initially through trade. It said both countries would gradually establish greater trading ties, leading to an increase in trade in the goods and services of each country's comparative advantage. It noted that transportation costs to and from Turkey, as well as other destinations, would decline by as much as 10% to 20%, leading to a drop in import prices that could improve the standards of living of the Armenian population. It added that the Turkish economy would provide a large potential market for Armenian goods and services. It noted, however, that some Armenian firms producing for the local market could face string competitive pressures in the short term. It considered that tourism, FDI, and remittances to Armenia would also benefit as a result of the reopening of the land border. It said the reopening of the border could provide a more attractive environment for investment and regional integration, serving to attract FDI to Armenia. Further, domestic labor markets would potentially be open to both countries over time, thereby increasing and diversifying the sources of remittances to Armenia.

Source: International Monetary Fund

POLITICAL RISK OVERVIEW - NOVEMBER 2009

ARMENIA

Former president Ter-Petrossian said on November 11 that the Opposition Armenian National Council (HAK) was ready to recognize President Sarkisian's legitimacy if the government cooperates with the opposition. President Sarkisian formally submitted on November 19 the landmark protocols with Turkey to the Constitutional Court, before it can go to the Parliament for ratification. However, the President noted that he will not stop seeking recognition of Ottoman-era mass killings of Armenians as genocide and will not make additional concessions to Azerbaijan over the Nagorno-Karabakh conflict. A NATO special representative to the South Caucasus announced on November 6 that Armenia will send a small contingent of troops to Afghanistan in 2010 to assist the United States and its NATO allies against the Taliban insurgency.

DEMOCRATIC REPUBLIC OF CONGO

Security deteriorated in the northwest province of Equateur, following an eruption of inter-tribal violence over farming and fishing rights. At least 100 civilians and 26 policemen were killed by mid-November and tens of thousands were displaced internally and to the Republic of Congo. Top diplomats and UN officials said the UN mission in the DRC (MONUC) is considering an exit strategy. President Joseph Kabila wants the UN mission that has been in the country for nearly 10 years to withdraw ahead of the 2011 presidential elections.

EGYPT

Violence between fans inflamed tensions around the November 14 Egypt-Algeria World Cup football qualification match in Cairo. Algiers rioters attacked Egyptian-owned businesses in the capital. Protests near the Algerian embassy in Cairo turned to violent clashes with the police on November 19-20th. Egypt summoned Algeria's envoy and recalled its own after the three qualification matches. President Hosni Mubarak said Egypt will defend the dignity of its citizens abroad. Egyptian police arrested 12 Sinai Bedouin tribesmen in a clash after the police seized cement thought to be bound for Gaza via smuggling tunnels on November 10th. Hundreds of Muslim protesters burnt Christian-owned shops in southern Egypt on November 21st.

IRAN

Iranian response to the IAEA-brokered proposal to transfer low-enriched uranium stockpile to a third country for higher enrichment remains ambivalent. Foreign Minister Mottaki said Iran will not send uranium for enrichment abroad. Other officials called for further guarantees, but insisted on not rejecting the deal. The International Atomic Energy Agency (IAEA) passed on November 26 a new resolution against Iran over the construction of its Fordo enrichment plant. Iran's government approved plans to build 10 new uranium enrichment plants on November 29th. Thousands of anti-government demonstrators protested in Tehran on November 4, in an attempt to overshadow official rallies marking the 30th anniversary of the seizure of the U.S. embassy in Tehran. Tens of students were arrested during several protests at universities. The authorities executed a member of the Jundallah armed group on November 3 and a Kurdish member of the banned opposition group on November 11th.

IRAQ

After several delays, the Parliament approved a revised election law on November 8th, paving the way for a national vote in January 2010. The deadlock ended after lawmakers agreed to announce provisional election result in Kirkuk and other provinces where there is dispute over electoral rolls. Vice-president Tariq al-Hashemi vetoed the election law because he wanted more representation for Iraqis living abroad. MPs approved an amended version of the law on November 23, but Sunni MPs opposed the amendments and VP al-Hashimi threatened to veto the law again. The leader of the Awakening militia, Mustafa Kamal Shabib, was arrested on November 5th. The Court issued on November 19 a death sentence for the former Awakening leader Adil Mashhadani on terrorism charges. The government signed on November 2-5 agreements with international oil companies to develop Zubayr and West Qurna oilfields. President Talabani held economic and military talks with his French counterpart in France on November 16-18th.

SUDAN

Sudan's National Elections Commission delayed elections by six days, to April 11, 2010 from April 5, and extended voter registration across the country by seven days to December 7 because of a late start in some areas and appeals for an extension from opposition parties. Following special envoy Gration's visit to Sudan on November 16-23, the U.S. State Department announced concerns over chances for conducting elections and referenda without greater political will to resolve outstanding CPA issues. Qatari-hosted talks between the Sudanese government and Darfur rebels have again been postponed amid a lingering split in rebel ranks. A new report by monitors of an UN-imposed arms ban on Darfur documented the continuing flow of war materiel to the embargoed region. A vehicle carrying South Sudan's Agriculture Minister Samson Kwaje was attacked, the minister was shot and five people were killed. Sudan's dominant National Congress Party (NCP) criticized Chad's lack of seriousness in the normalization of diplomatic relations between the two countries.

SYRIA

Israeli Prime Minister Netanyahu met French President Sarkozy on November 11 and said he was ready to start direct peace negotiations with Syria, providing no preconditions were set. President Assad rejected the offer and insisted that talks can only take place if Israel accepts it must return the Golan Heights. The International Atomic Energy Agency (IAEA) announced on November 17 a new inspection of Damascus research reactor, as it said Syrian explanations for previous uranium traces were unsatisfactory. It also noted that Syria was not fully cooperating with the investigation.

YEMEN

Saudi forces launched an ongoing offensive against Yemen-based Houthi rebels on November 4 after rebels killed two security force members during an incursion in Jabal Dukhan area. Saudi officials said Jabal Dukhan was retaken on November 8th. It said Jabal al-Dood area was cleared of rebels on November 28th. Strikes against rebel positions in Yemen continued. The UN Children's Fund reported on November 13 that 240 villages in the border area were evacuated.

Source: International Crisis Group

OUTLOOK

UAE

Abu Dhabi growth unaffected by Dubai problems, debt crisis could reduce capital inflows to region

The Institute of International Finance projected economic activity in the UAE to contract by 1.6% in 2009 and to grow by 3% in 2010, adding that the country's recovery remains on track despite Dubai's debt problems. It projected non-oil growth at 0.5% in 2009, with Dubai's non-oil sector contracting by 5% compared to average non-oil growth of 12% in 2003-08, and Abu Dhabi's non-oil sector growing by 3% this year. It further expected non-oil growth to rebound to 3% in 2010, with Abu Dhabi seeing growth of 4% and Dubai's non-oil economy posting a 1.5% growth rate. It said Dubai relied heavily on leverage and debt in its rush to build a leading business hub in the region, adding that a correction was imminent after the rapid growth of the past few years, even in the absence of the global financial crisis. It noted that Dubai's economy expanded at double-digit rates, with much of this growth financed by debt that reached an estimated $80bn, equivalent to about 123% of its GDP and around half of the total external debt of the UAE. As a result, Dubai's debt service due in 2009 stands at 29% of GDP, one of the highest among emerging economies.

The IIF considered that the current restructuring of Dubai World is not likely to have a material effect on Abu Dhabi, which accounts for 55% of the UAE's economy, due to the strength of oil revenues. It estimated the UAE government's foreign assets at around $460bn, adding that the UAE remains in a large net creditor position of around $300bn, equivalent to 140% of projected GDP in 2009, despite Dubai's debt.

The IIF expected the recent events in Dubai, including the request for debt restructuring, to have a potentially adverse impact on private capital flows to the region, as financial institutions are likely to reconsider credit terms to Dubai's Government-related Entities and to other public sector affiliated entities in the region. Also, potential growth in the UAE will be affected by the departure of expatriates from Dubai, who account for more than 80% of the labor force and who have been the driver of the surging demand for housing and real estate. It considered that the direct impact of the debt restructuring, in terms of potential write-downs for creditors, will be limited and manageable. It warned, however, that Dubai World's request for a standstill and the way its debt restructuring is handled in the weeks ahead could have wider implications for financial markets, including a decline in the flow of credit and a rise in the cost of borrowing, therefore hindering the speed of recovery.

Source: Institute of International Finance

Debt restructuring to affect economic growth, future issuance

Merrill Lynch indicated that, compared to the $59bn of liabilities of Dubai World, the announced restructuring of $26bn might ease some market concerns regarding the risk of an outright Dubai or Dubai World default. It added that the total losses under conservative restructuring scenarios seem to be relatively manageable for international investors, though it would shake their confidence. It noted, however, that a total debt restructuring of $26bn amounts to almost 40% of Dubai's GDP. It said that, while the focus is largely on the repayment of bonds and syndicated loans, Dubai World is going through a broader-based restructuring that may affect domestic liquidity and economic activity. It expected significant de-leveraging in the economy and a further damage in corporate balance sheets unless a well-designed federal support program is announced. It added that debt restructuring is likely to hit banks and real estate markets directly, which constitute 33% of GDP, and trade activity indirectly that accounts for 39% of GDP. As a result, the UAE is likely to face a slowdown in GDP growth. Merrill Lynch estimated that Dubai overall faces almost $50bn in debt amortization in the coming three years, with $12bn due in 2010, $19bn in 2011 and $18bn in 2012. It considered that the restructuring is likely to make new issuances much harder for the UAE in the short term, as the implicit support of Abu Dhabi is no longer taken fro granted. In turn, this would add pressure on the banking sector.

Source: Merrill Lynch

UKRAINE

Negative outlook for banking system

Moody's Investors Service indicated that the credit outlook for the Ukrainian banking sector is negative, reflecting the vulnerable state of the credit fundamentals of domestic banks in the medium term. It expressed concerns about downward pressure on banks' capitalization and profitability due to deteriorating asset quality as well as about their liquidity due to weak depositor confidence. It noted that political uncertainty and potential currency volatility are adding to the risks of the banks' operating environment. The agency said Ukraine's economy has been one of the hardest hit during the global crisis and expected GDP to contract by around 12% in 2009. It noted the immediate consequences for banks, as Ukrainian borrowers are finding it difficult to service their debt under adverse macroeconomic conditions. It estimated that non-performing loans account for about 20% of banks' gross loans and could rise to 25%-30% by mid-2010 unless macroeconomic conditions substantially improve.

It said banks are currently reducing their balance sheets and are not expected to return to growth before the end of 2010. It noted that Ukrainian banks' loan books are contracting in real terms due to a still uncertain economic outlook, high loan book losses, strong competition for deposits, and reduced foreign funding. It added that many banks have largely stopped lending in 2009, which has negative repercussions on growth as the economy's access to new credit is more limited. It expected banks' profitability to remain weak in the medium term, as more than a third of banks posted losses in the third quarter 2009. Moody's stated that pressure on Ukrainian banks' capitalization is high because they have to create provisions for non-performing loans as asset quality deteriorates. However, the capitalization of the banking system is holding up despite an increase in loan loss provisions due to support from parent banks for banks with foreign ownership and due to capital injections by the Ukrainian government for government-owned and nationalized banks.

Source: Moody's Investors Service

ECONOMY & TRADE

IRAQ

Parliament passes investment law

The Iraqi Parliament passed an investment law that would allow foreigners to own land for housing projects, and that is designed to streamline regulations and applications for foreign investment. Iraq's old real estate laws only allowed the lease of land to foreign investors for a limited time. The investment law does not cover the oil sector or hotel construction. The new law, which must now be approved by Iraq's presidential council, also aims to speed up the process of applying for investment licenses and to clarify federal and provincial powers when dealing with investors.

Source: Kurdish Globe

UAE

Rating agencies downgrade Dubai entities on debt restructuring and lower government support

Standard & Poor's downgraded DP World and Emaar Properties to 'BB+' from 'BBB-', Dubai Holding Commercial Operations Group to 'BB+' from 'BBB+'; DIFC Investments and Jebel Ali Free Zone to 'B+' from 'BBB-', and the Dubai Multi Commodities Centre Authority to 'B+' from 'BB'. It kept the issuer credit ratings of the six Dubai-based government-related entities (GREs) on CreditWatch with negative implications. It attributed the downgrade to lowered expectations regarding the likelihood of extraordinary support from the Dubai government for the six GREs. S&P added that the downgrades reflect the GREs stand-alone credit profiles without the benefit of extraordinary government support. In parallel, Moody's Investors Service downgraded the ratings on DP World and Dubai Electricity & Water Authority to 'Baa2' from' A3', DIFC Investments to 'Ba1' from' A3', Jebel Ali Free Zone to 'Ba1' from 'Baa1', as well as Dubai Holding Commercial Operations Group and Emaar Properties to 'Ba2' from 'Baa1'. It attributed the downgrades to the announcement by the Dubai government of a restructuring of Dubai World, including a requested six-months standstill on all financings to Dubai World and its subsidiary Nakheel. It noted that a restructuring of obligations would indicate that the government is prepared to allow a GRE to default on its obligations. Dubai World announced on November 25 that it is requesting a debt standstill on its obligations and that it will restructure about $26bn of its liabilities, which are estimated at a minimum of $59bn on related obligations until at least May 30, 2010, including the much-anticipated redemption of the $3.5bn Nakheel bond due on December 14, 2009.

Source: Standard & Poor's, Moody's Investor Services

ANGOLA

IMF approves $1.4bn to face global crisis

The International Monetary Fund approved a 27-month Stand-By Arrangement (SBA) with Angola for about $1.4bn to help the country cope with the effects of the global economic crisis. It indicated that the related economic program aims to restore macroeconomic balances and rebuild international reserves, and includes a reform agenda to support non-oil sector growth. It said the program includes a determined effort to restrain public expenditures in order to reduce the non-oil primary fiscal deficit significantly in 2010, while providing adequate resources for social spending and vital infrastructure projects. It also includes an orderly exchange rate adjustment backed by tight monetary policy to normalize conditions in the foreign exchange market, and measures to safeguard the financial sector. It added that the SBA allocates 30% of total central government expenditures on social issues over the duration of the program, as well as adequate capital spending for vital infrastructure projects in 2010. It said the global economic crisis and the resulting sharp drop of commodity prices have severely affected Angola's economy, and expected the economy to contract by 0.4% in 2009 and to grow by 7% in 2010.

Source: International Monetary Fund

DEM REP CONGO

Financing gap at $600m in 2009

The International Monetary Fund estimated the Democratic Republic of Congo's overall balance of payments financing gap at $590m for this year, consisting of a fiscal gap of $320m and a build-up in gross official reserves to $270m. It said the sudden and sharp drop in world commodity prices and escalating conflict in the eastern provinces have led to a marked deterioration in economic conditions, including weakening the fiscal situation, and placing severe pressure on official reserves and the exchange rate. It added that the impact of the financial crisis on the balance of payments is both sudden and significant. It noted that the DRC is requesting about $200m in IMF support, adding that it supports the request given the sudden and adverse nature of the impact of the shock on the country's balance of payments, and the authorities' appropriate policy response. It said the World Bank is providing emergency budget support of $100m and the European Commission is considering providing the equivalent of about €40m–€60m in balance of payments or budget support. It noted that the total would still result in a residual financing gap of about $240m that could be closed through donor support, including a possible new three-year poverty reduction facility arrangement.

Source: International Monetary Fund

TURKEY

Assets declared under amnesty program reach $15bn

The Finance Ministry stated that the total amount of assets declared under the government's wealth amnesty reached TRY22bn, or $14.7bn by the end of November. The government launched the wealth amnesty program about a year ago after the onset of the global financial crisis, and paved the way for an almost tax-free repatriation of assets held abroad by Turkish residents. The ministry said the total amount of offshore assets declared under the amnesty was TRY13bn. It added that the amnesty was also applicable to assets held within the country that have not been declared to the government previously. It said the total amount of on-shore assets declared under the amnesty was TRY8.9bn.

Source: Credit Suisse

UAE

Banks' capital pressures increase

Fitch Ratings expected that impairments at most UAE banks, in terms of lending and investments, will rise further than previously anticipated due to direct exposures to Dubai World and Nakheel, and because of the secondary effect of a loss of confidence in the Dubai economy. It said the latter is likely to exacerbate the challenges already faced in the real estate market, as banks have yet to recognize the full impact of the market decline such as slow loan growth and continuing rises in retail lending impairments. It said Dubai-based banks' capital positions are more sensitive to rapidly rising NPL trends than other UAE banks. It added that most Abu Dhabi-based banks, which benefited from capital injected earlier in 2009, are less sensitive to NPLs. It noted that UAE bank capital ratios have strengthened this year as the institutions reduced cash dividends, slowed loan growth, converted federal deposits into Tier Two capital, and in some cases received direct injections of Tier One capital from their respective governments. Still, Fitch expected ongoing pressure on capital ratios, adding that if rising impairments over the next six months are largely limited to DW and its related entities, the impact should be manageable for the UAE banking sector. In parallel, Fitch downgraded the long-term ratings of Dubai Bank to 'BBB-' from 'BBB+', and the Bahrain-based TAIB Bank to 'BB' from 'BBB-' with ‘negative’ outlooks. It has already downgraded 7 UAE banks last September.

Source: Fitch Ratings

Four banks downgraded on exposure to Dubai World

Standard & Poor's lowered its long-term counterparty credit ratings on Emirates Bank International, National Bank of Dubai and Mashreqbank to 'BBB' from 'A-', and lowered the long and short-term counterparty credit ratings on Dubai Islamic Bank to 'BBB-/A-3' from 'BBB+/A-2.' It kept the long- and short-term ratings on the four banks on Credit Watch with negative implications. It attributed the downgrades to the banks’ large exposures to Dubai World and Nakheel, and more generally to Dubai-based government related entities (GREs), and the risks that the standstill agreement would pose to these banks; as well as to its re-assessment of the banks' respective stand-alone credit profiles. It noted that the restructuring announcement comes at a time when the deteriorating economic environment, including the fall of real estate prices, has already started to weigh on the financial profile of the banks. It expected asset quality to continue to deteriorate in the coming quarters from the direct and indirect impact of Dubai World’s debt restructuring, and because some of the banks have exposure to Ahmad Hamad Al Gossaibi Brothers and Saad Group, which defaulted on their obligations earlier in 2009.

Source: Standard & Poor's

Central Bank announces new liquidity facility

The UAE Central Bank set up a “special additional liquidity facility” for local and foreign banks operating in the country that is linked to their current accounts held with the Bank. The Central Bank said the facility is offered to banks at a rate of 50 basis points above the three-month EIBOR, and will be renewable for periods of one-week until end- March 2010. but did not provide details on its terms, conditions or limit. The announcement of this facility follows earlier statements from the Central Bank that it would stand behind and support banks in response to the announcement by Dubai World seeking a six-month maturity extension on its outstanding debt. Liquidity in the banking sector has improved significantly this year due to support measures by the regulator and a slight pick-up in confidence levels as evident from the drop in the three-month EIBOR to 1.915% from highs exceeding 4% earlier in the first quarter 2009.

Source: Thomson Reuters, EFG Hermes

ARMENIA

Liquidity improves, asset quality deteriorates at end-July

Figures released by the International Monetary Fund show that the risk-weighted capital adequacy ratio of banks operating in Armenia reached 28.9% at end-July 2009 up from 27.5% at the end of 2008. The capital-to-assets ratio was 21.7% at end-July, down from 23% at end-2008, while the sector's liquidity improved with liquid assets reaching 33.9% of total assets at end-July from 23.8% at end-2008. The deposits-to-loans ratio increased to 100% at end-July from 81.4% at end-2008. The sectoral distribution of loans shows that consumer loans accounted for 44.3% of total loans, followed by trade with 21.4%, industry with 13.7%, agriculture with 7.6%, construction with 7.5%, energy with 3.6% and transport & communication with 1.9%. Also, foreign currency loans reached 53.8% of total loans at the end of July 2009 compared to 38.7% at end-December 2008. The sector’s non-performing loans (NPLs) to total loans increased to 9.8% at end-July, up from 4.4% at year-end 2008. Further, the ratio of provisions to NPLs for the sector fell to 29.3% from 38.2% at end-2008. In parallel, banks’ profitability declined, as the return on average assets reached -0.1% at end-July 2009 relative to 3.1% at end-2008, and the return on average equity reached -0.7% down from 13.6% in 2008.

Source: International Monetary Fund

ANGOLA

Financial soundness regresses in second quarter of 2009

Figures released by the International Monetary Fund show that the risk-weighted capital adequacy ratio of banks operating in Angola reached 19% at end-June 2009 down from 23.9% at the end of 2008. The sector's liquidity deteriorated in the second quarter with liquid assets reaching 36.8% of total assets from 42.2% at end-2008. The sectoral distribution of loans shows that loans to the public sector accounted for 12% of total loans, while loans to the private sector accounted for 88% of total loans. The sector’s non-performing loans (NPLs) to total loans increased to 5.3% at end-June, up from 2.5% at year-end 2008. In parallel, banks’ profitability declined as return on average assets reached 1.6% in the second quarter of 2009 down from 2.5% at end-2008, and return on average equity reached 20.5% down from 25.6% in 2008. Interest margin reached 60.7% of gross income at end-June compared to 57.6% at year-end 2008.

Source: International Monetary Fund

Oil rises above $78, building stocks weigh

U.S. crude increased on December 3, as fund activity helped the market to recover from a sell-off the previous session, but large amounts of oversupply curbed gains. Brent crude rose 91 cents to $78.79 per barrel after touching a session high of $78.91. Losses recorded on December 2 came after U.S. government data showed that crude stocks rose by 2.1 million barrels last week. Oil hit a high of $82 a barrel in October, but failed to hold above that level due to a combination of excess supply, slow demand and tension about a fragile world economy. The Organization of the Petroleum Exporting Countries will meet to reconsider its output policy on December 22 in Angola. Ahead of that, ministers of the core Arab members of OPEC will meet in Cairo, where they are expected to discuss supply and demand but without taking formal decisions on the group's production. Adding to OPEC's challenges, the biggest non-OPEC oil exporter Russia set a fourth consecutive monthly output record in November. It is currently the world's largest producer, although Saudi Arabia is the world's biggest exporter and has shut in spare capacity.
Source: Thomson Reuters

Syria inaugurates gas plant

Syria inaugurated its largest gas processing plant in Furuqlos on November 18th, with a full capacity of 7.5 million cubic meters per day, as well as the first section of the Arab Gas Pipeline built within its territory. Stroytransgaz of GAZPROM, Russia's largest gas producer, built the plant at a cost of $310m plus SYP2bn. The plant is expected to generate some $3.5m a day in additional resources to the Syrian economy. Stroytransgaz is currently building a second gas processing plant near Homs. The plant is expected be completed in 2011 and will operate at a capacity of 3.5 million cubic meters per day.
Source: Syria Report

Germany to approve €18m to Armenia in 2010 for development of renewable energy

Germany is expected to grant Armenia an €18m loan for the development of renewable energy in 2010. The loan will be provided via the German KfW Bank for the construction and rehabilitation of hydro power plants in Armenia. This is the second German lending program for renewable energy project in Armenia.
Source: Arminfo

Kurdistan reveals 20-year electricity master plan

The Kurdistan Regional Government (KRG) Ministry of Electricity revealed its 20-year master plan prepared by British Parsons Brinckerhoff (PB) Company. The KRG spends $2.5m daily in order to produce electricity for the region. A huge amount of power is wasted every day due to the unavailability of a complete network model of the distribution system. PB has carried out as part of this master-plan study an assessment of the potential for large wind projects which showed that there is potential for wind-farm development in the three provinces of Kurdistan Region Duhok, Erbil, and Suleimaniya.
Source: Kurdish Globe

Basic Metals: Copper increases to 15-Month high on demand optimism

Copper futures increased for a fourth day to the highest level in 15 months as demand for the metal used in construction and cars is expected to improve as the global economy recovers. Copper climbed to $7,170 a metric ton on December 2, the highest price since September 23, 2008, as manufacturing expanded in China and the U.S. in November. The gain in base metal prices has reflected a number of influences, including anticipation of international economic recovery and investment flows associated with the fragility of the U.S. dollar and improved economic outlook. Copper has more than doubled this year, while the Dollar Index, a measure of the dollar's value against six major currencies, has decreased by 8.3% as investors bought raw materials as an alternative to a falling U.S. currency. Metal markets are expected to move toward balance or a supply deficit in the next 18 months as consumption recovers.
Source: Bloomberg

Precious Metals: Gold increases to record highs

Gold prices have increased to record highs in the past week, and other markets, such as palladium and platinum, have broken higher. Gold is currently up 12% month-on-month, in contrast to WTI crude oil which is down 5%, and base metals as a whole are little changed. This is mainly due to an increasing concern about the outlook for the US dollar. Precious metals are expected to offer significant protection against the dollar's weakness, as they have the highest negative correlation. Platinum is expected to outperform gold in 2010.

The most dramatic shift has been seen in official sector activity in the gold market. In 1980, gold represented 58% of official reserves, in 2008 the figure was only 10%, with central banks focusing on gold's low yield as a reason to reduce exposure. However, the credit crunch has changed perceptions about gold's benefit as a store of value and its role as a portfolio diversifier. Capital preservation is now seen as much more important than yield. Also, the opportunity cost of holding gold decreased, as interest rates fell. In relative terms, the cost of holding gold is now very low and the potential benefits are significant. Recent figures from the World Gold Council show that Central banks were net sellers of 62 tons of gold in the first quarter of 2009, but switched to net buyers of 5 tons in the second quarter and 15 tons in the third quarter. Central banks are expected to remain net buyers of gold in 2010.
Source: Standard Chartered

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	204.4	191.2	176.2	2.4	29.9
LME metals price index	3109.0	2763.0	2323.5	0.5	55.8
Oil prices USD	76.2	71.0	58.7	-3.1	40.5
Oil prices SDRs	47.4	45.3	38.3	-4.0	30.5
Gold $/troy oz	1190.8	995.0	943.5	12.9	46.3
Silver cents/troy oz	1849.0	1556.1	1394.2	5.0	79.5
Platinum $/troy oz	1455.0	1267.5	1147.8	6.7	67.8
Copper $/MT	6904.3	5873.6	4790.9	3.4	84.5
Nickel $/MT	16772.5	17163.5	13967.7	-12.4	64.4
Aluminium $/MT	2009.3	1790.0	1604.9	1.8	15.5
Zinc $/MT	2241.8	1832.0	1538.4	-3.8	75.9

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	-11.5	7.8	1.9	3.4	1.7	1.9	-3.0	0.8
Angola	- -	- -	- -	- -	B Stable	4.6	19.1	17.4	25.4	9.4	-	7.6	7.2
Egypt	BB+ Stable	Ba1 Stable	BB+ Stable	BBB- Stable	BB Stable	-7.9	73.8	17.0	47.0	5.8	100.6	-2.9	3.2
Ethiopia	-	-	-	-	CCC Stable	-2.3	-	14.1	263.0	-	-	-7.2	-
Ghana	B+ Stable	- -	B+ Negative	- -	CCC Stable	-10.1	-	35.6	-101.7	-	-	-17.0	-
Ivory Coast	- -	- -	- -	- -	CC Stable	-1.4	-	55.7	134.4	-	556.0	0.3	-
Libya	A- Stable	- -	BBB+ Stable	- -	BB Stable	-2.0	6.5	15.5	20.0	3.3	-	15.5	2.8
Mauritania	- -	- -	- -	- -	- -	-3.1	-	47.6	92.7	-	-	-4.7	-
Morocco	BB+ Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-3.6	52.8	24.2	79.5	0.5	95.6	-2.1	3.3
Nigeria	B+ Stable	- -	BB- Stable	- -	B Stable	-3.0	12.3	5.0	16.5	0.3	-	-5.6	1.6
Sudan	- -	- -	- -	- -	C Stable	-3.3	104.5	67.2	428.5	3.2	-	-5.1	2.4
Tunisia	BBB Stable	Baa2 -	BBB Stable	BBB Stable	BB Stable	-4.0	51.0	53.0	114.6	9.7	232.0	-2.6	3.8
Middle East													
Bahrain	A Stable	A2 -	A Stable	A Stable	BBB Stable	-6.4	22.7	178.0	220.3	15.9	934.9	-2.9	0.9
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	-4.8	19.3	5.2	20.1	2.8	23.1	0.6	0.2
Iraq	- -	- -	- -	- -	CC Stable	-12.7	-	67.3	128.4	2.3	112.8	-0.1	0.9
Jordan	BB Stable	Ba2 -	- -	BB Stable	CCC Stable	-1.2	59.0	65.4	131.2	8.1	183.0	-10.7	6.9
Kuwait	AA- Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	12.9	7.5	31.7	57.7	2.8	221.2	25.8	-2.0
Lebanon	B- Stable	B2 -	B- Stable	B Stable	CCC Stable	-12.6	154.3	96.3	631.1	15.0	168.6	-10.4	5.5
Oman	A Stable	A2 -	- -	A Stable	A Stable	-5.1	6.0	30.9	45.9	5.4	117.1	-0.3	2.0
Qatar	AA- Stable	Aa2 Stable	- -	AA- Stable	A Stable	4.2	10.4	72.8	157.3	8.4	603.4	8.7	7.9
Saudi Arabia	AA- Stable	A1 -	AA- Stable	AA- Stable	BBB Stable	-4.7	11.3	9.7	18.8	2.0	89.1	-6.1	0.3
Syria	- -	- -	- -	- -	CCC Stable	-7.9	32.3	14.6	75.3	1.0	151.1	-2.9	1.4
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	0.7	12.7	63.8	74.1	3.9	420.3	-5.3	0.7
Yemen	- -	- -	- -	B Stable	CC Stable	-11.2	-	22.5	112.7	-	-	-9.7	

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 (%)
Central & Eastern Europe													
Armenia	-	Ba2	BB-	-	-								
	-	-	Stable	-	-	-3.1	23.6	42.5	579.3	1.5	344.9	-0.8	0.9
Bulgaria	BBB	Baa3	BBB-	-	BB								
	Stable	-	Stable	-	Stable	-2.7	17.5	102.0	200.0	35.3	283.9	-8.0	8.2
Kazakhstan	BBB-	Baa2	BBB-	-	BB								
	Negative	-	Negative	-	Stable	-3.5	6.6	95.9	231.5	48.0	426.6	-7.6	9.2
Romania	BB+	Baa3	BB+	BBB-	BB								
	-	-	Negative	Negative	Stable	-5.1	20.8	61.5	202.5	15.9	348.0	-7.1	3.3
Russia	BBB	Baa1	BBB	-	BBB								
	-	Positive	Negative	-	Negative	-6.5	7.0	38.0	133.6	33.7	139.1	1.3	0.4
Turkey	BB-	Ba3	BB-	BB-	B								
	Stable	-	Stable	Stable	Stable	-6.0	47.6	47.3	198.3	31.2	434.4	-1.3	1.4
Ukraine	CCC+	B1	B-	-	CCC								
	Stable	Positive	Negative	-	Stable	-4.0	22.1	86.6	223.7	20.1	407.1	-0.1	4.5

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	04-Nov-09	No change	16-Dec-09
Eurozone	Refi Rate	1.00	05-Nov-09	No change	03-Dec-09
UK	Base Rate	0.50	05-Nov-09	No change	10-Dec-09
Japan	O/N Call Rate	0.10	20-Nov-09	No change	18-Dec-09
Australia	Cash Rate	3.75	01-Dec-09	Raise 25bps	N/A
New Zealand	Cash Rate	2.50	29-Oct-09	No change	10-Dec-09
Switzerland	3 month Libor target	0.25	17-Sep-09	No change	10-Dec-09
Canada	Overnight rate	0.25	20-Oct-09	No change	08-Dec-09
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	04-Nov-09	No change	16-Dec-09
Taiwan	Discount Rate	1.25	24-Sep-09	No change	Dec-09
South Korea	Target Rate	2.00	12-Nov-09	No change	10-Dec-09
Malaysia	O/N Policy Rate	2.00	24-Nov-09	No change	26-Jan-10
Thailand	1D Repo	1.25	02-Dec-09	No change	N/A
India	Reverse repo rate	3.25	27-Oct-09	No change	29-Jan-10
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	05-Nov-09	No change	N/A
Turkey	Base Rate	6.50	19-Nov-09	Cut 25bps	17-Dec-09
South Africa	Repo rate	7.00	17-Nov-09	No change	26-Jan-10
Kenya	Central Bank Rate	7.00	24-Nov-09	Cut 75bps	Dec-09
Nigeria	Monetary Policy Rate	6.00	03-Nov-09	No change	Jan-10
Ghana	Prime Rate	18.00	23-Nov-09	Cut 50bps	Jan-10
Mexico	Target Rate	4.50	27-Nov-09	No change	N/A
Brazil	Selic Rate	8.75	21-Oct-09	No change	09-Dec-09
Armenia	Refi Rate	5.00	10-Nov-09	No change	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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