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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

IMF receives about $1bn to support low income countries

The International Monetary Fund signed a borrowing agreement with the Bank of Spain, through which Spain will provide the Fund's Poverty Reduction and Growth Trust with about $617m in new loan resources for low-income countries. The agreement expands the IMF's capacity to help low-income countries hit hard by the current global crisis, and increases the loan resources available for the recently reformed concessional lending facilities. The IMF also signed a similar agreement with the Danmarks Nationalbank, through which Denmark will provide the PGRT about $305m in new loan resources for low-income countries. The Fund has launched a fund-raising campaign seeking about $13.7bn in new bilateral loan resources and $0.6bn in bilateral subsidy contributions.

Source: International Monetary Fund

MENA

Equity markets up 5% in first two months of 2010

Arab stock markets increased by 5% in the first two months of 2010 compared to a drop of 16.8% in same period last year. The Tunis stock exchange increased by 9.4% during the covered period, posting the best performance among Arab markets. It was followed by the Egyptian stock exchange with an 6.8% rise, the Palestine equity market with a 6.5% growth, the Casablanca stock market with a 6.3% increase, the Kuwait bourse with a 5.3% improvement, the Saudi equity market with a 5.2% appreciation, the Muscat exchange with a 5% increase, and the Bahrain stock market with a 4.1% rise. In parallel, the Dubai financial market posted the worst performance in the region with an 11.7% decrease, followed by the Iraqi stock exchange with a 7.8% decline, the Abu Dhabi bourse with a 1.5% drop, the Doha equity market with a 1.2% contraction, and the Beirut stock exchange with a 0.8% decline. In comparison, emerging market equities declined by 5.6% and global equities regressed by 3.3% in the first two months of the year.

Source: Local stock markets, Byblos Research

GCC

Investor sentiment continues to deteriorate on Dubai uncertainties

The Shuaa Capital GCC Investor Confidence Index indicates that investor sentiment regressed in February, with five out of six GCC markets recording a drop in investor sentiment, and constituting the second consecutive monthly decline. The index declined by 8.9 points to 105.6 points in February, following a 2.4 points drop in January. Kuwait's Investor Confidence Index rose by 11% from the previous month, posting the only improvement in investor sentiment in the region. In parallel, the UAE sentiment index fell by 12.2%, Saudi Arabia regressed by 6%, Qatar dropped by 4.4%, Bahrain slid by 2.2% and Oman declined by 1.6%. Investor sentiment remained the strongest in Saudi Arabia with the country's index at 133.8 points, highest in the region. Shuaa Capital attributed the drop in investor sentiment to increasing investor uncertainty about Dubai's debt situation. It said the balance of investors' perceptions of current GCC economic conditions declined month-to-month, driven by the UAE where perceptions about current economic conditions regressed the most, dropping from -21% to -42.5%. Further, investor sentiment towards the Saudi economy decreased from 44% to 37.5%, sentiment for Qatar's economy declined from 44.2% to 27.5%, and sentiment towards the Omani economy regressed from 9.3% to 5%. In parallel, sentiment towards the Kuwaiti economy improved from -35% to -20% and sentiment for Bahrain's economy rose from -18.6% to -17.5%, but both remained in negative territory.

Source: Shuaa Capital

UAE

Abu Dhabi-related issuers downgraded

Moody's Investors Service downgraded seven government-related issuers (GRIs) owned by the Abu Dhabi and UAE governments. It downgraded Mubadala Development Company, the International Petroleum Investment Company (IPIC), and Emirates Telecommunications Company (Etisalat) to 'Aa3' from 'Aa2'; the Tourism Development & Investment Company (TDIC) to 'A1' from 'Aa2'; the Abu Dhabi National Energy Company (TAQA) to 'A3' from 'Aa2'; Dolphin Energy to 'A1'from 'Aa3'; and Aldar Properties to 'Ba1'from 'Baa2'. The agency said it downgraded Mubadala, IPIC and TDIC despite the government's formal assurances that it fully and unconditionally stands behind these entities for any debt servicing and principal repayments, as there is no explicit formal agreement requiring the government to support them under all circumstances. It also downgraded TAQA due to the lack of ongoing and regular funding from the government and increased commercial nature of its activities, and lowered Dolphin's ratings to reflect the company's commercial, abeit highly strategic, business activities.

Further, it reduced Aldar's ratings due to reduced support, exposure to the volatile real estate market, and because its portfolio contains a significant portion of commercial projects that will require financing beyond 2011 and for which the support mechanisms are less certain. Moody's noted that the Abu Dhabi government took steps to establish greater control and oversight of its GRIs such as establishing a Debt Management Office, therefore requiring all GRIs to obtain approval for debt financing from the office prior to issuance.

Source: Moody's Investors Service

POLITICAL RISK OVERVIEW - FEBRUARY 2010

ALGERIA

The chief of Algeria's national police force Ali Tounsi was shot dead at his headquarters by another police official. Algerian officials confirmed on February 2 that seven armed Islamists were killed during an operation conducted by the security services near the town of Djelfa.

ARMENIA

The United States is speeding up its role in the resolution process between Armenia and Turkey. Secretary of State Clinton's deputy, James Steinberg, went to Yerevan on February 4 to meet with Armenian President Serzh Sargsyan. Turkey's Prime Minister Recep Erdogan declared that the progress of Armenia-Turkey reconciliation will be brought to a stop if the U.S. Congress passes a resolution on March 4 that urges U.S. President Obama to recognize Ottoman killings of Armenians as genocide. The Special Investigation Services that explored possible violations in January's disputed parliamentary by-elections, announced the closure of investigations on February 11, as it found no evidence of fraud.

DEM REP CONGO

President Kabila downsized the presidential cabinet from 54 to 44 members on February 19 in order to fulfill World Bank debt relief requirements. Rwandan Hutu rebels killed seven women in the South Kivu province on February 11th.

EGYPT

Egyptian police arrested Muslim Brotherhood deputy leader Mahmud Ezzat and three members of the opposition group's politburo along with 13 activists on February 8th. Egyptian opposition Ayman Nour declared that he would run for president, in defiance of a ban on his participation in the 2005 presidential elections. Former head of the IAEA Mohammed El Baradei announced the formation of a national association for change in Egypt on February 23rd. He explained that the association will be formed to promote political change in the country.

IRAN

Ambassadors from France, Russia, and the United States sent a letter to the IAEA Director General Yukiya Amano conveying regret over Iran's unwillingness to agree to the TRR fuel swap arrangement. Opposition leader Mousavi declared on February 2 that the 1979 revolution could not end the dictatorship in Iran. U.S. President Barack Obama said a regime of international sanctions against Tehran is moving forward and should be completed by the end of February. Iran's Intelligence Ministry said its agents killed four Kurdish rebels in the west of the country. The leader of Iranian Sunni rebel group Baluchi Jundallah was captured on a flight from Dubai to Kyrgyzstan on February 23rd.

IRAQ

A series of bombings in Iraq, including a coordinated attack on February 1, killed about 100 Shiite Muslim pilgrims during the religious holiday of Arbain. After Prime Minister Nouri Al-Maliki doubted the disqualification of 500 candidates from the March elections, who were accused of being linked to the late Saddam Hussein's Baathist party, it was agreed to consider banned candidates' appeals before starting the campaign. The Iraqi military will return 20,000 Saddam Hussein-era army officers, who were discharged from their posts after the 2003 U.S. invasion of the country. At least eight Christians were killed in Mosul during the last two weeks of the month, leading thousands of Christians to protest the attacks against their community.

SUDAN

North-South tensions remained high on February 1 when the Sudan Peoples' Liberation Movement refused to withdraw its candidate for national presidency and ignored the National Congress Party's request. The minister at the presidency of southern Sudan government Luka Biong said that the two parties agreed to increase 40 parliamentary seats to southern Sudan in the national parliament. But National Assembly Deputy Speaker Mohamed el-Hassan Al-Amin said that the latest understanding reached 34 members of parliament only. Clashes throughout the month have spoiled Khartoum's announcement of a new peace agenda in the region which came just over a month ahead of national elections. In late February, the UN reported 140 to 400 people dead in a surge of fighting between the Sudanese army and rebels in Darfur. Across the South, at least 52 people were killed over the month during clashes between opposing ethnic groups and between military and armed civilians.

SYRIA

The Iranian President Mahmoud Ahmadinejad and his Syrian counterpart Bashar Assad signed an agreement on February 25 to cancel visa requirements for the two countries' nationals. U.S. President Barack Obama nominated Robert Ford on February 16 as America's first ambassador to Syria in 5 years. Israel has threatened to hit Syria while Syrian Foreign Minister Walid Moallem warned Israel that his country would react powerfully if it was attacked.

UKRAINE

The leader of the opposition Party of Regions Viktor Yanukovychhas has been officially declared the winner of the presidential election run-off held on February 7th. Ukaranian Prime Minister Yulia Tymoshenko refused to concede to her rival or to step down as head of the government.

Source: International Crisis Group

YEMEN

A ceasefire was reached between the government and Houthi rebels following seven months of heavy fighting in the Northern Saada region. Dozens were killed on both sides in early-month clashes after the government rejected rebels' truce offer at the end of January. President Saleh declared a ceasefire on February 12 after rebels accepted the government's conditions including the release of prisoners, the return of captured weapons and the removal of roadblocks. Rebels withdrew from Saada city on February 25 and handed over three captured Saudi soldiers on February 15 and 18th. They pulled back from the Saudi border on February 16th. Southern separatist supporters held large protest rallies in several cities on February 27-28 following the death of a separatist demonstrator in Lahj. The U.S. approved on February 22 to double its military aid for Yemen to $150m.

Source: International Crisis Group

OUTLOOK

IRAQ

Real GDP growth at 7.3% in 2010, fiscal deficit to decline

The International Monetary Fund projected Iraq's economic growth at 7.3% in 2010, up from 4.2% in 2009, and expected real non-oil GDP to grow by 4.5% in 2010 from 4% last year. It said Iraq's medium- and long-term economic outlooks are favorable as oil prices and production are expected to increase in the coming years, but added that major challenges lie ahead. It noted considerable risks associated with security problems, oil price volatility and capacity constraints, and expected large fiscal and balance of payment gaps for 2010 and 2011 due to lower oil receipts and infrastructure bottlenecks. It welcomed the authorities' strong commitment to consolidate macroeconomic stability and advance the structural reform agenda, particularly in public financial management and the banking sector. It stressed the importance of implementing the economic program to help unlock much-needed resources from other donors and multilateral development banks. It indicated that the government's budget posted a deficit of 22.6% of GDP in 2009 due to low oil exports receipts, but projected it to decline in 2010-11 before recording a surplus in 2012. The Fund noted that financing the budget deficits in the coming two years will require liquidity to fill a $5bn expected financing gap. It also expected the current account to post a deficit of 21% of GDP in 2010 relative to a deficit of 19.4% of GDP last year.

The IMF supported the Central Bank of Iraq's monetary and exchange rate policies at sustaining lower rates of inflation, and called on authorities to eliminate the remaining exchange rate restrictions. It expected inflation of 6% at end-2010 compared to -4.4% at end-2009. It emphasized the need to preserve the CBI's independence as well as to strengthen reserve management, banking supervision and prudential regulations, and the anti-money laundering and combating the financing of terrorism framework. It welcomed the authorities' efforts to conclude debt agreements with the remaining official and private creditors.
Source: International Monetary Fund

SAUDI ARABIA

Growth to average 3.6% in 2010-11, global slowdown is key risk

The Institute of International Finance indicated that the Saudi economy has weathered the global crisis with only a small GDP contraction of 0.6% in 2009, mainly due to a 10% reduction in oil production. It expected the economy to recover in 2010-11, supported by continued robust government spending, improved bank lending conditions and a gradual restoration of market confidence. It forecast real GDP to grow by 3.2% in 2010 and 4% in 2011 and real non-oil GDP to grow by 3.7% in 2010 and 4.3% in 2011. It projected inflation to increase slightly to an average of 5.2% in 2010 from 5.1% in 2009 due to the modest increase in international commodity prices and some tightness in the domestic housing market that is putting upward pressure on rents. However, it expected the increased supply of housing to ease rent inflation towards the end of the year. It suggested that the riyal is still slightly undervalued based on the equilibrium real exchange rate. Further, it noted that the external current account balance shifted from a surplus of about 29% of GDP in 2008 to a small deficit of 1% of GDP in 2009, as a result of the fall in average Saudi oil prices and the drop in oil export volumes. It expected the current account to post a surplus of 4.5% of GDP in 2010 due to higher oil export revenues and some recovery in exports of petrochemicals.

The IIF estimated the fiscal surplus at less than 1% of GDP in 2009. It said government spending increased by only 7% yearly, as some of the government investments have been undertaken by public enterprises rather than the central government. It projected total spending to rise by 10% in 2010 but expected the fiscal surplus to widen to 6.5% of GDP, supported by a 25% increase in government revenues. It expected domestic debt to remain low at 15% of GDP in 2010, adding that most debt is owed to two large pension funds. It forecast official foreign assets managed by SAMA to increase by $30bn this year to $437bn by end-2010. The IIF warned, however, that a prolonged global slowdown or a double-dip recession would reduce global demand for oil and lead to negative contribution from the hydrocarbon sector to overall growth in Saudi Arabia. It added that the health of the banking sector remains a key factor regarding the growth outlook.
Source: Institute of International Finance

ALGERIA

Public spending is driver of non-hydrocarbon growth, medium term challenges persist

The International Monetary Fund estimated real GDP growth at 2.1% in 2009 relative to 2.4% in the previous year, and non-hydrocarbon growth at 9.2% last year, up from 6.1% in 2008, due to an excellent cereal harvest and the continued strength of the services and construction sectors driven by the Public Investment Program (PIP). The Fund noted that Algeria will post its first overall fiscal deficit in a decade, at 8% of GDP, following a surplus of 8% of GDP in 2008. It said the deficit should be largely financed by domestic non-bank resources, leaving the savings in the oil stabilization fund at around 40% of GDP. The IMF noted that the fall in oil prices and the ensuing deterioration in financial balances show that Algeria continues to face important medium-term challenges. It called for efforts to improve productivity, diversify the economy to reduce its high dependence on the hydrocarbon sector, and reduce high youth unemployment.

The IMF endorsed the continued implementation of the PIP and support to SMEs, adding that the sizable fiscal savings can be used to that effect. It stressed, however, that the overhaul of the current and capital spending would free up budgetary resources, better preserve hydrocarbon wealth in the medium term, and maintain fiscal space in case of adverse shock on oil prices. The IMF also stressed the critical importance of ensuring the quality and efficiency of public spending, which has become an important driver of Algeria's non-hydrocarbon economic growth. It added that efforts to improve infrastructure are not sufficient to improve the investment climate. It noted that the new regulations for FDI projects could deter foreign investors to open subsidiaries in Algeria, preventing much needed technology transfer.
Source: International Monetary Fund

GCC

Real estate projects down 14% year-on-year, UAE projects drop by 26%

The aggregate value of ongoing and announced real estate projects in the GCC reached $2,280bn at the end of February 2010, constituting a decline of 13.7% from $2,643bn a year earlier. Projects in the UAE totaled $963.4bn, accounting for 42.2% of the total. They were followed by Saudi Arabia with $653.6bn, or 28.7% of the total, Qatar with $220.3bn (9.7%), Kuwait with $268.7bn (11.8%), Oman with $106bn (4.6%), and Bahrain with $68.5bn (3%). The UAE saw the steepest drop in real estate projects with a 26% decline year-on-year. It was followed by Kuwait with a decline of 12.8%, Oman with a decrease of 2.5%, and Qatar with a contraction of 1.4%. Saudi Arabia posted a 4% growth in real estate projects and Bahrain was unchanged. In parallel, the value of real estate projects on hold or canceled in the GCC totaled $595.7bn as of February 2010, with the UAE accounting for $468bn or 78% of the total, followed by Saudi Arabia with $53bn (8.9%), Kuwait with $45bn (7.6%), Bahrain with $13bn (2.2%), Qatar with $9.8bn (1.7%), and Oman with $6.6bn (1.1%).

Source: MEED

UAE

Ras Al Khaimah ratings affirmed, outlook stable

Standard & Poor's affirmed the 'A' long-term and 'A-1' short-term sovereign credit ratings on the Emirate of Ras Al Khaimah (RAK) with a ‘stable’ outlook. It said RAK's economic growth declined by around 1.3% in 2009, as demand for its main industrial and mining products and for its tourism and real estate sectors was affected by the global economic downturn generally, and the economic crisis in Dubai specifically. The agency noted that the emirate’s ratings rest primarily on the near certainty of continued ongoing support from the UAE federal government and the strong likelihood of extraordinary support from the federation. It considered that the financial capacity of the UAE and the larger emirates, in particular Abu Dhabi, is ample to cover RAK's modest liabilities, as RAK's total debt was at around 36% of its GDP at year-end 2009. Also, it estimated the government's net asset position at around 18% of GDP. It added, however, that the predominance within the emirate's asset base of equity stakes in local companies raises uncertainties over the valuation and liquidity of the portfolio in the event of domestic stress. It expected RAK’s growth to average around 4% over the medium term.

Source: Standard & Poor's

SUDAN

Oil revenues drop by 60% in 2009

The Government of South Sudan (GoSS) indicated that proceeds from oil exports in Sudan reached about $2.5bn in 2009, constituting a decline of 60% from $6.5bn in the previous year. It said the federal government’s share of oil production in 2009 was 83.7 million barrels, while the share of partners was around 77.1 million barrels. Further, the federal government’s share of oil recepits was about $1.4bn while the share of GoSS was $1.06bn. Oil revenues from the oil-rich Abyei region reached about $215.3m with $64.6m going to the federal government, $67.2m to GoSS, $4.1m each to the states of South Kordofan, Warrap, tribes of Dinka Ngok and Misseriya, and $66.8m to the Abyei fund. Oil receipts account for 98% of South Sudan’s non-aid revenues, while they represent 60% to 70% of revenues for the North. About 75% of Sudan’s proven reserves of 6.3 billion barrels are in the south, but the pipelines that carry the oil to export terminals and refineries go through the north. Currently the North and the South split the oil proceeds in accordance with the Comprehensive Peace Agreement (CPA) signed in 2005. Last month, GoSS said that the South may continue to share oil proceeds with the North for a limited time in case it secedes from the federation.

Source: Sudan Tribune

ARMENIA

Brand perception regresses in fourth quarter

The Nation Brand Perception Index ranked Armenia in 148th place among 200 countries and territories around the world and in 7th place among 11countries in the Commonwealth of Independent States in the fourth quarter of 2009. Armenia ranked in 131st place globally and in 7th place regionally in the third quarter. Armenia ranked in 152nd place overall for the full year, ahead of Guinea and behind Samoa, at it ranked 160th in the second quarter and 141st in the first quarter of 2009. The index analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. Globally, Armenia ranked ahead of ahead of Liberia, Uzbekistan and El Salvador and came behind Lithuania, Croatia, and Tanzania. Armenia received a score of 47.9 points, below the global average of 50.1 points. Lebanon's score decreased by 2.7% in the fourth quarter from 49.2 points in the third quarter. In parallel, Armenia was the 71st most mentioned country in the international media in the fourth quarter of 2009, the fourth most mentioned country from the CIS region. Globally, it was mentioned more than Romania and Venezuela, and less than Nepal and Kenya. Armenia was mentioned 3,546 times in the international media, below the global average mentions of 14,057 times.

Source: East West Communications, Byblos Research

DEM REP CONGO

Paris Club to write off and reschedule debt of $3bn

The Paris Club of of sovereign bilateral creditors announced that it will write off or reschedule nearly half of the $6.9bn debt it is owed by the Democratic Republic of Congo (DRC). The restructuring agreement covers $3bn, of which $1.3bn will be cancelled and $1.7bn rescheduled. Also, the Paris Club deferred all of the DRC’s debt-service payments for more than two years, until the second half of 2012, due to the "exceptional" circumstances of the government's inability to service its debt. Last December, the International Monetary Fund considered that the DRC is in debt distress with an external debt stock of about $13.1bn and debt service amounting to about 25% of total expenditures. It indicated that the country could benefit from debt relief of about $9bn by reaching the completion point under the enhanced Heavily Indebted Poor Countries Initiative.

Source: Economist Intelligence Unit, International Monetary Fund

GCC

Provisions reach $6.8bn in first 9 months of 2009

The aggregate net profits of GCC banks reached $13.6bn in the first 9 months of 2009 compared to profits of $16.5bn in 2008. Banks in Saudi Arabia posted net profits of $6bn during the covered period, accounting for 44.4% of the total. They were followed by the Qatari banking sector with $2.1bn in net income, or 15.4% of the total; Abu Dhabi banks with $1.8bn (13.4%), Dubai banks with $1.7bn (12.6%), Kuwaiti banks with $1.1bn (8.4%), banks in Bahrain with $414m (3%) and those in Oman with $383m (2.8%) of the total. Further, GCC banks' provisions and impairments against investment losses and loan defaults reached $6.8bn in the first 9 months of 2009 compared to $7.1bn in provisions in all of 2008. In parallel, the return on average equity (ROAE) of GCC banks deteriorated sharply, as the ROAE of Saudi banks dropped from 24% in 2007 to 12.7% in the first 9 months of 2009; and that of Kuwait banks contracted from 23% to 7% over the same period. Further, Abu Dhabi banks' ROAE declined from 20% in 2007 to 9.7% during the covered period, and returns for Dubai banks fell from 21% to 11.3%. Also, the ROAE of banks in Qatar regressed from 23% in 2007 to 13.7% as a at September 2009, while banks in Oman and Bahrain saw their ROAE retreat from 18% and 16% in 2007 to 9.8% and 8.9%, respectively.

Source: KAMCO

SUDAN

Progress in anti-money laundering efforts, deficiencies remain

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Sudan has demonstrated progress in improving its AML/CFT regime, but considered that certain strategic AML/CFT deficiencies remain. It noted that Sudan has made a high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address these deficiencies. It said the commitment includes implementing adequate procedures for identifying and freezing terrorist assets; ensuring a fully operational and effectively functioning Financial Intelligence Unit; making sure that financial institutions are aware of and comply with their obligations to file suspicious transaction reports in relation to money laundering and terrorism financing; and implementing a supervisory program for the regulators to ensure compliance with the provisions of the new law and regulations.

Source: Financial Action Task Force

IRAN

IMF calls for banks' recapitalization, dealing with NPLs

The International Monetary Fund indicated that the market share of private banks has steadily increased and that they have become leaders in the provision of participatory facilities, but added that soundness indicators have weakened because of credit policies and slower domestic demand growth. It stressed on the need to address the increase in banks' nonperforming loans and welcomed the authorities' intention to take additional measures as necessary. It noted that the balance sheets of banks were likely to be affected by the impact of the increase in energy prices on corporate profits and encouraged the authorities to recapitalize the banking system. The Fund also encouraged the Central Bank of Iran to require collateral for banks' access to its liquidity facility. It supported steps taken to equalize the rates of return on term deposits between public and private banks, and stressed the need to gradually liberalize rates of return, particularly on the lending side. It further called for strengthening the independence of the Central Bank.

Source: International Monetary Fund

NIGERIA

Anti-money laundering regime needs to improve

The Financial Action Task Force (FATF) indicated that Nigeria has demonstrated progress in improving its anti-money laundering and combating the financing of terrorism (AML/CFT) regime, but considered that certain strategic AML/CFT deficiencies remain. It noted that Nigeria has made a high-level political commitment to work with the FATF and the FATF-style regional body GIABA to address these deficiencies. It said the commitment includes adequately criminalizing money laundering and terrorist financing; implementing adequate procedures to identify and freeze terrorist assets; ensuring that relevant laws or regulations address deficiencies in customer due diligence requirements and that they apply to all financial institutions; and demonstrating that AML/CFT supervision is undertaken effectively across the financial sector.

Source: Financial Action Task Force

Central Bank to boost domestic credit

The Central Bank of Nigeria (CBN) indicated that it plans to support domestic credit by facilitating funds to banks from international development financial institutions (DFIs). It pointed out that funds from the DFIs would be deployed by the banks to refinance their short-term deposits in order to provide access to funds to prospective borrowers needing facilities with longer tenors.

Source: This Day

ROMANIA

Negative outlook for banking sector

Moody's Investors Service indicated that the fundamental credit outlook for the Romanian banking sector is negative due to the challenging local economic conditions. It noted that the IMF/EU support package and the government's commitment to economic reforms have eased any significant concerns regarding the liquidity and solvency of the local banking system. It said the banks' good capitalization and profitability levels have allowed them to absorb any immediate shocks to the economy. However, Moody's expected the rise in credit and funding costs to continue to weigh on banks' profitability over the short- to medium-term amid the challenging economic outlook, while the level of impaired loans is likely to remain high given their typical delayed reaction to any possible economic recovery. It also expected foreign parent bank to provide their Romanian subsidiaries with additional capital funds in case of need and to ensure sufficient capacity to absorb any future loan losses. It noted that the system's liquidity remains tight with an overall loan-to-deposit ratio of more than 110% at the end of 2009.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Oil rises to around $81 as dollar eases

Oil rose to around $81 per barrel on February 25, increasing towards seven-week highs as the dollar eased. The oil rise was supported by reports of an attack on an oil facility in Nigeria, which led to worries over production from the Niger Delta. The Energy Information Administration noted that U.S. crude inventories rose by more than the expected 4.1 million barrels, along with an increase in gasoline stocks. U.S. oil demand grew by 0.3% during February and early March, raising expectations for an end to a one and a half year period of sustained consumption decrease. The China Investment Corporation, the country's sovereign wealth fund, projected that commodity prices are moving ahead the global economic recovery, stimulated by loose monetary policies. Oil prices ranged between $69 and $84 a barrel during the past few months, but a decline in crude stocks might lead toward the $80-$90 range. The Joint Oil Data Initiative also noted that Asian demand has been growing by more than 2 million barrels per day from last year. If this trend continues for long periods, then the $70 to $80 range could be exceeded.
Source: Thomson Reuters

Syria plans to import natural gas from Azerbaijan

Syria and Azerbaijan have agreed to sign a memorandum of understanding to direct and plan the coordination process regarding Syria's possible import of 1 billion to 1.5 billion cubic meters a year of Azerbaijani natural gas. Syria's Ministry of Petroleum and Mineral Resources stated that the higher levels of natural gas will enable Syria to export it to Lebanon, Jordan, Egypt, Cyprus, Greece and Italy through the Arab Gas Pipeline. The two countries also discussed plans to arrange joint ventures between the Syrian Petroleum Company and the Azerbaijani State Oil Company.
Source: Syria-oil.com

RAK Petroleum enters Tunisia

UAE-based RAK Petroleum signed an agreement to join an offshore exploration license in Tunisia. The company acquired a 30% interest in the Hammamet Offshore license from Canada-based firm Storm Ventures International which will retain a 35% operating interest. Cooper Energy of Australia holds the remaining 35% interest in the license.
Source: Thomson Reuters

Yemen to invest $1.5bn to boost power capacity

Yemen's General Investment Authority said the country wants to invest $1.5bn to boost power generation capacity by almost 1,400 megawatts to end constant outages across the country. It said Yemen wants to launch a tender this year to add 350 megawatts to the main gas turbine Maarib power plant which now has a capacity of 340 megawatts. Another 220 megawatts would be added to the plant after awarding a gas rental contract next month to overcome supply gaps in the short-term.
Source: Thomson Reuters

Base metals: Declining lead market surplus to increase prices in 2010

Prices of many base metals continued to mark above historic averages due to tight mine supply. The lack of conventional feedstock led smelters and refiners to look for substitute raw materials. As a result, scrap intake has increased and now accounts for almost one-third of primary production in the lead industry. Metal markets have lacked direction due to sharp rises in the second half of 2009. This was pressured by ambiguity over the strength and sustainability of the economic recovery, initially triggered by monetary tightening in China and the sovereign debt in Greece. Starting-lighting-ignition batteries (SLI) comprise 40% of lead demand. Demand for original equipment batteries decreased heavily as the global automobile production collapsed. However, an increase in lead demand is projected in 2010 due to the stabilization of the auto industry. Lead prices are forecast at $2,125 a ton in 2010 mainly due to a rise in demand and an unchanged output. An increase in lead prices above $2,500 a ton is possible in 2010 and could surge even more in 2011 because of higher market deficit.
Source: Merrill Lynch

Main commodity indices post positive returns in February with the exception of softs

Commodity indices appreciated during February with the MLCX TR index increasing to 5.36%, the S&P GSCI TR index returning 5.56% and the DJ-UBS TR index at 3.71%. The indices increased by more than 25% year-on-year. All MLCX sub-indices showed positive returns except for the MLCX Softs TR index that posted negative returns of -12.93%. This resulted from the falling of soft commodities during February, particularly sugar. The S&P 500 TR gained 3.10% and the ML US Broad Bond index yielded 0.37% for February. The energy sector recorded the highest positive returns of 6.6% despite the decline of U.S. natural gas. Grains and livestock appreciated and reached 5.78% and 4.09% respectively. Also, precious metals rose by 3.11%.
Source: Merrill Lynch

Performance of main commodity indices and MLCX sub-indices

	February	YTD	YOY
MLCX TR	5.36%	-2.91%	33.55%
S&P GSCI TR	5.56%	-2.77%	27.97%
DJ-UBS TR	3.71%	-3.84%	25.62%
MLCX Energy TR	6.60%	-2.20%	35.39%
MLCX Ind Metals TR	5.62%	-3.15%	85.58%
MLCX Prec Metals TR	3.11%	1.70%	19.43%
MLCX Grains TR	5.78%	-7.32%	-4.35%
MLCX Livestock TR	4.09%	3.12%	-4.71%
MLCX Softs TR	-12.93%	-9.64%	37.26%

Source: Merrill Lynch

COUNTRY RISK METRICS

Africa

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 (%)
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+ Negative	- -	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

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 (%)
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	B 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 Positive	B2 Positive	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	Aa3 Stable	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					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	-	-	-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								
	Stable	-	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	-	Stable	Negative	Stable	-5.1	20.8	61.5	202.5	15.9	348.0	-7.1	3.3
Russia	BBB	Baa1	BBB	-	BBB								
	Stable	Positive	Stable	-	Negative	-6.5	7.0	38.0	133.6	33.7	139.1	1.3	0.4
Turkey	BB	Ba2	BB+	BB-	B								
	Positive	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	27-Jan-10	No change	16-Mar-10
Eurozone	Refi Rate	1.00	04-Mar-10	No change	08-Apr-10
UK	Bank Rate	0.50	04-Mar-10	No change	08-Apr-10
Japan	O/N Call Rate	0.10	18-Feb-10	No change	17-Mar-10
Australia	Cash Rate	4.00	02-Mar-10	Raise 25bps	06-Apr-10
New Zealand	Cash Rate	2.50	28-Jan-10	No change	11-Mar-10
Switzerland	3 month Libor target	0.25	10-Dec-09	No change	11-Mar-10
Canada	Overnight rate	0.25	02-Mar-10	No change	20-Apr-10
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	27-Jan-10	No change	16-Mar-10
Taiwan	Discount Rate	1.25	24-Dec-09	No change	Mar-10
South Korea	Base Rate	2.00	11-Feb-10	No change	11-Mar-10
Malaysia	O/N Policy Rate	2.25	04-Mar-10	Raise 25bps	N/A
Thailand	1D Repo	1.25	13-Jan-10	No change	10-Mar-10
India	Reverse repo rate	3.25	29-Jan-10	No change	20-Apr-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	24-Dec-09	No change	N/A
Turkey	Base Rate	6.50	16-Feb-10	No change	18-Mar-10
South Africa	Repo rate	7.00	26-Jan-10	No change	25-Mar-10
Kenya	Central Bank Rate	7.00	26-Jan-10	Cut 75bps	Mar-10
Nigeria	Monetary Policy Rate	6.00	02-Mar-10	No change	N/A
Ghana	Prime Rate	16.00	19-Feb-09	Cut 200bps	Apr-10
Mexico	Target Rate	4.50	19-Feb-10	No change	19-Mar-10
Brazil	Selic Rate	8.75	27-Jan-10	No change	17-Mar-10
Armenia	Refi Rate	6.00	16-Feb-10	Raise 50bps	N/A
Romania	Policy Rate	7.00	03-Feb-10	Cut 50bps	N/A
Bulgaria	Base Interest	1.46	01-Oct-09	Cut 11bps	N/A
Kazakhstan	Refi Rate	7.00	01-Jan-10	No change	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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