

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

MENA

Investment climate deteriorates in Arab world

The investment climate in the Arab world deteriorated in 2009, according to the Composite Investment Climate Index issued by the Arab Investment and Export & Guarantee Corporation (AIEGC). The value of the index reached 0.7 points in 2009, down 33% from 1.05 points in 2008. The index is composed of three sub-indices that reflect public finances, the external balance, and inflation rates, with real GDP growth figures used for comparative purposes. The AIEGC attributed the decline in the composite index to decreases in two of its sub-indices, as the External Balance Sub-Index regressed to one point in 2009 from 1.42 points in 2008 and the Internal Balance Sub-Index deteriorated to -0.37 points from 1.53 points, while the Monetary Policy Sub-Index increased to 1.47 points from 0.21 points year-on-year. It added that aggregate GDP growth slowed down to 2.42% in 2009 from 5.1% in 2008. It indicated that the fiscal deficit-to-GDP ratio improved in 8 Arab economies and regressed in 11 countries, while the current account balance-to-GDP ratio improved in 14 countries and regressed in 5 economies; and the inflation rate declined in 17 countries and rose in 2 others. Also, real GDP growth slowed down in 15 Arab countries, contracted in 2 others and was unchanged in 2 economies.

Source: AIEGC, Byblos Research

IPO activity stagnates in first half of 2010

Companies in the Middle East & North Africa raised \$1.2bn through 16 initial public offerings in the first half of 2010, down 1% from \$1.21bn raised through 9 IPOs in the same period last year. As such, the average IPO size was \$75.2m in the first half of the year relative to \$135m in the same period last year. IPOs were oversubscribed by an average of 9.7 times during the covered period compared to an average of 4.4 times in the first half of 2009. Saudi Arabia accounted for 43.8% of the number of IPOs in the region, followed by Tunisia with 25%, Syria with 12.5%, and Egypt, Morocco and Qatar with 6.3% each. In value terms, Saudi Arabia accounted for \$685.4m, or 57% of the total, followed by Egypt with \$178.4m (14.7%), Tunisia with \$171m (14.2%), Qatar with \$144.2m (12%), Morocco with \$21.2m (1.8%), and Syria with \$5m (0.4%). Financial services accounted for 43.8% of all IPOs, followed by transportation, real estate, manufacturing, and food & beverage with 12.5% each, and consumer goods with 6.3%. In parallel, real estate accounted for 34.6% of raised capital, followed by food & beverage with 23.8%, manufacturing with 13%, consumer goods with 11.4%, financial services with 10.3%, and transportation with 7%. Knowledge Economic City Company of Saudi Arabia was the largest IPO in the first half with \$272m raised. NCB Capital was the top lead manager of IPOs in the region with 23.2% of the total, while EFG Hermes was the top financial advisor with 15% of the total.

Source: Zawya.com IPO Monitor

Most Arab countries score low in economic opportunities for women

The Economist Intelligence Unit's Women's Economic Opportunity Index indicates that the Arab countries' average score was 42.5 points, below the global average of 54.9 points. The index is composed of five sub-indices that cover labor policy and practice, access to finance, education and training, women's legal and social status, and the general business environment. Tunisia ranked first in the Arab region, followed by Egypt and Bahrain, while Saudi Arabia, Syria and Yemen were the lowest ranked Arab countries. None of the Arab countries ranked among the top 20 globally, while five were among the bottom 20, with Yemen and Sudan ranking last among the 113 countries included in the survey. The Arab average score on the General Business Sub-Index was 47.8 points relative to the global average of 49.1 points, while the Arab average score on the Labor Policy & Practice Sub-Index was 34.5 points relative to the global average of 39 points. Further, the Arab average scores on the Access to Finance and Education & Training Sub-Indices were 30 points and 52 points, respectively, below the global averages of 39 points and 59 points, respectively.

Source: Economist Intelligence Unit

IRAN

Teheran urged to address its anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), called on its members and other jurisdictions to apply counter measures to protect the international financial system from the ongoing and substantial money laundering and terrorist financing risks originating from Iran. It welcomed the recent steps that Iran took to engage with the FATF, but expressed concerns about Iran's failure to meaningfully address the ongoing and substantial deficiencies in its AML/CFT regime. The FATF urged Iran to immediately address its AML/CFT deficiencies, in particular by criminalizing terrorist financing and effectively implementing suspicious transaction reporting requirements.

The FATF reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also asked jurisdictions to protect against correspondent relationships being used to bypass or evade counter-measures and risk mitigation practices, and to take into account money laundering and terrorism financing risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. The FATF warned that, if Iran fails to take concrete steps to improve its AML/CFT regime, it will consider calling on all countries and jurisdictions to strengthen counter-measures in October 2010.

Source: Financial Action Task Force

POLITICAL RISK OVERVIEW - JUNE 2010

ALGERIA

Senior leader of Al-Qaeda in the Islamic Maghreb (AQIM), Abu al-Abbes, surrendered on May 25 in Eastern Algeria after a series of allegations. On June 11 and 12, security forces raids and policemen killed 18 terrorists. A suicide bombing killed four and injured at least 17 in Tizimar.

ARMENIA

The Armenian Parliament passed controversial amendments to a law on television and radio regulating mandatory transition to digital broadcasting. Media watchdogs, the Organization for Security and Co-operation in Europe and the U.S. denounced these measures, claiming them allow the government to reduce plurality of media and prevent the emergence of independent broadcasters.

DEM REP CONGO

The representative of the UN Secretary General announced strengthening of MONUSCO troops in Ituri to remove militias. Defense Minister, Hon Charles Nsimba, confirmed rebel alliances between Democratic Forces for the Liberation of Rwanda (FDLR), Federal Republican Forces (FRF) and Mai-Mai in South Kivu. The Amani Leo operation against rebel forces led by the armed forces of the DRC with MONUC support will be extended until August. The operation's principal objectives are to protect civilian populations, hold territory liberated from FDLR control, and assist in restoring State authority in these zones. Maniema and South Kivu provincial assemblies elected new governors on June 12, both from the ruling People's Party for Reconstruction and Democracy. Prominent human rights advocate, Floribert Chebeya, was killed on June 2 in Kinshasa.

EGYPT

Dozens of people were beaten and arrested by security forces on June 6 during an anti-police brutality demonstration in Cairo. The protest was one of many following the death of activist Khaled Said who was beaten to death by police after shooting a video of police officers involved in a drug deal. Egypt's ruling National Democratic Party, affiliated with President Hosni Mubarak, won all but four seats in the Upper House elections on June 1st. Voters and journalists were barred from polling stations. Egyptian authorities announced that the Rafah Crossing with Gaza, the only point of entry not under Israel's direct control, would remain open indefinitely for only those seeking medical treatment or study in Egypt. Also, goods limited to mostly medicine and food can cross the border. Over 16,500 Palestinians are reported to have crossed since June 1st.

IRAN

The UN Security Council approved a fourth round of sanctions on Iran where Turkey and Brazil voted against and Lebanon abstained. Sanctions include tougher arms embargo, increased rules on financial transactions, travel bans and asset freezes. Iran claimed it is continuing to process uranium enrichment and so far 17kg of uranium have been enriched to 20%. Also, Iran still considers shipping most of its low-enriched uranium in a nuclear fuel swap. Abdulmalik Rigi, alleged leader of Sunni insurgent group Jundallah, was executed on June 20th. The government launched air and weapons attacks including an Iranian troop incursion on Iraqi Kurdistan in May and June.

IRAQ

The formation of an Iraqi government remains in deadlock. The new parliament met for the first time on June 14 to continue government formation discussions. Prime Minister Nour al-Maliki's State of Law and the Iraqi National Alliance, the two main Shiite blocs, announced a merger forming a bloc just four seats short of parliamentary majority. Ayatollah Ali al-Sistani denied having a role in the merger, and plans on intervening if a government is not formed soon. Up to 26 people have been killed on June 14 during the coordinated bombings and storming of the Central Bank. 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 UN Security Council for failure to arrest two suspected Darfur war criminals. Two UNAMID peacekeepers were killed on May 7 in southern Darfur.

MAURITANIA

The Defense Minister ruled against releasing al-Qaeda in the Islamic Maghreb (AQIM) prisoners in exchange for foreign hostages. AQIM still has two Spanish hostages who were captured in 2009, and one French hostage who was captured in Niger. The European Commission resumed talks on June 23 with the government, which had been stalled since the 2008 coup.

SUDAN

As insecurities persist in the South and Darfur, President Omar Bashir announced the formation of a coalition Cabinet. The Sudan Peoples' Liberation Movement (SPLM) will control 9 of 35 ministries, including the Oil Portfolio. Bashir plans on working towards unity before the January 2011 independence referendum, and the UN has urged all parties to speed up the referendum preparations. The National Congress Party (NCP) signed a Memorandum of Understanding with the SPLM on June 23, outlining the framework of post-referendum negotiations. Clashes remain in the South between the South Sudanese army and fighters loyal to the General George Athor. Around 150 people were killed during clashes in June, including 3 UNAMID peacekeepers.

SYRIA

On June 15, President Bashar Assad met with Lebanese President Michel Sleiman in Damascus, calling for a firm Arab stance to break the Gaza blockade. They agreed to begin defining their shared land and maritime borders. A human rights activist was arrested on June 23 for 3 years, accused of weakening national sentiment; the US called for his release the next day.

YEMEN

The UN Office for the Coordination of Humanitarian Acts (UNOCHA) warned that the fragile ceasefire between Houthi rebels and Yemeni forces could disintegrate without a formal peace agreement. Several people were killed or injured throughout various tribal clashes. A total of 33 journalists accused of spreading false information, as well as harming national unity sentiments, have been granted presidential pardons.

Source: International Crisis Group

OUTLOOK

EMERGING MARKETS

Economic growth at 6.8% in 2010, markets vulnerable to spillovers from crisis in Europe

The International Monetary Fund projected real GDP growth in emerging and developing economies at 6.8% in 2010, up from a forecast of 6.3% in April, and compared to global growth of 4.8% and to real GDP growth of 2.6% in advanced economies this year. It expected growth in Developing Asia at 9.2%, Sub-Saharan Africa at 5%, Central & Latin America at 4.8%, the Middle East & North Africa at 4.5%, the Commonwealth of Independent States at 4.3%, and Central & Eastern Europe at 3.2%. It revised upwards its growth forecast for Developing Asia by 0.5% from its April forecast, by 0.3% for Sub-Saharan Africa, by 0.8% for Central & Latin America, by 0.3% for the Commonwealth of Independent States, and by 0.4% for Central & Eastern Europe, while it maintained its forecast for the MENA region. It also projected real GDP growth of 6.4% in emerging and developing economies at 6.8% in 2011. The IMF indicated that the projections are consistent with still-robust growth overall in developing economies, but with considerable diversity among them, as economies in Asia and Latin America continue to lead the recovery.

The IMF indicated that emerging markets are being affected by the increased risks in the euro area through the decline in risk appetite, which has led to tighter financing conditions. It said portfolio flows to emerging markets have partially reversed and asset price valuations have declined, after a significant increase for almost a year between March 2009 and April 2010. It noted that the spillovers from the crisis in mature Europe are being felt most in emerging Europe, where direct linkages are the most significant. The Fund considered that emerging market countries face the uncertainty of whether the instability in the euro area causes investors to broadly pull back from foreign markets, or whether flows to emerging markets will resume as investors look for alternatives to more volatile markets in advanced economies. It added that developing economies face the prospect of greater volatility in capital inflows. As such, it encouraged them to increase their macroeconomic and prudential policies to reduce their vulnerability to a sudden stop or an excessive buildup of credit or asset prices. It also called for improvements in financial infrastructure that can help provide resilience in the face of volatile flows.

Source: International Monetary Fund

GCC

Economic growth at 3.6% in 2010, sustainability and organic growth are key challenges

Merrill Lynch projected the GCC economies to post real GDP growth of 3.6% in 2010 and 4.2% in 2011, up from 0.6% in 2009. It considered that the key macroeconomic themes for the region have become sustainability and organic growth in the aftermath of the Dubai bubble and the European debt crisis. It noted that the deteriorating external environment is less supportive, which has led to lower oil prices, lower external funding opportunities, a slower recovery of the real estate sector, further deleveraging, and slower GDP growth. It expected oil prices to reach \$78/bbl in the second half of 2010, above the

GCC's budget breakeven of 63\$/bbl. It said GCC countries can run balanced deficits if necessary, given their high savings and low leverage, with the exception of Dubai. It projected the region's aggregate fiscal surplus to reach 7.4% of GDP in 2010 and 10% of GDP in 2011 compared to 4.2% in 2009. It noted that it would take an unlikely sustained drop in oil prices below \$50/bbl, along with a marked deterioration of external demand, for governments to revise their 2010 and 2011 spending plans.

Merrill Lynch considered that Dubai has to go through significant deleveraging, given the restructuring and still heavy debt service schedule in the short to medium term. It added that Abu Dhabi is likely to be affected given its existing business links to Dubai. It expected Qatari LNG expansion to keep growth high in 2010 despite a soft private sector, and noted that Saudi Arabia growth remains resilient with strong fiscal stimulus and potential direct funding from the government to corporate borrowers. It projected average inflation for the region to reach 3.1% in 2010 and 4.2% in 2011, up from 2.8% in 2008. Further, Merrill Lynch indicated that oil prices have now a lower impact on the domestic economies of the GCC compared to a few years ago, which is a reason for weaker growth overall. It said this is most evident in the diverging paths of money supply and private sector growth across the region. It also forecast foreign exchange reserves at \$535bn at end-2010 and \$653bn at end-2011, up from \$502bn at end-2009.

Source: Merrill Lynch

TUNISIA

Limited external vulnerabilities, fiscal consolidation to resume

Merrill Lynch projected Tunisia's economic growth at 3.6% in 2010 and 3.7% in 2011 relative to 3% in 2009. It forecast inflation at 4.6% this year and 4% next year compared to 3.7% last year. It said growth has rebounded starting in mid-2009, but remains subject to downside risks related to links to the European Union. It noted the limited year-on-year growth in remittances and the contraction in tourism receipts, while it said imports continued to grow at a faster pace than exports. As such, it said the current account is widening and expected it to post a deficit of 3% of GDP in 2010 relative to 2.8% of GDP in 2009, adding that external vulnerabilities remain limited. It noted that Tunisia maintains a stable amortization profile with low foreign currency, interest rate and rollover risks. It said medium- and long-term debt stood at 37% of GDP at year-end 2009, while short-term debt is less than 50% of foreign currency reserves and remains appropriately covered. It forecast external debt at 52.3% of GDP at end-2010 and at 50.5% of GDP at end-2011, while it expected the public debt at 46% of GDP at end-2010 and 44.2% of GDP at end-2011. Merrill Lynch indicated that cyclically lower tax receipts, support to the external sector and implementation of the fiscal stimulus widened the deficit to 3.7% of GDP in 2009. But it added that the government aims to maintain its 2010 budget deficit at around last year's level and avoid an early withdrawal of stimulus measures. It expected the government to resume fiscal consolidation once growth stabilizes, and forecast the deficit to decline to 3% of GDP in 2011.

Source: Merrill Lynch



ECONOMY & TRADE

IRAQ

Government launches \$186bn development plan

The Iraqi government launched a five-year development plan for the 2010-14 period that involves the implementation of more than 2,700 projects at a total cost of about \$186bn. The plan aims to achieve an average annual economic growth of 9.38%, develop the infrastructure, reduce regional differences, improve social services, and diversify the economy to reduce its dependence on oil. The plan also aims to create 3.5 million jobs. The Ministry of Planning & Development Cooperation said that about \$100bn of the plan's cost will be financed by the state budget, while the remainder will be funded through domestic and foreign investments, it added that the plan will mainly focus on developing the oil and electricity sectors, given that oil revenues are the main source of the plan's financing and that the country suffers from severe electricity shortages.

Source: *Al-Hayat, Dow Jones Newswires*

QATAR

Sovereign ratings upgraded

Standard & Poor's raised Qatar's long-term sovereign ratings to 'AA' from 'AA-' and affirmed its 'A-1+' short-term ratings with a 'stable' outlook. It attributed the upgrade to the government's strengthening fiscal and external balance sheets, with strong growth prospects driven by new large liquefied natural gas (LNG) projects in 2010-12. It expected real GDP per capita growth at about 11% in 2010, which will have a positive impact on Qatar's fiscal and external accounts through abundant revenues and export receipts as early as the fourth quarter of 2010. Also, it noted that the country has accumulated substantial domestic and foreign assets over the past decade and projected the general government's net asset position at 47% of GDP at year-end 2010. It noted, however, that the ratings are constrained by public institutions that are in the early stages of development compared with most 'AA'-rated sovereigns, limited transparency of government assets, and geopolitical risks. It said the 'stable' outlook balances Qatar's strong fiscal and external positions against monetary and banking sector challenges and political risks.

Source: *Standard & Poor's*

DEM REP CONGO

IMF and World Bank approve \$12.3bn in debt relief

The International Monetary Fund and the World Bank approved \$12.3bn in debt relief for the Democratic Republic of the Congo, of which \$2.32bn to be delivered by multilateral creditors and the balance by bilateral and commercial creditors. The IMF said the decision was reached after the country met the conditions for reaching the completion point under the Enhanced Heavily Indebted Poor Countries (HPIC) initiative and qualified for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). The Fund said the DRC's debt relief totals \$11.1bn under the HPIC and \$1.2bn under the MDRI; including relief from the World Bank and the IMF of \$1.83bn and \$491m, respectively. It said the DRC implemented the policy measures required to qualify for debt relief, as it implemented satisfactorily the country's poverty reduction and

growth strategy, maintained macroeconomic stability, improved public expenditures and debt management, and enhanced governance and service delivery in key social sectors such as health, education and rural development. It added that the country no longer faces a heavy debt service burden relative to its revenues and foreign exchange resources, which will free up resources for priority spending, especially for human capital formation. The Fund noted, however, that safeguarding debt sustainability after relief requires maintaining fiscal discipline in order to avoid the re-emergence of fiscal deficits. It urged authorities to improve revenue-enhancing measures and to strictly meet the expenditures commitment and Treasury plans. It added that budgets need to be designed in line with the objectives of the authorities' poverty reduction and growth strategy. It considered that strengthening the independence of the Banque Centrale du Congo, including through its recapitalization, is essential for effective monetary policy. It also called for improving the business climate through accelerating ongoing reforms.

Source: *International Monetary Fund*

UKRAINE

IMF agrees to \$15bn arrangement

The International Monetary Fund announced it has reached a staff-level agreement with Ukrainian authorities on an economic policy program to be supported by a 30-month Stand-By Arrangement of \$14.9bn. It said the program's objective is to solidify fiscal and financial stability, advance structural reforms, and put Ukraine on a path of sustainable growth. It indicated that the program includes fiscal adjustment to contain the consolidated fiscal deficit to 5.5% of GDP in 2010 and 3.5% of GDP in 2011 through tax and social security structural reforms, expenditure rationalization, and improving tax administration. Further reforms include restoring the health of the banking system and strengthening the independence of the National Bank of Ukraine, improving Naftogaz's financial position, and legislative reforms to modernize the economy and improve the business environment.

Source: *International Monetary Fund*

Sovereign ratings upgraded

Fitch Ratings upgraded Ukraine's sovereign long-term foreign and local currency Issuer Default Ratings (IDRs) to 'B' from 'B-' with a 'stable' outlook, and upgraded the Country Ceiling to 'B' from 'B-'. It attributed the upgrade to the new IMF deal, which supports confidence in the policy and financing outlook, reduces the risk of macroeconomic and financial instability, and is positive for the country's creditworthiness. It added that the IMF agreement improves the sovereign's financing flexibility and will unlock additional funds from other international financial institutions. The agency considered that a credible and consistent program to reduce the budget deficit and place the public debt ratio on a downward trend, combined with reforms to reduce Ukraine's vulnerability to shocks, has the potential to further improve creditworthiness over time. Fitch added that the IMF agreement is also likely to accelerate the recapitalization of the banking system, which has been slow. It estimated the total capitalization needs at \$11bn, or about 8% of GDP, including foreign and privately-owned Ukrainian banks.

Source: *Fitch Ratings*



BANKING

SYRIA

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 Syria has demonstrated progress in improving its AML/CFT regime, but considered that certain strategic deficiencies remain. It noted that Syria made a high-level political commitment last February to work with the FATF and the FATF-style regional body MENAFATF to address these deficiencies, and urged authorities to continue working on implementing their action plan to address the shortcomings. This includes adopting adequate measures to implement and enforce the 1999 International Convention for the Suppression of Financing of Terrorism; adequately criminalizing terrorist financing; implementing adequate procedures for identifying and freezing terrorist assets; ensuring financial institutions are aware of and comply with their obligations to file suspicious transaction reports in relation to money laundering and the financing of terrorism; and adopting appropriate laws and procedures to provide mutual legal assistance.

Source: Financial Action Task Force

UAE

Lending to remain tight this year

Credit Suisse indicated that UAE banks continue to be cautious about lending given their need to boost provisions for non-performing loans to cover exposure to financially-distressed local and regional firms such as Dubai World. It said credit to the private sector was down 2.9% year-on-year in March, after falling 2.4% annually in February and 2.1% in January. It added that private-sector credit fell on a monthly basis in each of the four months to March, and was down in eight of the past nine months. It noted that there are signs of improving credit conditions with the recent positive developments from Dubai World's debt-restructuring plan, but cautioned that banks will likely have to make additional provisions for non-performing loans for at least the next quarter or so, which will continue to hold back lending growth in the near term. Credit Suisse expected to see an improvement in lending conditions before the end of 2010, as credit and overall economic conditions continue to stabilize, and forecast the growth of domestic credit at 5.3% this year.

Source: Credit Suisse

NIGERIA

Anti-money laundering regime needs to improve

The Financial Action Task Force (FATF) indicated that Nigeria made progress in improving its anti-money laundering and combating the financing of terrorism (AML/CFT) regime since it made a high-level political commitment last February to work with the FATF and the FATF-style regional body GIABA. But the FATF considered that certain strategic AML/CFT deficiencies remain. It called on Nigeria to continue implementing its action plan to address these deficiencies, including adequately criminalizing money laundering and terrorist financing; implementing adequate procedures to identify and freeze terrorist assets; ensuring that relevant laws or regulations address defi-

ciencies 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

GHANA

Banking sector vulnerabilities being addressed

The International Monetary Fund expressed concerns about the deterioration of Ghana's banking sector indicators and noted three areas of vulnerability. It said the state-owned Ghana Commercial Bank (GCB) has heavy loan concentration in the petroleum sector, largely reflecting loans to the loss-making state oil refinery Tema Oil Refinery (TOR). Second, it indicated that a smaller state-owned development bank became insolvent in 2009 due to mismanagement, leading the Bank of Ghana (BoG) to take a majority stake in the bank pending its restructuring for divestiture. Third, it noted that the banking sector's non-performing loans more than doubled to 20% of total loans in February 2010 from 7.7% at end-2008, reflecting the slowdown in economic growth, weaknesses in banks' risk management, and losses by some state-owned enterprises in the energy sector. It noted, however, that authorities are responding to these risks through IMF support, as the Fund is reviewing the situation of GCB and the BoG-owned development bank, and is advising on options for clearing TOR's debts. It will also advise on the lessons for banking supervision and liquidity support operations. It added that the BoG intends to continue to strengthen its supervisory capacity, with a focus on risk management. It considered that efforts to strengthen risk management in the banking system will require parallel steps to address financial sector spillovers from expenditure arrears, underperforming state-owned enterprises, and governance shortcomings at some banks.

Source: International Monetary Fund

UKRAINE

Ratings of 8 banks raised on sovereign upgrade

Fitch Ratings upgraded the Long-term Issuer Default ratings (IDRs) of eight Ukrainian banks to 'B' from 'B-' with a 'stable' outlook. It attributed the rating action to its earlier upgrade of Ukraine's sovereign ratings. It said the upgrades of UkrSibbank, Ukrsotsbank, Bank Forum, ProCredit Ukraine, Pravex and VTB Ukraine follow the upgrade of Ukraine's Country Ceiling to 'B' from 'B-'. It added that the upgrades of state-owned Oschadbank and Ukreximbank reflect the improved ability of the government to provide support in case of need, while the propensity of support would likely be significant based on the banks' state ownership and their policy roles. UkrSibbank is 81%-owned by BNP Paribas; Ukrsotsbank is 95%-owned by UniCredit S.p.A.; Forum is 89%-owned by Commerzbank AG; ProCredit Ukraine is 80%-owned by Germany's ProCredit Holding AG; Pravex is 100%-owned by Intesa Sanpaolo S.p.A. and VTB Ukraine is more than 99%-owned by Russia's JSC Bank VTB.

Source: Fitch Ratings



ENERGY / COMMODITIES

Oil above \$75 after positive outlook over Asian equities

Oil price increased to a one-week high above \$75 after positive sentiment spread over Asian equities, supported by reports of falling U.S. crude inventories. The Euro reached a two-month high and Asian stocks increased to their highest prices on July 8, after forecasts injected optimism about the upcoming U.S. earnings season. U.S. crude rose 1.4% or \$1.03 to \$75.10 a barrel, the highest price since July 1st. ICE Brent crude for August increased 56 cents to \$74.07. Oil prices are more than \$12 lower from the 19-month peak reached in early May of above \$87. Also, U.S. crude inventories dropped by 7.3 million barrels last week, more than three times than what was expected. Gasoline stocks decreased by 191,000 barrels, while heating oil and diesel fell one million barrels.

Source: Thomson Reuters

Oil demand to decline

Following a robust increase in oil demand in 2009, the stimulus-driven rebound is giving way to slower growth. Also, OECD oil inventories are set high despite declining demand expectations. Oil demand growth in OECD is expected to average 50,000 barrels per day in 2011 as Japanese consumption contracts. Average WTI and Brent price forecasts of \$88.50 per barrel would be most at risk if GDP growth expectations are reduced. As long as global economic growth does not collapse suddenly, OPEC should be able to manage prices effectively in the current \$70 to \$80 per barrel price band with only modest output cuts.

Source: Merrill Lynch

U.S. bans PetroChina from processing Sudanese oil in its new refinery

PetroChina, the largest oil and gas firm in China is no longer planning to process Sudanese crude at its new refinery in South China due to U.S. pressures. The Qinzhou refinery was expected to become operational next August to primarily refine low-cost Sudanese crude oil. PetroChina began test runs last week at the refinery located in the Guangxi region bordering Vietnam and which is capable of producing 200,000 barrels per day. PetroChina will switch from using Sudanese crude oil to using that of West Africa. The majority of foreign activity taking place in Sudan's oil industry is from Asian investment, whereas Western oil companies were more hesitant to invest in the country due to U.S. sanctions placed in the past and the risk provided by the country's instability.

Source: Thomson Reuters

Total stopped supplying petrol to Iran

French energy company Total SA announced that it stopped all oil deliveries to Iran, due to increasing pressures from the international community regarding Iran's nuclear program. This happened just days after the U.S. Congress proposed sanctions that would punish companies involved in Iranian business. Despite Iran's large reserves of oil and gas, the country still depends on imports for 30% to 40% of its oil demands, as it lacks the infrastructure to refine enough petroleum products.

Source: BBC News

Base Metals: Prices to rally in the months ahead

Base metal prices were highly volatile in the first few months of 2010 due to the uncertain global economic outlook. The year-to-date Aluminum and Copper LME three-month prices went down by 12%, while Lead and Zinc prices decreased by around 30%, but Nickel rose by 3%. Financial-market sentiment and global liquidity were the main drivers in the market, with worries about a European banking crisis and a slowdown in China being a particular focus. Aluminum stocks fell by 4%, Copper by 10% and Nickel was down by 21%. However, Zinc inventories rose by 26%. Copper stands out as a likely strong performer since China's imports remain high. Aluminum is expected to rally in the months ahead, due to rising costs and low inventories. Volatility in Aluminum is likely to be lower in the third quarter than it was in the first half of this year.

Source: Standard Chartered

Precious Metals: Gold rises above \$1,200 an ounce on physical buying

Gold rose to hold above \$1,200 an ounce on July 8, on steady purchases from jewelers and other physical buyers after a recent drop to a six-week low, while sentiment was also lifted by gains in equities markets. The Nikkei rose almost 3% just after U.S. stocks reported their best one-day gain in six weeks due to optimism regarding the upcoming earnings season, discouraging speculators from selling gold to cover losses in other markets. Gold increased by \$1.80 to \$1,203.65 an ounce. It had dropped to its weakest since May 25 at \$1,185.05 on July 7th. Gold reached an all-time-high due to worries that the European debt crisis would spread, as well as the U.S. economy slowing, but gold will need to reach a June level of \$1,230 to sustain gains. U.S. gold futures for the August delivery increased by \$5.4 to \$1,204.3 an ounce. SPDR Gold Trust, the world's largest gold-backed exchange-traded fund stated that its holdings were unchanged at 1,316,481. Jewelers in India, which accounts for more than 20% of global demand, have been stocking up ahead of religious festivals. A firmer euro also supported gold.

Source: Thomson Reuters

Performance of main commodity indices and MLCX sub-indices

	Jun-10	YTD	YOY
MLCX TR	0.28%	-9.81%	-0.49%
S&P GSCI TR	0.42%	-11.21%	-5.43%
DJ-UBS TR	0.32%	-9.60%	2.75%
MLCX Energy TR	0.71%	-9.19%	-4.56%
MLCX Industrial Metals TR	-5.64%	-12.81%	23.81%
MLCX Precious Metals TR	2.40%	13.24%	34.34%
MLCX Grains TR	-0.61%	-16.57%	-15.63%
MLCX Livestock TR	0.58%	4.57%	2.73%
MLCX Softs TR	15.06%	-21.25%	2.51%

Source: Merrill Lynch



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	-	-	-	-	BB	-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+	-	B	-10.1	-	35.6	-101.7	-	-	-17.0	-
Ivory Coast	-	-	-	-	CCC	-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	-	-	-	-	B	-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	-	Stable								
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	23-Jun-10	No change	10-Aug-10
Eurozone	Refi Rate	1.00	10-Jun-10	No change	08-Jul-10
UK	Bank Rate	0.50	10-Jun-10	No change	08-Jul-10
Japan	O/N Call Rate	0.10	15-Jun-10	No change	15-Jul-10
Australia	Cash Rate	4.50	01-Jun-10	No change	06-Jul-10
New Zealand	Cash Rate	2.75	10-Jun-10	Raise 25bps	29-Jul-10
Switzerland	3 month Libor target	0.25	17-Jun-10	No change	16-Sep-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	23-Jun-10	No change	10-Aug-10
Taiwan	Discount Rate	1.38	24-Jun-10	Raise 12.5bps	Sept-10
South Korea	Base Rate	2.00	10-Jun-10	No change	09-Jul-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	14-Jul-10
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	17-Jun-10	No change	15-Jul-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	02-May-10	No change	July-10
Ghana	Prime Rate	15.00	16-Apr-10	Cut 100bps	July-10
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	18-June-10	No change	16-July-10
Brazil	Selic Rate	10.25	09-Jun-10	Raise 75bps	21-Jul-10
Armenia	Refi Rate	7.25	08-Jun-10	No change	N/A
Romania	Policy Rate	6.25	06-Jun-10	No change	N/A
Bulgaria	Base Interest	0.18	30-Jun-10	Raise 2 bps	N/A
Kazakhstan	Refi Rate	7.00	01-Apr-10	No change	N/A
Ukraine	Discount Rate	8.50	08-July-10	Cut 100bps	N/A
Russia	Refi Rate	7.75	23-Jun-10	Cut 25 bps	N/A



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