



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global trade grows by 25% in first quarter of 2010

The World Trade Organization indicated that global merchandise trade reached \$6,903bn in the first quarter of 2010, constituting an increase of 25.7% from the same period last year. It said world exports rose by 27.2% year-on-year to \$3,423bn and global imports reached \$3,480bn in the first quarter of this year, up 24.2% from the same period last year. It noted that exports from Europe totaled \$1,344bn, up 18% year-on-year. Exports from the 27-member European Union totaled \$1.227bn, with intra-EU trade rising 16% to \$820bn and extra-EU trade increasing by 22% to \$407bn. Further, exports from Asia totaled \$1,087bn, up 39% year-on-year, and exports from North America grew by 23% to \$455bn. Also, exports from the Commonwealth of Independent States rose by 54% to \$129bn, and those from South & Central America increased by 28% to \$124bn, while exports from the Middle East & Africa rose by 53% year-on-year. In parallel, Imports to Europe totaled \$1,391bn in the first quarter, up 16% from the same period last year, as imports to the EU reached \$1,278bn, up 16% year-on-year. Asian imports rose 45% to \$1,078bn, those to North America increased by 22% to \$597bn, while imports to South & Central America improved by 19% to \$121bn and those to the CIS increased by 13% to \$77bn. Imports to the Middle East & Africa improved by 9% year-on-year.

Source: World Trade Organization

MENA

Equity markets up 2% in first five months of 2010

Arab stock markets increased by 2.3% in the first five months of 2010 compared to a rise of 14.8% in same period last year. The Damascus stock exchange increased by 36% during the covered period, posting the best performance among Arab markets. It was followed by the Casablanca stock market with a 15.6% increase, the Tunis equity market with a 15% improvement, and the Egyptian stock exchange with a 5.5% rise. In parallel, the Dubai financial market dropped by 12.4%, posting the worst performance among Arab stock markets year-to-May. It was followed by the Iraqi stock exchange with an 8% downturn, the Amman stock exchange with a 5.2% decline, the Abu Dhabi market with a 5.1% contraction, the Kuwait bourse with a 4.4% decrease, the Doha equity market with a 2.5% drop, the Muscat exchange with a 1.2% retreat, the Palestine equity market with a 0.14% decline, the Beirut Stock exchange with a 1% decrease, and the Bahrain stock market with a 0.6% contraction. In parallel, the Saudi exchange was unchanged. In comparison, emerging market equities declined by 6.4% and global equities decreased by 7% in the first five months of the year.

Source: Local stock markets, Byblos Research

Most Arab cities do not optimize usage of renewable energy

Mercer Human Resource Consulting's Eco-Cities Index for 2010 included 22 Arab cities, none of which ranked in the top 20 globally. The index is based on water availability and drinkability, waste removal, quality of sewage systems, air pollution and traffic congestion. The survey indicated that a high-ranking eco-city, or sustainable city, optimizes its use of renewable energy sources and generates the lowest possible quantity of pollution. It added that a city's eco-status, or attitude towards sustainability, can have a significant impact on the quality of living of its inhabitants. The MENA region's average score was 84.9 points and the Arab world's average score came at 84.8 points, below the global average of 92.6 points. Oman's capital Muscat ranked first in the MENA region, followed by Abu Dhabi and Dubai, while Sanaa, Beirut and Baghdad were the lowest ranked cities in the region. Muscat was the only Arab city to rank among the top 50 eco-cities globally and came in 48th place, while five Arab cities were among the bottom 50 and included Khartoum, Nouakchott, Sanaa, Beirut and Baghdad. Calgary in Canada ranked first globally with a score of 145.7 points, followed by Honolulu in second place with 145.1 points, and Ottawa and Helsinki in third place with 140 points each. Port-au-Prince in Haiti was the lowest ranked city with a score of 27.8 points.

Source: Mercer Human Resource Consulting, Byblos Research

AFRICA

Launch of partnership to increase co-financing of private sector projects

Eight development finance institutions, which invested last year over \$8.8bn in projects across Africa, have agreed to increase cooperation and co-financing of private sector projects across the continent through the African Financing Partnership. The partnership provides guidelines to jointly assess, evaluate and finance projects. It also marks a significant development for effective use of donor resources in Africa, and aims to attract greater private sector investment for private sector projects on the continent with strong development outcomes. The partnership will target financing of large-scale projects in infrastructure and industrial sectors. It may also consider smaller innovative projects as well as investments in financial services, including SMEs and microfinance projects. The eight participating institutions are the African Development Bank, Development Bank of Southern Africa, Germany's DEG, the European Investment Bank, Netherlands Development Finance Company, Industrial Development Corporation of South Africa, the International Finance Corporation, and Proparco.

Source: International Finance Corporation

POLITICAL RISK OVERVIEW - MAY 2010

ALGERIA

A leader of al-Qaeda in the Islamic Maghreb (AQIM) surrendered to authorities on May 25th. Security forces killed three suspected members of the AQIM and captured one in Jijel in Northeastern Algeria. Military air strikes hit terrorist bases near Bejaia and killed seven civilians. Two soldiers were killed and 18 were injured by a roadside bomb in Boumerdes.

ARMENIA

The Armenian delegation at the Council of Europe's Parliamentary Assembly (PACE) resisted efforts by current PACE President Mevlut Cavusoglu to restart talks on Nagorno-Karabakh settlement. A Yerevan court sentenced former senior Defense Ministry official Armen Sarkisian to two years in prison for leaking secret government orders during December 2009. The highest criminal court rejected appeals against two lower-court rulings, upholding the 3.5 year jail term of opposition leader Nikol Pashinian sentenced for alleged role in 2008 post-election instability.

DEM REP CONGO

The United Nations Security Council renewed its mission in the DRC on May 28, where it will turn into a stabilization mission (MONUSCO) in June, withdrawing up to 2,000 troops from the West. The leader of Enyele rebels was held responsible for four April attacks on Mbandaka in the Northwest and was arrested on May 10th. Around 20 people were arrested on May 23 in charge of planning attacks on Lubumbashi in the Southeast. A new law for establishing an electoral commission was adopted on May 7 and the civil society criticized it for excluding them from the commission board.

EGYPT

The government election panel approved 12 out of 14 Muslim Brotherhood-affiliated candidates to stand in elections for the Shura Council. President Hosni Mubarak extended Emergency Laws for two more years, which have been in place since 1981 assassination of President Sadat. The police beat protestors in Cairo who were opposing laws for restricting political and civil freedoms. Some 10,000 people remain detained without charge under emergency legislation.

IRAN

President Mahmoud Ahmadinejad signed on May 17 a new nuclear fuel swap deal with Brazilian President Luiz Lula da Silva and Turkish Prime Minister Tayyip Erdogan. Iran agreed to deposit 1.2 tons of its low-enriched uranium in Turkey in exchange for special nuclear fuel to run its medical research reactor. The U.S. and the European Union expressed serious concerns over the agreement but did not state any formal rejection, while China welcomed the deal. The U.S. submitted a draft resolution to the United Nations Security Council on 18 May regarding further UN sanctions against Iran. The police stated that it will confront any illegal demonstrations during the first anniversary of the June 12 disputed elections. The Iranian security forces killed five members of the PJAK Kurdish guerrilla group in Kermanshah in West Iran. Five Kurdish activists were hanged in Tehran on May 9 on convictions of membership in armed opposition groups and involvement in recent bombings.

IRAQ

The Iraqi Supreme Court approved the final results of the country's general election that was held in March, where former Prime Minister Ayad Allawi's secular al-Iraqiya alliance won the election with 91 seats, while the Shiite alliance headed by Prime Minister Nour al-Maliki won 89 seats in the 325 seat parliament. The Presidency Council must call a new parliament within 15 days from the start of June. Following Baghdad's recount of votes demanded by PM al-Maliki, the two biggest Shiite coalitions, State of Law and Iraqi National Alliance, agreed to become a single parliamentary bloc with four seats short of parliamentary majority. Bashar Agaidi, an Iraqi Minister from the secular Iraqiya bloc, was assassinated on May 24 in Mosul in North Iraq. Over 100 people were killed and others were wounded during coordinated bombings and shootings in Baghdad and Basra, which was blamed by the government on al-Qaeda.

SUDAN

Security deteriorated in Southern Sudan and Darfur following flawed elections in May. The Carter Center reported that April polls were chaotic and vulnerable to political manipulation. Around 50 Southern soldiers were killed in clashes on May 7th, and 83 others were killed on May 12th. The International Criminal Court referred Sudan to the United Nations Security Council for failure to arrest two suspected Darfur war criminals. Two UNAMID peacekeepers were killed on May 7 in southern Darfur.

SYRIA

Israeli Prime Minister Benjamin Netanyahu claimed that Syria provided Scud missiles to Hizbollah in Lebanon. French Foreign Minister Bernard Kouchner and U.S. Assistant Secretary of State Jeffrey Feltman called for Syria to increase efforts to prevent arms shipments to Hizbollah. The U.S. extended sanctions on Syria which were first imposed in 2004, restricting U.S. exports to the country and access to the U.S. financial system for some Syrians. Russian President Dmitry Medvedev indicated Russia's willingness to help build a nuclear power plant in Syria after both countries signed a weapons deal on May 14th.

UKRAINE

Russian President Dmitry Medvedev visited Kyiv, where he pledged economic support and signed agreements on security enhancement and border separation. Hundreds of President Viktor Yanukovich supporters surrounded the parliament to repel over 2,000 anti-Yanukovich protesters, who rallied against perceived abandoning of national sovereignty to Russia.

YEMEN

President Ali Abdullah Saleh announced amnesty for nearly 300 jailed Houthi-led rebels and southern separatists on the 20th anniversary of Yemen's unification. President Saleh's convoy was attacked on May 15 in Hablin, and convoys of two other ministers were attacked during May. Two soldiers and several rebels were killed in the North in the first clash between the army and Houthi rebels since the truce in February 12th. Al-Qaeda claimed responsibility for the failed attack on the UK ambassador in Sanaa.

Source: International Crisis Group



OUTLOOK

IRAQ

Economic growth at 7.3% in 2010, fiscal balance to post deficit of 19% of GDP

The International Monetary Fund projected economic growth in Iraq at 7.3% in 2010 and 7.9% for 2011 compared to growth in Middle Eastern oil exporting countries of 4.3% in 2010 and 4.5% in 2011. It forecast the country's real non-oil GDP to grow by 4.5% in 2010 and 5% in 2011, up from 4% in 2009. It forecast Iraq's annual average inflation rate at 5.1% in 2010 and 5% in 2011, compared to a deflation of 2.8% in 2009, and compared to inflation of 6.6% and 6.5% in oil exporting countries for 2010 and 2011, respectively. Also, it expected broad money to grow by 22% this year, up from 16% in 2009. The Fund projected the central government's fiscal balance to post a deficit of 19% of GDP in 2010 and 5.7% of GDP in 2011, compared 22.6% of GDP in 2009. It also forecast the government's non-oil fiscal deficit at 175% of GDP this year, up from 170% of GDP last year. It estimated overall government revenues at 73.6% of GDP in 2010 and non-oil revenues at 15.8% of GDP in 2010 compared to 73.4% of GDP and 11.6% of GDP, respectively, in 2009; and total expenditures at 94.5% of GDP this year relative to 99% of GDP last year.

The IMF expected Iraq's public debt to reach 55% of GDP at end-2010 and 53.2% of GDP at end-2011, significantly down from 141.6% at end-2009. It also forecast total gross external debt at 47.5% of GDP this year and 43.5% of GDP next year relative to 137% of GDP last year, and compared to external debt in oil exporting countries of 28.5% of GDP in 2010 and 27.9% of GDP in 2011. Further, the Fund estimated Iraq's exports of goods & services at \$49.5bn in 2010 and \$57.8bn in 2011 relative to \$40.2bn in 2009, and imports of goods & services at \$63bn in 2010 and \$65bn in 2011. It forecast the country's current account to post a deficit of \$16.8bn, or 21% of GDP, in 2010 and \$5.1bn or 5.5% of GDP in 2011, compared \$12.8bn or 19.4% of GDP in 2009. The Fund expected the country's gross official reserves to reach \$44bn at end-2010 and \$43.7bn at end-2011, down from \$44.3bn at end-2009.

Source: International Monetary Fund

LIBYA

Non-oil growth to average 7% in 2010-11

The International Monetary Fund projected Libya's real GDP growth at 5.2% in 2010 relative to growth of 4.3% in the oil exporting economies of the Middle East, and to growth of 4.2% in the region this year. It also expected economic growth of 6.1% in 2011 compared to growth of 4.5% in oil exporting economies and 4.6% in the region. It forecast the country's real non-oil GDP to grow at 7% in 2010 and 2011, up from 6% in 2009. The IMF forecast Libya's annual average inflation rate at 4.5% in 2010 and 3.5% in 2011, up from 2.7% in 2009 and compared to inflation of 6.6% in 2010 and 6.5% in 2011 for oil exporting economies. Further, it expected the growth of broad money at 20% this year and 14% next year, down from 27% last year. The Fund projected the central government's fiscal balance to post a surplus of 17.2% of GDP in 2010 and 18.4% of GDP in 2011, up from 10.7% of GDP in 2009, and compared to sur-

pluses in oil exporting peers of around 2.8% of GDP in 2010 and 4.6% of GDP in 2011. It also forecast the government's non-oil fiscal deficit at 130% of GDP this year, up from 136% of GDP last year. It estimated overall revenues at 64.2% of GDP and non-oil revenues at 38.4% of GDP in 2010 compared to 66% of GDP and 41.2% of GDP, respectively, in 2009; and total expenditures at 47% of GDP in 2010 relative to 55.4% in 2009.

The IMF estimated exports of goods & services from Libya at \$51.4bn in 2010 and \$56.6bn in 2011, up from \$39bn in 2009; and imports of goods & services at \$29bn in 2010 and \$31.4bn in 2011, up from \$27bn in 2009. It forecast the country's current account surplus at \$18.7bn or 24.5% of GDP in 2010 and at \$21.5bn or 25.6% of GDP in 2011, compared to a surplus of 7.8% of GDP in 2010 and 10% of GDP in 2011 for oil exporting countries. The Fund expected the country's gross official reserves to reach \$116bn at end-2010 and \$132bn at end-2011, up from \$102.6bn at end-2009.

Source: International Monetary Fund

ARMENIA

Economic growth to average 2.4% in 2010-11

The International Monetary Fund projected Armenia's real GDP to grow by 1.8% in 2010 and 3% in 2011 relative to a contraction of 14.4% in 2009 and compared to growth in the Caucasus & Central Asian (CCA) countries of 4.3% in 2010 and 4.7% in 2011. It expected the country's nominal GDP to reach \$8.3bn in 2010, down from \$8.7bn in 2009. The Fund forecast Armenia's annual average inflation rate at 6.8% in 2010 and 5.2% in 2011, up from 3.4% in 2009 and compared to inflation of 7% in 2010 and 6.4% in 2011 for CCA economies. Also, it expected broad money to grow by 12% this year and 14% next year, down from 16.4% last year. The Fund projected the central government's fiscal balance to post a deficit of 5.6% of GDP in 2010 and 5% of GDP in 2011, down from 7.6% of GDP in 2009, and compared to surpluses in the region of 1.8% of GDP in 2010 and 2.5% of GDP in 2011. It estimated public revenues at 20.3% of GDP this year and 20.7% of GDP in 2011 relative to 20% of GDP last year, and total expenditures at 29.1% of GDP this year and 25.5% of GDP next year down from 31.7% of GDP last year.

The IMF expected Armenia's public debt to reach 50.8% of GDP at end-2010 and 51.1% of GDP at end-2011, up from 40% at end-2009, and compared to a public debt level in the region of 16.7% of GDP in 2010 and 18.3% of GDP in 2011. It also forecast total external debt at 43% of GDP this year and 45% of GDP next year, up from 34% of GDP last year, and compared to external debt in the region of 57% of GDP in 2010 and 57.3% of GDP in 2011. Further, the Fund estimated exports of goods & services from Armenia at \$1.5bn in 2010 and \$1.7bn in 2011 compared to \$1.3bn in 2009, and imports of goods & services at \$3.8bn in 2010 and \$4bn in 2011, up from \$3.6bn in 2009. It forecast the country's current account deficit at \$1.1bn or 13% of GDP in 2010 and at \$1bn or 12.6% of GDP in 2011, down from \$1.2bn or 13.8% of GDP in 2009. It forecast Armenia's gross foreign currency reserves at \$2.2bn at end-2010, up from \$2bn at end-2009.

Source: International Monetary Fund



ECONOMY & TRADE

SYRIA

Damascus ranks 173rd worldwide, 17th in MENA region in quality of living

The annual survey on the quality of living in 221 cities around the world by global consultants Mercer Human Resource Consulting ranked Damascus as the 173rd most desirable city for overall living standards and 17th among 24 cities surveyed in the Middle East and North Africa region in 2010. Damascus ranked in 172nd place worldwide and in 14th place in the region in the 2009 survey. The study evaluates the cities on the basis of 39 key quality-of-living determinants grouped in 10 categories that include political, economic and socio-cultural factors, in addition to the environment, housing, recreation, health care, education, transportation, and other public services. Damascus received a score of 53.8 points in 2010, up 1.3% from 53.1 points in 2009. Its score came below the global average of 75.5 points as well as below the MENA and Arab averages of 62 points and 61.7 points, respectively. On a global basis, Damascus ranked ahead of Yerevan, Almaty in Kazakhstan, and Djibouti; and came immediately behind Beirut, Cotonou in Benin, and Moscow. Regionally, Damascus ranked ahead of Djibouti, Algiers and Tehran and behind Beirut, Tripoli and Jeddah. The survey is conducted annually to help multinational companies assess international hardship allowance for their expatriate workers.

Source: Mercer Human Resource Consulting

JORDAN

EU signs three-year €23m aid program

The European Union approved a €23m three-year financial aid program for Jordan, constituting an increase of 13% from support provided during the 2007-10 period. The aid will cover the 2011-13 period, with around €74m disbursed each year compared to €6m per year under the previous program. The National Indicative Program program aims to support government efforts for development and reform in several fields. It will focus on four priority areas including, supporting Jordan's reform in the areas of democracy, human rights, media and justice; trade, enterprise and investment development; sustainability of the growth process; and institution building, financial stability and support for regulatory reforms. The program will also support projects that will help to stimulate the economy, create job opportunities and enhance public participation in the decision-making process.

Source: Jordan Times

KUWAIT

Sovereign ratings affirmed, outlook stable

Standard & Poor's affirmed Kuwait's 'AA-/A-1+' sovereign credit ratings with a 'stable' outlook. It said the ratings are supported by the country's rich resource endowment that, along with prudent policies, has allowed the state to build very strong external and fiscal balance sheet positions in recent years. It considered that these strengths comfortably balance the state's increased contingent liabilities, high institutional risks, and the slow progress on structural reforms, which remain a constraint on economic growth. The agency projected the government's net asset position at about 244% of GDP by year-end 2010,

which gives it higher fiscal and external flexibility than most rated peers in the 'AA' category. It expected the government's budget to post a surplus of about 25% of GDP in fiscal 2010-11. It expected real GDP growth of 3.5% in fiscal year 2010/11 and 4.2% in the following year. A stabilization of the relationship between the government and the parliament, along with a political consensus that helps to accelerate both private domestic and foreign investments, should alleviate major impediments to growth and would be positive for the ratings.

Source: Standard & Poor's

QATAR

Issuance of \$2.75bn in local bonds

The Central Bank of Qatar issued bonds totaling 10bn Qatari riyals, or \$2.75bn, split equally between conventional and Islamic bonds, or sukuks. The issuance constitutes Qatar's largest ever local currency bond and is an effort to diversify funding away from the US dollar, foster a domestic bond market and widen its range of monetary policy tools. Commercial banks purchased QAR 1bn of paper each and Islamic banks subscribed to QAR 1.25bn each. The central bank plans to list the notes on Qatar Exchange. Qatar issued a \$7bn Eurobond last November, the largest emerging market bond on record, and the country's state-owned companies have been borrowing on international capital markets in recent years.

Source: Dow Jones Newswires

TURKEY

Sovereign ratings upgraded

Capital Intelligence raised Turkey's long-term foreign and local currency ratings to 'BB' from 'BB-' with a 'stable' outlook. It attributed the upgrade to the increased capacity of the Turkish economy to withstand external shocks, as evidenced by the relatively quick recovery from the global financial crisis. It forecast real GDP growth to accelerate to about 5% this year following a short-lived recession in 2009. It also expected public debt dynamics to remain on a sustainable path over the medium-term, supported by a gradual reduction in the budget deficit. It said the government intends to enshrine into law this year a fiscal rule that would bind policy-makers to a long-term deficit target of 1% of GDP. It noted that the government's debt stock remains unfavorably structured compared to most higher-rated sovereigns, as more than one-third of the debt stock is due within one year, contributing to a gross government financing requirement of some 19% of GDP this year, with 28% of total debt denominated in foreign currency. It added that the short maturities and asset price links of the debt stock expose the government to a high level of rollover risk and exposes the public finances and debt dynamics to shifts in market sentiment. It said Turkey's ratings are also constrained by the country's large external financing needs, which arise from a moderate current account deficit and heavy scheduled external debt repayments equivalent to about 14% of GDP, or 61% of current account receipts, of which more than 80% relate to private sector obligations. It added that official foreign exchange reserves, that account for around 10% of GDP, would provide a relatively small cushion against a large-scale shift in capital flows.

Source: Capital Intelligence

BANKING

SYRIA

Private sector accounts for 46% of credits, private banks extend 15% of lending

Figures released by the Central Bank of Syria indicate that total credits extended by commercial banks reached SYP 1,136bn, or about \$24.7bn, at the end of the first quarter of 2010, constituting an increase of 1.7% from SYP 1,117bn at end-2009 and a rise of 12.3% from end-March 2009. Credits in Syrian pounds accounted for 96.8% of the total relative to 97% at end-2009, and foreign currency loans accounted for the remaining 3.2%. Loans to non-financial public enterprises accounted for 46.6% of total lending, down from 49.2% a year earlier, followed by resident private sector lending with 45.6% relative to 41.1% at end-March 2009, while the central government accounted for the remaining 7.8%. Households accounted for 75% of resident private sector lending, followed by businesses with 25%. Households and businesses represented 77% and 22.8%, respectively, of resident private sector lending at end-March 2009. Further, the sectoral distribution of credit shows that wholesale & retail trade accounted for 44% of the total, down from 53% at end-March 2009; followed by agriculture with 19%, up from 14% a year earlier; building & construction with 14%; mining, manufacturing & utilities with 8%, while other activities accounted for the remaining 15% of lending. Also, public commercial banks accounted for 83% of total lending at end-March 2010, down from 86% a year earlier, while private commercial banks accounted for 15% relative to 13% at end-March 2009 and private Islamic banks for the remaining 2%. Loans & advances accounted for 52.4% of private banks' lending, followed by personally secured credits & overdrafts with 27.7%, and discounts with 17.2%. Private commercial banks' lending rose by 33.3% year-on-year, credits by state-owned banks increased by 11%, and Islamic banks' activity grew by 64.5% at end-March 2010.

Source: Central Bank of Syria, Byblos Research

SAUDI ARABIA

Agencies take rating actions on banks

Standard & Poor's raised its long-term counterparty credit rating on Samba Financial Group and on Al Rajhi Bank to 'A+' from 'A' with a 'stable' outlook, and affirmed their 'A-1' short-term counterparty credit ratings. It attributed Samba's upgrade to its improved financial profile from resilient financial performance, solid capitalization, and strong funding and liquidity indicators. It also considered that Samba benefits from a superior market position in Saudi Arabia and a supportive business mix between retail and corporate banking. Further, the agency attributed its upgrade on Al Rajhi to the bank's strengthened stand-alone credit profile from its unique market position in the local retail market, increasingly diversified loan book, resilient profitability, strong capitalization, and growth strategy with solid capital ratios. Also, S&P revised its outlook on the Saudi Investment Bank to 'stable' from 'negative' and affirmed the bank's 'A-/A-2' long- and short-term counterparty credit ratings. It said the outlook revision reflects the resilience of the bank's financial profile. In parallel, Capital Intelligence downgraded Saudi Hollandi Bank's Financial Strength rating to 'BBB+' from 'A-', and affirmed the long- and short-term foreign currency ratings

at 'A' and 'A2', respectively. It attributed the downgrade to the deterioration in the bank's loan asset quality last year, which was exacerbated by its exposure to two financially-troubled Saudi family-owned conglomerates.

Source: Standard & Poor's, Capital Intelligence

KUWAIT

Bank ratings affirmed

Capital Intelligence affirmed National Bank of Kuwait's (NBK) foreign currency long-term rating of 'AA-' and its foreign currency short-term rating of 'A1+'. It also affirmed the bank's financial strength rating at 'A+'. It kept the outlook on all ratings at 'stable'. It said NBK's overall financial profile has remained very sound as evidenced by very good asset quality and sound capital adequacy. It noted, however, that the bank's liquidity has tightened. In parallel, Capital Intelligence downgraded Al Ahli Bank of Kuwait's Financial Strength rating to 'BBB+' from 'A-' due to the bank's continued tight liquidity profile and markedly deteriorating asset quality and pressure on profitability. It affirmed the bank's other ratings.

Source: Capital Intelligence

NIGERIA

Central Bank bails out airlines with \$3.3bn

The Central Bank of Nigeria (CBN) announced it is extending 500bn naira, or \$3.3bn, to bail-out the country's troubled airlines. Nigeria's aviation industry, already affected by higher fuel costs, has grown rapidly in recent years and many airlines are heavily indebted. The CBN said the airlines can use the money to refinance their bank loans and amortize them over a period of 10 to 15 years, which will help avoid a financial crisis in the aviation industry that would negatively impact the banking sector. The funds, first announced in March, were originally meant to stimulate credit to the power and manufacturing sectors. Last year, the CBN injected about \$4bn in 9 banks after an audit of 24 banks operating in the country found that 10 banks have liquidity and capitalization problems.

Source: Central Bank of Nigeria

ANGOLA

Parliament endorses anti-money laundering law

Angola's parliament ratified an anti-money laundering and terrorism financing law. The bill, which was unanimously approved by parliament, aims to fill a gap in Angola's legislation against money laundering. The law carries prison sentences of up to 24 years for money laundering and terrorism financing. Last February, the Financial Action Task Force (FATF) identified Angola as a jurisdiction with strategic deficiencies in anti-money laundering and combating the financing of terrorism (AML/CFT) and added that the country has not committed to an action plan to address these deficiencies as of February 2010. It indicated that Angola has not committed to the AML/CFT international standards, nor has it responded to the FATF's request for engagement on these issues. It said Angola's lack of a comprehensive AML/CFT regime poses a risk to the international financial system, and urged it to work with the FATF to develop a viable AML/CFT regime in line with international standards. The FATF called on its members to consider the risks arising from the deficiencies associated with Angola.

Source: Financial Action Task Force, Thomson Reuters



ENERGY / COMMODITIES

Oil rises to \$74 on crude stocks drop

Oil prices rose by almost 2% percent on June 3 due to an industry report that showed a drop in U.S. crude inventories and as robust economic indicators injected confidence into financial markets. U.S. crude prices for July rose by \$1.15 to \$74.01 a barrel, taking gains for the week to almost \$4 a barrel and ICE Brent rose by 99 cents to \$74.74 a barrel. The American Petroleum Institute (API) reported on June 2 that U.S. crude stockpiles fell by more than expected last week, dropping by 1.4 million barrels versus market expectations of just a 100,000 barrel fall. Also, the API said gasoline stocks in the U.S. fell by 962,000 barrels last week, compared with forecasts for a 500,000 barrel decline. Stocks of distillates, which include diesel and heating oil, rose by 852,000 barrels, above expectations for a 100,000 rise.

Further, concerns about a slowdown of China's economy weighed on oil prices earlier this week, adding to Europe's debt crisis. But U.S. pending home sales in April rose more than expected to a six-month high, the third consecutive month of gains, increasing optimism that an economic recovery is gaining steam in the U.S. Oil prices have traded in a range between \$71.64 and \$75.33 this week, torn between evidence that the world's biggest oil-consuming nations are posting steady demand growth and speculation that consumption will be hurt by a stagnant European economy.

Source: Thomson Reuters

Gazprom confirms its participation in Iran-Armenia oil pipeline project

Russia's Gazprom confirmed its participation in the construction of the Iran-Armenia oil pipeline by means of its subsidiary ArmRosgazprom. Earlier, Armenia's Ministry of Energy & Natural Resources said that Russia, Armenia and Iran were ready to take part in the project and that the key source of financing is a loan from Iran. Gazprom's share in the project is expected to range between 5% to 10%. The construction of the Tabriz-Yeraskh pipeline will start later this year and its capacity will be 1.5 million tons a year. The total cost of the project is estimated at around \$250m.

Source: ArmInfo

Shanghai Electric begins work on \$1bn Iraq power project

Iraq's Ministry of Electricity declared that China's Shanghai Electric has started working on a \$1bn power-generating plant to boost the country's electricity capacity by 1,320 megawatts. The project, which includes purchasing and installing four steam turbines, each with a capacity of 330 MW, will provide Iraq with a significant power increase over the next four years. The first unit is expected to operate in three years.

Source: Thomson Reuters

Base Metals: Prices to stay firm despite slower growth and disinflation in OECD

As the global economy comes out of recession and stimulus packages start to fade, the demand environment for metals remains challenging. Lower metals demand growth is expected in the coming years, particularly in the developed nations, as potential GDP growth rates in advanced economies have come under pressure. However, despite the disinflationary environment in advanced countries, economic growth and also inflation are set to run at high levels over the coming years in emerging market nations. Therefore, metals demand is expected to be strong enough for supply shortages to reemerge. This should lend medium-term support to industrial metal prices.

Source: Merrill Lynch

Precious Metals: Prices increase as investor risk appetite returns

Precious metals started recovering as broader financial markets began to stabilize and investors' risk tolerance increased. The very high buying of physical gold over the previous two weeks subsided somewhat, but both retail investor and fund interest in the metal as a defensive asset remained high, with political tension on the Korean peninsula joining the euro zone financial concerns. Consequently, following Comex June options expiry, gold regained the \$1,200 level. The gold market is expected to continue to be heavily influenced by the developing situation in Korea and by foreign exchange and money markets' response to further political and policy developments in Europe.

In parallel, white precious metals' prices increased following the OECD's optimistic assessment of the pace of global economic recovery. Silver regained the \$18 mark, outperforming gold in the process, and platinum consolidated above \$1,500 an ounce as enquiries from industrial end-users increased. However, the standout performance was from palladium. Having been sold off the most of almost all commodities, the metal's bounce was impressive, reaching around \$465 an ounce.

Source: Credit Suisse

Commodity performance					
	Price	1 month	3 months	6 months	12 months
Energy	(1 month)	Change (%)			
Crude oil (WTI) \$/bbl	75.4	-9.4	-5.4	-0.9	15.8
Crude oil (Brent) \$/bbl	75.3	-12.6	-2.9	-2.4	17.0
Gasoline	2.05	-12.2	-1.5	6.3	7.1
Heating oil	2.03	-9.1	0.1	3.3	26.5
Natural gas	4.34	1.6	-9.8	-16.4	9.7
Base metals	(3 months)				
Aluminium \$/t	2,065	-4.0	-3.2	2.4	47.0
Copper \$/t	6,984	-6.8	-2.9	1.9	49.7
Lead \$/t	2,690	-19.8	-14.8	-19.8	27.6
Nickel \$/t	21,800	-15.9	3.0	35.5	62.7
Tin \$/t	17,990	-3.0	5.1	20.8	32.3
Zinc \$/t	1,940	-17.8	-11.6	-13.0	32.9
Precious metals	(spot)				
Gold \$/oz	1,214	4.2	8.7	3.1	26.6
Palladium \$/oz	470	-13.0	8.8	28.9	101.8
Platinum \$/oz	1,565	-8.3	1.5	8.6	36.7
Silver \$/oz	18.6	2.6	12.7	1.4	22.5

Source: Bloomberg, Julius Baer



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	-11.5	7.8	1.9	3.4	1.7	1.9	-3.0	0.8
Angola	B+	B1	B+	-	B	4.6	19.1	17.4	25.4	9.4	-	7.6	7.2
Egypt	BB+	Ba1	BB+	BBB-	BB	-7.9	73.8	17.0	47.0	5.8	100.6	-2.9	3.2
Ethiopia	-	-	-	-	CCC	-2.3	-	14.1	263.0	-	-	-7.2	-
Ghana	B+	-	B+	-	CCC	-10.1	-	35.6	-101.7	-	-	-17.0	-
Ivory Coast	-	-	-	-	CC	-1.4	-	55.7	134.4	-	556.0	0.3	-
Libya	A-	-	BBB+	-	BB	-2.0	6.5	15.5	20.0	3.3	-	15.5	2.8
Mauritania	-	-	-	-	-	-3.1	-	47.6	92.7	-	-	-4.7	-
Morocco	BBB-	Ba1	BBB-	BBB-	BB	-3.6	52.8	24.2	79.5	0.5	95.6	-2.1	3.3
Nigeria	B+	-	BB-	-	B	-3.0	12.3	5.0	16.5	0.3	-	-5.6	1.6
Sudan	-	-	-	-	C	-3.3	104.5	67.2	428.5	3.2	-	-5.1	2.4
Tunisia	BBB	Baa2	BBB	BBB	BB	-4.0	51.0	53.0	114.6	9.7	232.0	-2.6	3.8
Middle East													
Bahrain	A	A2	A	A	BBB	-6.4	22.7	178.0	220.3	15.9	934.9	-2.9	0.9
Iran	-	-	B+	BB-	B	-4.8	19.3	5.2	20.1	2.8	23.1	0.6	0.2
Iraq	-	-	-	-	CC	-12.7	-	67.3	128.4	2.3	112.8	-0.1	0.9
Jordan	BB	Ba2	-	BB	B	-1.2	59.0	65.4	131.2	8.1	183.0	-10.7	6.9
Kuwait	AA-	Aa2	AA	AA-	A	12.9	7.5	31.7	57.7	2.8	221.2	25.8	-2.0
Lebanon	B	B1	B	B	CCC	-12.6	154.3	96.3	631.1	15.0	168.6	-10.4	5.5
Oman	A	A2	-	A	A	-5.1	6.0	30.9	45.9	5.4	117.1	-0.3	2.0
Qatar	AA-	Aa2	-	AA-	A	4.2	10.4	72.8	157.3	8.4	603.4	8.7	7.9
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	-4.7	11.3	9.7	18.8	2.0	89.1	-6.1	0.3
Syria	-	-	-	-	CCC	-7.9	32.3	14.6	75.3	1.0	151.1	-2.9	1.4
UAE	-	Aa2	-	AA-	BB	0.7	12.7	63.8	74.1	3.9	420.3	-5.3	0.7
Yemen	-	-	-	B	CC	-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-	-	-	-3.1	23.6	42.5	579.3	1.5	344.9	-0.8	0.9
	-	-	Stable	-	-								
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.7	17.5	102.0	200.0	35.3	283.9	-8.0	8.2
	Stable	Stable	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB-	-	BB	-3.5	6.6	95.9	231.5	48.0	426.6	-7.6	9.2
	Stable	-	Negative	-	Stable								
Romania	BB+	Baa3	BB+	BBB-	BB	-5.1	20.8	61.5	202.5	15.9	348.0	-7.1	3.3
	Negative	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	-6.5	7.0	38.0	133.6	33.7	139.1	1.3	0.4
	Stable	Positive	Stable	-	Negative								
Turkey	BB	Ba2	BB+	BB	B	-6.0	47.6	47.3	198.3	31.2	434.4	-1.3	1.4
	Positive	Stable	Stable	Stable	Stable								
Ukraine	B	B1	B	-	CCC	-4.0	22.1	86.6	223.7	20.1	407.1	-0.1	4.5
	Stable	Positive	Negative	-	Stable								

Sources: Moody's Investors Service; Economist Intelligence Unit - The above figures are estimated for 2009



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	28-Apr-10	No change	23-Jun-10
Eurozone	Refi Rate	1.00	06-May-10	No change	10-Jun-10
UK	Bank Rate	0.50	10-May-10	No change	10-Jun-10
Japan	O/N Call Rate	0.10	21-May-10	No change	15-Jun-10
Australia	Cash Rate	4.50	01-Jun-10	No change	03-Aug-10
New Zealand	Cash Rate	2.50	29-Apr-10	No change	10-Jun-10
Switzerland	3 month Libor target	0.25	11-Mar-10	No change	17-Jun-10
Canada	Overnight rate	0.50	01-Jun-10	Raise 25bps	20-Jul-10
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	28-Apr-10	No change	23-Jun-10
Taiwan	Discount Rate	1.25	25-Mar-10	No change	June-10
South Korea	Base Rate	2.00	12-May-10	No change	10-Jun-10
Malaysia	O/N Policy Rate	2.50	13-May-10	Raise 25bps	08-Jul-10
Thailand	1D Repo	1.25	02-Jun-10	No change	N/A
India	Reverse repo rate	3.75	20-Apr-10	No change	27-Jul-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	18-May-10	No change	17-Jun-10
South Africa	Repo rate	6.50	13-May-10	No change	22-Jul-10
Kenya	Central Bank Rate	6.75	20-May-10	Cut 25bps	July-10
Nigeria	Monetary Policy Rate	6.00	11-May-10	No change	July-10
Ghana	Prime Rate	15.00	16-Apr-10	Cut 100bps	June-10
Angola	Rediscount rate	30.00	01-Oct-09	Raise 500bps	N/A
Mexico	Target Rate	4.50	21-May-10	No change	18-Jun-10
Brazil	Selic Rate	9.50	28-Apr-10	Raise 75bps	09-Jun-10
Armenia	Refi Rate	7.25	11-May-10	Raise 25bps	N/A
Romania	Policy Rate	6.25	04-May-10	Cut 25bps	N/A
Bulgaria	Base Interest	0.18	01-May-10	Raise 1 bps	N/A
Kazakhstan	Refi Rate	7.00	01-April-10	No change	N/A
Ukraine	Discount Rate	10.25	11-Aug-09	Cut 75bps	N/A
Russia	Refi Rate	8.00	30-April-10	Cut 25 bps	N/A



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