

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

IRAQ

Bush vetoes troop withdrawal bill

President Bush vetoed legislation to pull U.S. troops out of Iraq in a historic showdown with Congress over whether the war should end or escalate. In only the second veto of his presidency, Bush rejected legislation pushed by Democratic leaders that would require the first U.S. combat troops to be withdrawn by October 1 of this year with a goal of a complete pullout six months later. The legislation amounted to an assertion by Democrats that Congress must play a major role in Iraq and the extent of U.S. involvement. Lacking the votes to override the president, Democrats have already signaled they intend to approve a replacement bill stripped of the troop withdrawal timetable. Determined to challenge Bush's policy, they are turning their attention to setting goals for the Iraqi government to meet as it struggles to establish a more secure, democratic society.

Source: Associated Press

TURKEY

Presidential ballot annulled, early parliamentary elections on the horizon

The Constitutional Court annulled Parliament's first round of voting for a president, effectively paving the way for early parliamentary election. The Court backed the CHP main opposition party's argument that a quorum of two-thirds of the 550 deputies was needed to choose the president. In the first round of the vote, a total of 361 MPs voted, just six short of a quorum. The Turkish Constitution doesn't have an explicit provision for a two-thirds quorum, which was not sought in the previous presidential elections. The ruling, which follows a military threat of a coup d'état, helps break the political deadlock and provides a face-saving way for the ruling AKP party, as well as for the secular/military establishment, but it puts a dent in Turkey's democratic credentials.

Prime Minister Erdogan announced that AKP would attempt another ballot on May 3 and would ask Parliament for early elections on June 24 or July 1. Normally, the parliamentary elections are scheduled for November 4. As the session is unlikely to receive the two-thirds quorum, the presidential election will likely also be called off. However, PM Erdogan called for necessary constitutional amendments for the public to elect the next president, claiming that the decision of the Constitutional Court has blocked the parliamentary democratic system.

Source: Merrill Lynch

SUDAN

Media campaign to force Sudan divestment

Activists in the United States launched a campaign to force Fidelity Investments and Berkshire Hathaway, two of the largest investment firms in the world, to withdraw investments from Sudan over the humanitarian crisis in Darfur. The campaign was launched by the Save Darfur Coalition, the Sudan Divestment Task force, Fidelity out of Sudan and by the NAACP, the oldest and largest African-American civil rights group in the United States. They plan a media blitz to sway shareholders as they gather for their annual meetings in Boston, Massachusetts, where Fidelity is located, and Omaha, Nebraska, home of Berkshire Hathaway. The campaign's pressure point is PetroChina, a Chinese oil company where Fidelity is the largest single investor.

Source: AFP

IRAN

Major powers warn of possible new sanctions

World powers warned Iran of a third round of U.N. sanctions if it did not halt its uranium enrichment work, which the West suspects could be used to build nuclear weapons. Earlier, Iran underlined its determination to press on with the work when Ali Akbar Velayati, international affairs adviser to Supreme Leader Ayatollah Ali Khamenei, said Tehran was capable of mass producing machines used for enriching uranium. It was believed to be the first time a senior aide of Khamenei, who has the final say on nuclear and other policies, has said it could make centrifuges on a large scale. The sanctions warning followed a meeting in London of senior officials from the five permanent members of the U.N. Security.

Source: Reuters

MENA

Press freedom regresses in region

A report on freedom of the press around the world said that the Middle East and North Africa region continued to show the lowest regional ratings, with just one country rated as 'Free', two rated 'Partly Free', and 16 rated 'Not Free' in 2006. Of particular and long-standing concern are Libya, Syria, Tunisia and the West Bank & Gaza, where media freedom remained extremely restricted. The deteriorating security situation in Iraq made it highly dangerous for the media, with several dozen journalists killed during the year. In 2006, improvements noted in previous years were reversed, with several countries that had previously shown improvement stagnating or moving in a negative direction. Conditions in Saudi Arabia and Iran deteriorated, while media in Egypt, Jordan and Algeria was constrained by legal restrictions. The use of legal harassment against independent journalists increased in Morocco. Only 2% of people living in the MENA region are in countries rated as 'Free', 2% are in countries with a 'Partly Free' media and 96% live in countries with a press that is 'Not Free'.

Source: Freedom House

APRIL POLITICAL RISK OVERVIEW

ARMENIA

Algiers was hit by 3 bombings on April 11: 33 killed, 222 wounded. The attacks were claimed by al-Qaeda in the Islamic Maghreb. 80 Islamists with suspected links to al-Qaeda in Iraq were arrested. Countrywide demonstrations on April 17 affirmed local support for policy of national reconciliation.

ARMENIA

The defense Minister Serzh Sarkisian was appointed Prime Minister on April 4. The campaign for May 12 parliamentary elections began amid several apparently election-related violent incidents including attack on Prosperous Armenia Party local offices on April 12.

ETHIOPIA

An Attack on oil field in Ogaden region on April 24 killed 74, including 9 Chinese. Ogaden National Liberation Front claimed responsibility; Ethiopia blamed Eritrea. Addis Ababa denied reinforcing troops in Mogadishu on April 6. The High Court released 25 journalists and opposition supporters for lack of evidence, dismissed charges against others, in controversial trial following disputed 2005 elections.

EGYPT

The Muslim Brotherhood announced it would field 20 candidates in June elections for Shura Council. Mass arrests of members continued; on April 26 trial of 40 members on terrorism and money laundering charges was adjourned to June. State Security Emergency Court sentenced Mohammed el-Attar to 15 years on charges of spying for Israel.

IRAN

Standoff over 15 UK navy personnel captured on March ended swiftly with their release on April 5. Tehran continued bullish nuclear stance, announcing it could enrich uranium on "industrial scale". EU imposed sanctions on April 23, beyond UN measures, with total arms embargo and increased travel ban list. Ahmadinejad responded by repeating vow not to halt nuclear program. EU foreign policy chief Javier Solana held talks with Iran's top nuclear negotiator Ali Larijani on April 25, urged direct U.S. engagement with Tehran.

IRAQ

Suicide attacks and fatalities increased as U.S. military surge lost momentum. Over 200 killed, almost all Shiite civilians, in 5 suicide bombs in Baghdad on April 18. Suicide bomb in parliament within fortified Green Zone killed 1 MP on April 13, while suicide attack on patrol base near Baqouba on April 24 killed 9 U.S. soldiers. Additional car blasts in Baqouba, Ramadi, Mosul killed 40, in Karbala killed 55. Sectarian tensions flared in Mosul on April 22 as gunmen killed 23 members of Yazidi minority. Muqtada al-Sadr organized mass demonstration in Najaf on April 9, demanding timetable for withdrawal of U.S. troops: days later 6 Sadr cabinet members resigned over differences with PM Nuri al-Maliki. Maliki has not supported withdrawal timetable, but ordered halt to U.S. project to build wall around Sunni enclave of Adhamiya. New U.S. envoy, Ryan Crocker, gave first briefing in Baghdad, supporting wall project. U.S. Congress approved Iraq spending bill calling for troop withdrawal start by October 1.

KAZAKHSTAN

Journalist Oralghaysha Omarshanova is missing since March 30 after covering Almaty province clashes between ethnic Chechens and Kazakhs.

MOROCCO

Attacks by 2 suicide bombers near U.S consulate in Casablanca on April 14 followed the death of 4 militants during a police raid.

NIGERIA

Tensions and discontent heightened following presidential, parliamentary and governorship elections marred by violence, fraud and serious logistical problems. Umaru Yar'Adua of ruling People's Democratic Party (PDP) was declared winner in a landslide. International observers, local monitors and civil society criticized results. The rejected opposition called for interim government, new elections and mass protests on May 1. Re-run of annulled polls on April 28 consolidated PDP victory, but fraud, low turnout were reported. Political violence in 10 states before and during April 14 governorship and state legislature elections caused over 60 deaths. The PDP won 27 of 36 governorships and 26 state legislatures.

SUDAN

Government of Sudan agreed on April 16 to "heavy support package" to allow up to 3000 UN personnel into Darfur to support the 7000 AU troops there, but Khartoum continued to resist deployment of 20,000 AU/UN hybrid force. Agreement followed debate of increased sanctions, week of visits to Khartoum by Chinese envoy Zhai Jun, SA President Thabo Mbeki and U.S. Deputy Secretary of State John Negroponte. The U.S. stated on April 23 that Khartoum must agree to hybrid force in matter of weeks or face tougher economic sanctions. Leaked UN report accused Khartoum of flying arms and equipment into Darfur in violation of arms embargo. Rebels reported government air strike against Jemmeiza village and further 73 were killed in northern Darfur.

SYRIA

A Syrian-American businessman, Ibrahim Suleiman, appeared before Israeli parliament foreign affairs committee on April 21 to encourage peace talks. Lawmakers reacted positively. Official Israeli position still insists that Syria ends support for Hamas and Hizbollah as precondition. High-profile U.S. delegations to Damascus continued with the visit by House Speaker Nancy Pelosi on April 4. The Bush administration criticized the visit and stepped up condemnation of Syria after sentencing a human rights leader on April 24 and the April 22/23 parliamentary elections: low turn-out was reported, ruling Baath Party won overwhelming majority.

YEMEN

The government reported on April 9 that 25 troops and 20 Shiite rebels were killed in continued fighting in northern Saada province. Rebels say fatality figures were inflated. The government was accused of laying anti-personnel mines: at least 60 were admitted to hospital with related injuries.

Source: International Crisis Group



OUTLOOK

MENA

Favorable outlook but risks remain significant for 2007-09

The World Bank said growth prospects for the MENA region are favorable for the 2007-09 period and forecast real GDP growth at 5.6% in 2007, 5.3% in 2008 and 5.2% in 2009, compared to 6.2% in 2006. The Bank highlighted the risks to the outlook, indicating that the external environment continues to be a key determinant of regional growth, with domestic policies and the scale of reforms also having important influences on performance. Management of the hydrocarbon revenues remains a continuing challenge for the region's oil rich countries, and the risk of overheating domestic demand, with potential inflationary consequences looms as a significant threat. Moreover, judicious use of oil stabilization funds to counter such trends and to offer a cushion for future growth should be a priority, as should prudent disposition of surplus funds across asset classes. Importantly, domestic reform efforts are at risk against the background of abundant liquidity and rapid growth, particularly for resource-rich, labor abundant countries. Should oil prices take a sudden and sustained downturn, economies may find adjustment to become a difficult transition.

According to the Bank, rapidly rising credit and external flows present challenges for economic policy, as regional stock and housing markets have appreciated enormously, valuations remain high in many countries while in the Gulf the downward adjustment in stock prices that took place in mid-2006 has not recovered. Finally, downside risks stemming from uncertain trends in geopolitical conditions remain an element of substantial concern for regional prospects. Conflict continues to drag developments in the region, either directly in countries like Iraq, Lebanon, and the West Bank & Gaza, or indirectly elsewhere through spillover effects that affect government policy and influence oil prices, investment prospects and migration flows, placing a heavy burden on many economies of the region.
Source: World Bank

ANGOLA

Growth set to soar amid political stability

Developments in the oil sector will dominate Angola's economic growth prospects, as the rise in production will drive an expected growth rate of about 30% in 2007. However, the energy-driven expansion will be capital intensive and import dependent, with few linkages to other areas of the economy apart from government-dominated sectors such as construction. Inflation has continued to decline since 2001 and is expected to average about 8% in 2007. A major cause of this decline has been the Central Bank's support of the kwanza on the foreign exchange market, which had the effect of reducing the price of imports. President Jose Eduardo dos Santos confirmed at the end of December that the long-awaited legislative elections would take place in 2008, while presidential elections would occur in 2009. Both elections had been set for 2007, but dos Santos won unanimous backing to delay the process. The political status quo looks certain to continue. Given the advantage of incumbency and its current political domination, the ruling

Popular Movement for the Liberation of Angola (MPLA) is widely expected to prevail in the legislative poll. Also, the president is likely to be easily reelected, which will mean that dos Santos will have ruled Angola for three decades. Angola's recent membership in the Organization of the Petroleum Exporting Countries (OPEC) will not affect its production level in the short term, as the quota system may not take effect until oil production doubles to two million barrels per day, a level not expected before 2008. In parallel, Russia is becoming more active in Angola's natural resource sector following the signing on March 16th of agreements to develop Angola's energy, diamond and water distribution capacity and farming. Over the short-term, any instability caused by the run-up to the legislative and presidential elections will be a drag on overall economic activity, particularly in the non-oil sector. With elections looming on the horizon, and with the government seemingly determined to contain inflationary pressures, the Central Bank will be under no pressure to modify its policy of support for the kwanza.

Source: International Country Risk Guide

ARMENIA

Fitch revises outlook to positive

Fitch Ratings revised the outlook on Armenia's foreign and local currency Issuer Default Ratings to 'positive' from 'stable', and affirmed the ratings at 'BB-'. The agency also affirmed the country ceiling at 'BB' and the short-term foreign currency rating at 'B'. The positive outlook reflects expectations that disciplined macroeconomic policies and structural reforms will continue, underpinning sustainable economic growth and a declining public and external debt burden. Armenia's ratings are supported by an impressive economic performance with real GDP growing by more than 11% per year since 2000 while annual inflation has remained below 3% and is currently running at a little over 5%, inside the Central Bank's revised target for end-2007. Also gross government debt fell to 15% of GDP by end-2006 from 39% in 2000, well below the 'BB' range median of 40% and the debt service burden remains light.

The agency noted that the Armenian dram appreciated 19% against the US dollar last year and the trade deficit on goods and services widened to an estimated 14% of GDP. But the trade deficit and low domestic savings rate are substantially offset by net transfers of almost 9% of GDP, mostly from the Armenian Diaspora. The dram appreciation was also driven by a steep fall in the share of dollar-denominated deposits in the banking system in favor of the dram, which is a positive trend. The upward pressure on the Armenian dram and pace of appreciation prompted the Central Bank to actively intervene in foreign exchange markets and reserves have reached a record level of \$1.1bn. Fitch indicated that authorities face significant challenges in sustaining strong and balanced economic growth against the backdrop of strong upward pressures on the exchange rate, rapid expansion of private credit and construction activity, while also keeping inflation under the recently introduced direct inflation targeting regime.

Source: Fitch Ratings



ECONOMY & TRADE

SYRIA

VAT introduction to be delayed

Finance Minister Mohammad Hussein declared that the Value Added Tax will not be implemented at the start of 2008 as previously scheduled. The set-up of VAT has been planned for many years in Syria and is part of the 10th five-year plan. Mr Hussein attributed the delay to the need to better prepare the ground for its implementation and evaluate its impact on various sectors. Mr Hussein also said that VAT will not be applied to all goods and services. Many details regarding the implementation of VAT still remain to be worked out. The IMF has strongly recommended the implementation of this tax, saying that it will not impose any burden on production, investment, and exports. According to IMF projections, VAT could generate revenues equivalent to 4.9% of GDP in 2015 if it was introduced in 2008 at a rate of 5% and then gradually raised to 15%. Since the end of 2004 Syria has applied a consumption tax to a short list of goods and services at different rates.

Source: *Syria Report*

\$440m cement plant to be built

Egypt's Orascom Construction Industries announced plans to establish a \$440m cement facility in Syria with a production capacity of 2 million tons of cement per year. The new facility, situated in the North West of Syria near the Turkish border, will serve the local Syrian market which currently imports around 30% of its needs. A joint firm, the Syrian Cement Co., was set up to build the factory which will become operational by 2009, an OCI statement said. The Syrian Cement Co. is 75% owned by Orascom and 25% by Syria's MAS Economic Group. In 2006 Syria consumed 6.2 million tons of cement, of which 2 million tons were imported. OCI operates cement plants in Egypt, Algeria, Turkey, Pakistan, Northern Iraq and Spain with a combined annual production capacity of 21 million tons.

Source: *Dow Jones Newswire*

Largest shopping mall in Syria to open in 2008

The Syrian-Jordanian Company for Tourism and Real Estate Investment (SJC) indicated that Shahba Mall, Syria's largest commercial center, is expected to open its doors in April 2008 in the Aleppo area. SJC is a joint venture between the Aleppo-based Sabbagh Group, active mainly in textile, and the Jordanian Al Kurdi Group that already manages several shopping malls in Jordan. The \$50-million Shahba Mall will be the largest mixed commercial and entertainment complex in Syria to date, spreading over a total built-up area of 125,000 square meters. The project includes a 4-star 250-room hotel, a 7-floor shopping center that will spread over 5,000 square meters, 8 cinemas, entertainment areas, and 36 restaurants and coffee shops.

Source: *Syria Report*

GCC

Family-run firms have 'hidden credit strengths'

Moody's Investor Services indicated that GCC-based family-owned corporate companies have 'hidden credit strengths'. It noted that it can be difficult to differentiate and accurately segregate owner wealth from company assets, but the close associ-

ation of both often results in a fairly risk-averse growth strategy focusing primarily on wealth preservation. The agency highlights concern over the tendency of family businesses to rely on short-term funding, which often relies more on the strength of their banking relationships than any contractual agreement. However, this trend is likely to decline as companies seek to diversify their investor base and adopt over time longer term funding structures.

Moody's said the GCC continues to be home to classic conglomerates with diversified core operations often spanning real estate, construction and energy sectors, as well as large land holdings and extensive investment portfolios. Shareholders are typically exclusively family members, with one dominant shareholder shaping the business's daily operations. Moody's says high net worth shareholders would be likely to pump in cash to keep a struggling company afloat, avoid defaulting on credit and preserving their reputation. However, family ownership can also lead to weak corporate governance, with strong owner influence likely to restrict management independence. Also, their interests might conflict with those of minority shareholders and external creditors.

Source: *Moody's Investor Services*

MAURITANIA

IMF notes economic progress

The IMF indicated that Mauritania's economy continues to perform well despite some difficulties in the nascent oil sector, adding that sound macroeconomic policies helped keep inflation under control, improve confidence in the domestic currency, and enhance the country's external position. It noted the substantial progress in the financial sector area, including the promulgation of key financial sector laws and the successful introduction of the foreign exchange market. According to the Fund, short-term sound macroeconomic policies will require a close monitoring of the oil revenue outlook, a cautious execution of non-priority spending, and efforts to enhance non-oil revenues. Improved oversight of state-owned enterprises will also be necessary to reduce the risks on the budget. It added that private sector-led growth will require further progress in the financial sector area, with a focus on strengthening supervision, improving the commercial banks' financial position, and developing the foreign exchange market.

Source: *International Monetary Fund*

UAE

New corporate governance directives

The Emirates Securities and Commodities Commission (ESCA), the UAE's capital markets regulator, announced the introduction of new directives aimed at improving corporate governance in the country. Modeled on similar laws for OECD countries, the new framework will, among other things, clarify the roles and responsibilities of board members, the internal committees to be set up, and the rights of shareholders. The deadline for compliance has been set three years away.

Source: *Shuaa Capital*

BANKING

SYRIA

Syria grants licenses to foreign exchange firms

The Credit and Monetary Council granted a preliminary license to six companies to operate as the first money exchange firms in Syria. Private foreign exchange operators have been banned in Syria for more than 44 years. The licensing decision comes after a law organizing foreign exchange in the country was passed last year. The law stipulates that foreign exchange firms should have a minimum capital of SYP250 million (\$5m), while foreign exchange bureaus should have a minimum capital of SYP50 million (\$0.96m). The firms granted licences are Diar Electronic Services, Al Hanifa Exchange, Global Exchange, International Money Exchange Co., and Al Fawa'ed Co., while Bitar & Partners was registered as an exchange bureau. Companies are allowed to deal with all foreign currency transactions, while bureaus are restricted to cash and bank check operations. Central Bank of Syria, said that the Bank had received over 117 applications to open money exchange establishments.

Source: *Asharq Al Awsat, Syria Report*

Kuwaiti firm to set up finance company

The Damascus Stock Exchange Commission (SEC) granted preliminary approval to the Kuwaiti firm IFA Securities and its Syrian partner to set up a financial services company in the country. IFA-MAG Financial Services will be a partnership between Dubai-based IFA Securities and Syrian national Mowaffaq Al Gaddah's MAG Group. The latter will own 51% of the company's capital, while IFA Securities will own the rest. The new company will provide brokerage, investment management and consultancy services. It will have a capital of SYP220 million, which is the minimum required by the SEC for such services. IFA Securities is an affiliate of International Fund Advisors, a Kuwaiti-based investment firm with assets of \$1.5bn and a market capitalization of \$1.1bn at end-2006. It posted losses of \$83m last year. IFA-MAG is the third company to receive a license from the SEC.

Source: *Syria Report, Zawya*

EGYPT

Morgan Stanley sells stake in brokerage

National Commercial Bank, the largest bank in Saudi Arabia, acquired Morgan Stanley's 30% stake in Egypt's HC Securities & Investment Co. Prior to the deal, Morgan Stanley Middle East held a 30% stake in HC Securities, while the Hussein Choucri family owned the rest. NCB said its Bahrain-based Oryx Regional Private Equity Fund acquired the 30% stake. The Egyptian firm runs Al Futtaim HC Securities in the UAE in partnership with Al Futtaim Group.

Source: *Dow Jones Newswire*

KAZAKHSTAN

IMF calls for strengthening of banking supervision

In its Preliminary Conclusions of its Article IV Consultation, the IMF said that Kazakhstan's banking sector's vulnerability to shocks has increased. Fuelled by the \$18 billion in external borrowing by banks last year, credit growth has accelerated to almost triple digits, with especially rapid expansion in real estate lending and consumer loans. The IMF stated that many banks still have considerable room to continue to borrow externally under the new limits on external debt. It noted that a reduction in external creditors' appetite for Kazakhstan exposure, or a sharp decline in the quality of loan portfolios, could disrupt banking activity and carry consequences for the real economy. The IMF recommended additional prudential tightening to contain risks related to the rapid growth in bank credit and external debt. The Financial Supervision Agency (FSA) has tightened regulations in a number of areas over the past year, including on related-party lending, real estate exposures, cross-border loans, foreign currency liquidity, and external borrowing. Additional measures could include a tightening of provisioning regulations for overdue loans, more stringent collateral regulations, and higher capital adequacy requirements or risk weights.

The IMF welcomed the recent legislation that has enhanced the FSA's supervisory powers, as well as the plans to increase the FSA's resources. A substantial share of the new resources should be used to hire bank examiners in order to increase the frequency and depth of on-site inspections to ensure that banks maintain adequate risk management and internal control systems and comply with prudential regulations.

Source: *International Monetary Fund*

SAUDI ARABIA

Saudi banks 'stable'

Fitch Ratings predicts a moderate profit growth for Saudi banks in 2007 at sustainable level. Saudi banks have seen their profit margins diminish on lower brokerage fees and a slowing of consumer loan business. Core operating revenues are likely to remain healthy as banks continue to benefit from high oil prices.

Source: *Fitch Ratings*

KUWAIT

Moody's upgrades Gulf Bank rating

Moody's Investors Service upgraded Gulf Bank's bank financial strength rating (BSFR) from 'C'- to 'C', as part of a review of its rating methodologies for Middle East banks. According to Moody's, the upgrade is due to Gulf Bank's increasingly sound fundamentals and strong franchise. BSFRs play an important role in determining Moody's bank deposit and debt ratings. Moody's has assigned global local currency deposit ratings of 'Aa3/P-1' to Gulf Bank and has maintained the bank's foreign currency deposit ratings at 'Aa3/P-1'. The outlook on all ratings is stable.

Source: *Moody's Investors Service*



ENERGY/ COMMODITIES

Crude oil rises following attacks on Agip platform in Nigeria

Crude oil rose after rebels attacked an oil facility for the third time this week in Nigeria, where unrest has cut about a quarter of the country's output. Gunmen attacked an oil vessel owned by Agip, a unit of Italy's Eni SpA, in the Niger delta region and seized six hostages. Militant attacks have slashed output from Africa's biggest producer by as much as 600,000 barrels a day. Crude oil for June delivery rose as much as 37 cents, or 0.6%, to \$64.05 a barrel on the New York Mercantile Exchange. Brent crude for June settlement gained 61 cents, or 1%, to \$66.88 a barrel on London's ICE Futures exchange. New York-traded crude fell to its lowest close since April 20 after a U.S. government report showed refiners may manage to meet gasoline demand for the holiday driving season. Oil fell 72 cents, or 1.1% to \$63.68 a barrel. A series of breakdowns at refineries worldwide in recent weeks heightened concern the U.S. would run short of gasoline during the coming summer. U.S. gasoline stockpiles still fell 1.1 million barrels last week, to 193.1 million, the lowest since September 2005, and 7.9% less than the five-year average.

Iraqi blocs opposed to draft oil bill

Kurdish and Sunni Arab officials expressed deep reservations about the draft version of a national oil law and related legislation, misgivings that could derail one of the benchmark measures of progress in Iraq laid down by President Bush. The draft law, which establishes a framework for the distribution of oil revenues, was approved by the Iraqi Cabinet in late February after months of negotiations. The White House was hoping for quick passage to lay the groundwork for a political settlement among the country's ethnic and sectarian factions. But the new Kurdish concerns have created doubts about the bill even before Parliament is to pick it up for debate.

Source: *New York Times*

Kazakh authorities to review all energy and mineral resources contracts

Authorities in Kazakhstan announced a review of all energy and mineral resources contracts, including that for the world's biggest oilfield discovery in the last 30 years, thereby stepping up their push for better terms from existing investors. The government wants to generate more revenue and diversification-oriented investment from the foreign companies. It is not clear whether the ultimate objective is to give national oil and gas champion Kazmunaygaz a greater profile in the country's leading projects. Prime Minister Karim Masimov announced that the ministry of energy and mineral resources would audit all existing subsoil contracts with a view to determining whether there were licence violations. The contracts under investigation include those for three sizeable oil and gas fields, two of which are partly owned by Chevron and ExxonMobil.

Source: *Economist Intelligence Unit*

Base metals: uptrend in base metals is weakening

The trend in prices for industrial metals painted a mixed picture this week, with the general pattern in prices moving sideways for some time. In the wake of the remarkable rally in prices seen since February, it has been anticipated, for quite a while, that the uptrend would cool down and the risk of a correction in prices on the base metal markets would intensify. Indeed, the trend in prices recorded in the last two weeks confirms this assessment. In light of the strong growth in prices, however, forecast for base metal prices is being revised upward for both 3- and 12-month horizons. But since signs are mounting that point to a heightened state of overheating on the base metal markets, slightly weaker prices are expected in 12 months. In 12 months, a copper price of \$6,800 is expected, aluminium should trade around \$2,450.

Source: *Credit Suisse*

Precious metals: focus remains on the introduction of new investment vehicles

Precious metal prices were unable to continue their rally in recent days and present a rather mixed picture at the moment too. Gold has been trading at slightly lower prices, in the wake of testing the key technical line of resistance situated at \$692, and is now hovering at the \$670 level. Platinum and palladium are still supported by the introduction of physically backed ETFs. From a fundamental perspective, however, little has changed, especially on the gold market as higher prices are anticipated in the coming months. The combination of shrinking mine production and reduced central bank sales, coupled with growing demand from investors and the jewelry industry, should also continue to pave the way for a favorable environment for gold prices. As a result, gold is forecast at \$685 in 12 months.

Source: *Credit Suisse*

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	201.6	188.2	181.6	3.5	17.8
LME metals price index	4211.6	3771.4	3714.7	8.7	17.2
Oil prices USD	65.2	59.8	64.4	3.6	-9.1
Oil prices SDRs	42.8	39.8	43.2	2.8	-12.7
Gold \$/troy oz	674.8	645.9	633.6	1.9	5.6
Silver cents/troy oz	1366.0	1326.6	1254.5	3.0	7.4
Platinum \$/troy oz	1300.0	1187.0	1192.9	5.1	15.0
Copper \$/MT	7847.5	6536.6	7080.7	14.4	6.1
Nickel \$/MT	48650.0	39794.8	33232.4	7.0	141.4
Aluminium \$/MT	2796.0	2788.5	2678.9	2.4	0.7
Zinc \$/MT	3687.5	3799.9	3613.6	14.3	7.2
Steel - HR coil dry \$/MT	600.0	600.0	565.7	0.0	29.0

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	10.3	17.4	12.0	9.1	8.4	19.4	18.0	0.8
	-	-	-	-	Positive								
Angola	-	-	-	-	CCC	2.3	43.7	49.5	22.3	4.6	216.9	21.1	7.3
	-	-	-	-	Stable								
Egypt	BB+	Baa2	BB+	BB+	B	-6.9	99.0	29.7	68.0	6.6	150.3	1.6	5.6
	Stable	-	-	Stable	Stable								
Libya	-	-	-	-	BB	26.6	6.0	9.7	-130.9	2.7	7.8	31.4	2.8
	-	-	-	-	Stable								
Morocco	BB+	Baa2	-	BB+	BB	-4.1	67.1	29.8	68.1	8.0	91.2	1.7	2.0
	Stable	-	-	Stable	Stable								
Nigeria	BB-	-	BB-	-	BB	-1.0	10.7	5.2	9.7	1.9	14.18	9.7	1.6
	Stable	-	-	-	Stable								
Tunisia	BBB	A3	BBB	BBB	BB	-3.3	59.6	57.7	77.1	15.3	275.3	-2.6	6.6
	Stable	-	-	Stable	Stable								
Sudan	-	-	-	-	CC	-3.8	58.7	71.2	355.0	4.0	-	-13.8	5.8
	-	-	-	-	Stable								
Middle East													
Bahrain	A	A1	A-	BBB+	A	10.1	28.8	58.7	23.9	13.4	343.5	13.9	0.1
	Stable	-	-	Stable	Stable								
Iran	-	-	B+	-	BB	7.3	26.2	9.9	31.0	4.5	25.4	5.7	0.0
	-	-	-	-	Negative								
Iraq	-	-	-	-	D								
	-	-	-	-	Stable								
Jordan	BB	Baa3	-	BB	B	-4.8	73.4	91.1	18.5	13.7	266.6	-21.5	10.7
	Stable	-	-	Stable	Stable								
Kuwait	A+	Aa2	AA-	AA-	A	38.8	10.8	13.7	8.9	2.7	129.3	44.5	-4.5
	Stable	-	-	Stable	Stable								
Oman	A-	A1	-	BBB+	A	16.0	6.5	14.1	18.0	5.0	101.6	19.4	1.9
	Stable	-	-	Stable	Stable								
Lebanon	B-	B2	B-	B-	CCC	-12.5	178.1	105.2	179.5	30.4	209.2	-15.6	4.5
	Negative	-	-	Negative	Stable								
Qatar	A+	Aa2	-	A+	A	17.6	19.1	46.5	55.3	8.4	440.6	35.8	4.3
	Stable	-	-	Stable	Stable								
Saudi Arabia	A+	Aa3	A+	A+	A	18.0	10.8	8.4	21.1	3.7	130.0	30.8	0.3
	Stable	-	-	Stable	Stable								
Syria	-	-	-	-	CCC	-3.6	41.9	30.8	68.0	5.6	146.9	2.0	1.6
	-	-	-	-	Stable								
UAE	-	Aa2	-	A+	A	30.4	10.7	38.2	10.0	1.8	248.7	25.8	5.1
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	B	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
	-	-	-	Stable	Stable								
Central & Eastern Europe													
Ukraine	BB-	Ba3	BB-	-	BB	-2.5	19.6	42.8	58.7	2.8	188.4	-0.9	5.5
	Stable	-	-	-	Stable								
Russia	BBB+	A2	BBB+	-	BBB	7.2	10.9	30.4	81.3	3.6	96.9	14.4	0.8
	Stable	-	-	-	Stable								
Turkey	BB-	Ba1	BB-	BB-	B	-1.6	64.9	49.2	117.5	25.2	343.5	-8.2	4.5
	Stable	-	-	Stable	Stable								
Latin America													
Brazil	BB+	Ba1	BB	-	BB	-3.2	72.7	17.2	56.3	29.3	205.1	1.2	1.6
	Stable	-	-	-	Stable								

Sources: Moody's; EIU



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	5.25	21-Mar-07	No change	09-May-07
Eurozone	Refi Rate	3.75	12-Apr-07	No change	10-May-07
UK	Base Rate	5.25	05-Apr-07	No change	10-May-07
Japan	O/N Call Rate	0.50	27-Apr-07	No change	17-May-07
Australia	Cash Rate	6.25	02-May-07	No change	05-Jun-07
New Zealand	Cash Rate	7.75	25-Apr-07	Raise 25bps	06-Jun-07
Switzerland	3 month Libor target	2.25	15-Mar-07	Raise 25bps	14-Jun-07
Emerging Markets					
China	One-year lending rate	6.39	17-Mar-07	Raise 27bps	N/A
Hong Kong	Base Rate	6.75	08-Aug-06	No change	N/A
Taiwan	Discount Rate	2.875	29-Mar-07	Raise 12.5bps	end Q2-07
South Korea	O/N Call Rate	4.50	12-Apr-07	No change	10-May-07
Malaysia	O/N Policy Rate	3.50	27-Apr-07	No change	28-May-07
Thailand	1D Repo	4.00	11-Apr--07	Cut 50bps	23-May-07
India	Reverse repo rate	6.00	24-Apr-07	No change	31-Jul-07
UAE	3M EBOR	5.50	N/A	N/A	N/A
Saudi Arabia	Repo Rate	5.20	29-Jun-06	Raise 20bps	N/A
Egypt	overnight lending	10.75	23-Mar-07	No change	N/A
Turkey	Base Rate	17.50	14-Apr-07	No change	14-May-07
South Africa	Repo rate	9.00	12-Apr-07	No change	07-Jun-07
Kenya	Central Bank Rate	10.00	Apr-07	No change	Jun-07
Nigeria	Monetary Policy Rate	10.00	Apr-07	New Policy rate	Jun-07
Ghana	Prime Rate	12.50	Feb-07	No change	May-07
Mexico	Target Rate	7.25	27-Apr-07	Raise 25bps	May-07
Brazil	Selic Rate	12.50	18-Apr-07	Cut 25bps	6-Jun-07

Source: Standard Chartered - Countries in bold updated on May 3, 2007



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

The Country Risk Weekly Bulletin is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from the Country Risk Weekly Bulletin may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

