



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Upgrade potential declines, credit quality stabilizes

Standard & Poor's indicated that the number of issuers poised for upgrades reached 260 globally at the end of June, exceeding the trailing 12-month average by 52 issuers but constituting a decline of 6 issuers from April and the first decrease this year. It said the potential to upgrade issuers improved since last September, when the number exceeded the trailing 12-month average for the first time in nearly two years. The agency defines potential upgrades as issuers that have either a 'positive' outlook or ratings on CreditWatch with positive implications across the 'AA+' to 'B-' rating categories. It said potential bond upgrades in the 'B'-rated category account for 46% of potential upgrades, followed by 'BB'-rated bonds with 26% and 'BBB'-rated bonds with 23%. In parallel, S&P said that the global corporate default rate for speculative-grade-rated entities was 0.61% at the end of second-quarter 2010, compared with 0.97% in the first quarter of 2010 and 4.2% in second-quarter 2009. Further, the global speculative-grade default rate was 5.04% as of June 2010 on a 12-months basis, down from 8.4% a year earlier and from a high of 9.9% in November 2009. The agency noted that the default rate is still higher than the long-term average of 4.4% during the 1981 to mid-2010 period. It added that overall credit quality has started showing signs of stabilization relative to a year ago, as the number of downgrades has declined significantly across all regions, with the downgrade-to-upgrade ratio falling to 0.95% in the second quarter of 2010 from 1.1% in the first quarter and 6.8% in second-quarter 2009.

Source: Standard & Poor's

EMERGING MARKETS

Bond and equity inflows at \$48.4bn in first 7 months of 2010, AUM at \$733bn

Capital inflows to emerging market equity and bonds totaled \$48.4bn in the first 7 months of 2010, with bonds receiving \$24.4bn and equities \$24bn. Latin America accounted for \$8.9bn or 36.7% of bond inflows, followed by Emerging Europe, the Middle East & Africa (EMEA) with \$8.1bn (33.3%), and Emerging Asia with 30%. Further, Emerging Asia accounted for \$15.8bn or 65.8% of equity inflows to emerging markets, followed by EMEA with \$6.1bn (25.5%), and Latin America with \$2.1bn (8.7%). Brazil was the biggest recipient of bond inflows with \$2.78bn, or 11.3% of total inflows into emerging market bonds, while China was the largest recipient of equity funds with \$5.3bn, or 22.2% of overall inflows into emerging market equities. In parallel, emerging markets' assets under management (AUM) totaled \$732.6bn at the end of July 2010, with bonds accounting for \$114.4bn and equities for \$618.2bn. The EMEA region had \$41.6bn in AUM in bonds, followed by Latin America with \$40.3bn and Emerging Asia with \$32.5bn. Further, Emerging Asia accounted for \$388.2bn in equity-related AUM, followed by the EMEA region with

\$106.1bn and Latin America with \$123.8bn. Brazil had \$13.4bn in bonds-related AUM, or 11.7% of the total, while China had \$133.6bn in equity-related AUM, accounting for 21.6% of overall equities under management in emerging markets.

Source: Barclays Capital

MENA

Equity markets up 3% in first 7 months of 2010

Arab stock markets increased by 3.1% in the first 7 months of 2010 compared to a rise of 16% in same period last year. Activity on the Damascus stock exchange increased by 45.5% during the covered period, posting the best performance among Arab markets due to strict limits on share price movement. It was followed by the Tunis equity market with an 18.5% increase, the Casablanca stock market with a 13.7% improvement, the Saudi exchange with a 2.7% growth, the Egyptian stock exchange with a 1.74% rise, the Palestine equity market with a 1.72% increase, and the Doha equity market with a 1.1% rise. In parallel, the Dubai financial market dropped by 16.1%, posting the worst performance among Arab stock markets year-to-July. It was followed by the Amman stock exchange with a 7.9% decline, the Abu Dhabi market with a 7.2% contraction, the Iraqi stock exchange with an 8% downturn, the Beirut Stock exchange with a 6.7% decrease, the Kuwait bourse with a 5% drop, the Bahrain stock market with a 4.4% drop, and the Muscat exchange with a 1.2% retreat. In comparison, emerging market equities rose marginally by 0.2% and global equities decreased by 3.2% in the first 7 months of the year.

Source: Local stock markets, Byblos Research

Region's brand perception improves in second quarter of 2010

The Nation Brand Perception Index indicated that the brand perception of the Middle East & North Africa region improved in the second quarter of 2010 from the first quarter, as the average index score of the 20 MENA countries included in the index reached 44.7 points, up from 43 points in the first quarter of 2010. The index analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. It said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. However, the MENA region continues to have the worst brand perception in the world, as its score was lower than the global average of 49.8 points as well as below the average score of Oceania (52.8 points), South America (52.6 points), Europe (50.7 points), Africa (50.3 points), Asia (50.2 points), Central America (48.0 points), North America (45.2), and the Commonwealth of Independent States (44.4 points). Kuwait had the best brand perception in the region and ranked in 6th place globally, followed by Qatar, Saudi Arabia and Jordan; while Iran, Israel and Iraq were the worst perceived countries in the region, ranking in 189th, 191st and 199th place, respectively.

Source: East West Communications, Byblos Research

POLITICAL RISK OVERVIEW - JULY 2010

ARMENIA

Opposition leaders including ex-President Ter-Petrosian stated that the government's acceptance of the Madrid Principles for Nagorno-Karabakh settlement will likely result in a regime change. Two opposition activists went on trial on July 14 on charges of resistance to police during demonstrations in late May. European Union High Representative, Catherine Ashton, announced on July 19 the start of talks on an Association Agreement to lead potentially to visa-free travel and free-trade regime with Armenia.

DEM REP CONGO

FARDC operation "Ruwenzori" continued in North Kivu against Ugandan ADF-NALU, where 13 rebels were killed and five rebels and 10 associates were arrested. FARDC's massive presence in Beni and Butembo areas coincided with increased violence and killing of prominent civilians. The new stabilization mission MONUSCO was launched on July 1st. Niangara, Bangadi and Faradje areas saw increased small-scale LRA attacks and seven were killed in Faradje and Dungu. The political leader of Enyele rebels was arrested and transferred to Kinshasa.

EGYPT

Gun battles started between bedouin and security forces near the Egypt-Israeli border at the end of June. Security unrest returned on July 27 while the bedouins hijacked a bus in the Sinai region. A Libyan chartered ship carrying aid to Gaza stopped in Egypt following warnings from Israeli navy not to challenge the blockade. President Hosni Mubarak met separately in Cairo with Palestinian President Mahmoud Abbas, Israeli Prime Minister Benjamin Netanyahu and U.S. Middle East Envoy George Mitchell in an effort to move the peace process towards direct talks.

IRAN

U.S. President Barack Obama signed new sanctions on Iran targeting the financial and energy sectors. Russian president Dmitry Medvedev stated that Iran is acquiring the ability to build a nuclear bomb, while Iran's Foreign Minister Manouchehr Mottaki rejected the claim. Following Istanbul talks with Turkish and Brazilian counterparts, Mottaki announced readiness to reopen negotiations on nuclear program with P5+1 powers in September 2010. The European Union imposed further sanctions and has been criticized by Russia and China. Turkish Foreign Minister, Ahmet Davutoglu, reported that Iran is intending to stop 20% of its uranium enrichment if the fuel swap deal is settled, while the United States expressed readiness to follow up on fuel swap and resume the P5+1 talks. At least 27 people were killed in a twin suicide bomb attacks in Sistan-Baluchestan province, and the attack was claimed by the Jundallah group on July 16 in retaliation for the execution of Abdulmalik Rigi.

IRAQ

The Shiite leader, Muqtada al-Sadr met the Iraqi leader Ayad Allawi in Damascus to discuss the formation of the coalition government. The Senior Sunni cleric Abdul-Aleem al-Saadi was killed in the Anbar province. At least 43 people were killed in two bombings claimed by al-Qaeda targeting the Awakening Council members in Southwest Baghdad and Western Iraq.

Also, 15 people were killed in a car bomb in the Diyala province. The U.S. military transferred the last U.S. detention facility to the Iraqi authorities where four al-Qaeda linked prisoners escaped. Oil Minister Saleh al-Shahristani criticized the Kurdish region for allowing the export of oil to Iran without the central government's approval. Violence continued between the Kurdistan Worker's Party (PKK) and the Turkish military inside Iraq, and the government rejected the Turkish call to intervene in the PKK conflict.

MOROCCO

The appellate court upheld a life sentence for al-Qaeda associate Abdelkader Belliraj on July 16 who was convicted along with 35 other defendants for plotting terror attacks in Morocco, robberies in Europe and other crimes. King Mohammed called for improved relations with Algeria and reiterated his desire to work for reconciliation and solidarity between the two countries.

SUDAN

The International Criminal Court (ICC) issued a second arrest warrant for President Omar al-Bashir including charges of genocide in Darfur. The African Union Summit ended on July 27 and announced the rejection of the ICC condemnation of President Bashir. Clashes between government forces and the Justice and Equality Movement (JEM) took place in Darfur on July 13 when the government claimed that 300 rebels and at least 70 members of the Sudan Alliance Forces were killed. President Bashir rejected President Salva Kiir's initiative to mediate with the Sudan Liberation Army and the JEM who remain outside the Qatar peace talks.

SYRIA

President Bashar al-Assad and Saudi Arabia's King Abdullah held talks in Damascus before traveling to Beirut to ease tensions in Lebanon. Syrian Prime Minister, Mohammed Otri and Lebanese Prime Minister Saad el-Hariri signed 17 economic agreements on July 18 and Otri stated that bilateral cooperation must extend to security. The demarcation of common borders between Lebanon and Syria showed no progress.

UKRAINE

The authorities banned attempted protests throughout the country and detained eight activists in Kyiv during a visit by Russian Orthodox Church Patriarch Kirill. Nine people were injured by a bomb in an Orthodox Church under Russian patriarchate in Zaporijia. The Parliament passed a law establishing the country's non-aligned status, effectively barring it from joining NATO. U.S. Secretary State Hillary Clinton stated that Ukraine can pursue close relations with both Russia and the West.

YEMEN

In an attempt at finding a political solution to the conflict with Northern rebels, President Ali Abdullah Saleh invited three senior Houthi leaders to participate in a national dialogue. Ceasefire with Houthi rebels remains intact despite the most serious fighting since February that left more than 70 people killed in Northern Amran. Six soldiers were killed on July 25 by al-Qaeda gunmen in Southern Shabwa province and were followed by the killing of five members of security forces in the same region.

Source: *International Crisis Group*



OUTLOOK

SUDAN

Non-oil growth to average 6% in 2010-11, IMF calls for accelerating reforms

The International Monetary Fund projected Sudan's real GDP growth at 5.5% in 2010 and 6.2% in 2011 compared to 4.5% in 2009, and forecast non-oil real GDP to grow by 6.2% this year and 5.7% next year relative to 4.8% in 2009. It said that macro-economic performance has been affected by the global crisis, and that Sudan will continue to face large and complex challenges in view of the slow recovery from the global crisis, the projected decline in oil receipts over the medium term, the high level of public debt, and the large development needs. It noted that the economic outlook is contingent on strong non-oil growth, adding that the medium-term focus should be on increasing agricultural production, whose potential remains largely untapped. The Fund welcomed Sudan's progress on key structural reforms and stressed the importance of fiscal prudence. It urged authorities to accelerate fiscal, financial sector, and structural reforms. It also highlighted the importance of introducing a targeted safety net and of gradually phasing out fuel subsidies. Further, it called for reducing the non-oil primary fiscal deficit and to widen the tax base. It forecast the overall fiscal deficit at 3.4% of GDP in 2010, down from 4.7% of GDP in 2009, and for the non-oil primary balance to post a deficit of 6.5% of GDP in 2010, almost unchanged from 6.6% in 2009.

In parallel, the IMF supported the authorities' recent steps to tighten monetary policy, which will help reduce pressures on inflation and the exchange rate. It estimated inflation to average 10% in 2010 compared to 11.3% in 2009. It noted that the real exchange rate appears to be near its equilibrium level, and commended the recent increase in exchange rate flexibility, which is essential to help rebuild foreign exchange reserves and mitigate the impact of external shocks. It estimated net foreign currency reserves at \$390m at end-2009, equivalent to 0.4 months of import cover; and expected them to reach \$950m at end-2010, or one month of import cover. Further, the IMF projected the current account deficit 7.1% of GDP in 2010, down from 11.5% of GDP in 2009 and the external debt at 57% of GDP at end-2010, down from 65% of GDP in 2009. It urged authorities to minimize non-concessional borrowing in view of Sudan's unsustainable external debt burden. It considered that this would send a strong signal about Sudan's cooperation, and avoid complications in the event of any future debt-relief operation.

Source: International Monetary Fund

IRAN

New bilateral sanctions to slow economic growth

The Institute of International Finance expected the latest round of international sanctions to affect Iran's economic prospects. It said the new sanctions will exacerbate an already weak economy that is struggling with the impact of previous rounds of international sanctions, fiscal imbalances, and the inefficiencies of a large public sector. It did not expect the recent UN Security Council sanctions to increase pressure on the Iranian economy significantly in the short term. However, it considered that stronger U.S. and EU sanctions will have a greater impact, par-

ticularly on trade finance, capital inflows, and hydrocarbon resource development. It noted that the most recent U.S. bilateral sanctions focus on restricting and disrupting activities in Iran's transportation, energy, and financial sectors. Also, the strengthened EU sanctions are more robust than the UN sanctions, and ban European firms from investing in Iran's hydrocarbons sector, and restrict EU-Iran trade and financial flows.

The IIF estimated that the cumulative effects of multilateral and bilateral sanctions, aggravated to a limited extent by the global crisis, have reduced Iran's real GDP growth to 1.4% in fiscal year 2009/10 from 2.7% in the previous year. It said that real GDP growth slowed in 2009/10 due to a contraction in the oil sector and weaker activity in the non-oil sector. The IIF projected economic growth at 2.2% in 2010/11 and at 2% in 2011/12, and considered that sanctions will continue to depress economic activity over the short term, especially the import of equipment for the hydrocarbons and industrial sectors, and will increase the cost and difficulties of conducting financial transactions with the outside world. In addition, the recently imposed sanctions will further discourage foreign oil firms from supplying oil and gas production expertise, hampering efforts to expand the hydrocarbons sector. It noted that the authorities have planned to expand hydrocarbons production capacity in order to increase exports, particularly of liquefied natural gas. However, sanctions may no longer make it possible to achieve higher oil output and at the same time develop the gas export sector. Also, plans to increase downstream capacity are likely to be affected by the sanctions, which will make it more difficult to resolve the long-standing shortages of refined products.

Source: Institute of International Finance

BAHRAIN

Outlook on banking system remains negative

Moody's Investors Service kept its negative outlook on Bahrain's banking system, as it expected challenging credit and business conditions to continue over the medium-term despite the modest economic rebound in 2010. It attributed its expectations to the continued weakness in the Bahraini and regional real estate sector, and its impact on the rest of the economy. Moody's also attributed negative outlook to ongoing franchise challenges at Bahraini-based wholesale lenders, as they try to refocus their business towards more profitable segments, as well as to the more severe challenges at investment banks, which in many cases do not possess sufficient depth to cope with the sharply lower private investment activity and depressed regional asset values. In parallel, the agency indicated that the strong capitalization of most retail and wholesale banks provides significant loss-absorption capacity, and most of the retail banks have sound liquidity profiles. It added that although systemic banking risk is an issue in Bahrain given the large size of the banking sector relative to the size of the economy, the regulatory authorities have demonstrated that they are able to contain this risk. It noted that the stability of the system resides in the clear distinction between the retail and wholesale banking sectors and in the Central Bank of Bahrain's fairly robust regulatory and supervisory environment. It added that the Bahraini authorities did not have to provide so far any material assistance to the retail banking sector, in contrast to regional peers.

Source: Moody's Investors Service



ECONOMY & TRADE

MENA

Economic recovery varies across region

Moody's Investors Service indicated that Middle East sovereigns continue to see improvements in 2010, but cautioned that the pace of economic recovery is hesitant and varied, and that the fragility of the global economy poses downside risks. It said higher oil prices and accumulated financial assets should allow most GCC states to maintain a degree of fiscal stimulus in 2010, which should support private-sector activity despite still weak consumer confidence and sluggish bank lending. In parallel, the agency noted that the weaker public finances of the region's oil importers have made them less capable of maintaining fiscal support. But it added that banking sectors in these countries experienced a milder credit shock during the 2008-09 global crisis and their growth rates have been less volatile. It expected economic growth of oil importers to recover in 2010, but to remain weaker than pre-crisis levels and below the emerging markets' average. Further, the agency noted that the volatility in European financial markets has not had a significant effect on the average cost of funding in the Middle East, adding that Tunisia and Morocco are the most exposed Arab economies to any potential drop in European demand, as the two countries have the highest trade exposure to Europe in the region. Also, Moody's considered that the back-drop of regional geopolitical risk persists, as the UN Security Council recently tightened its sanctions against Iran, while the risk of a flare-up in the Arab-Israeli conflict remains.

Source: Moody's Investors Service

SYRIA

Insurance premiums up 49% to \$207m in first half of 2010

Figures released by the Syrian Insurance Supervisory Commission (SISC) show that total insurance premiums reached \$207.3m in the first half of 2010, constituting an increase of 48.8% from the same period last year, and compared to year-on-year growth of 23% in the first half of 2009. Premiums collected from third-party car insurance grew by 1.9% year-on-year to \$62.4m and accounted for 30% of the market. They were followed by health with premiums of \$59.5m, up 1,005.4% and accounting for 28.7% of total premiums. The SISC attributed this growth to the enforcement of a health insurance system for civil servants. All-risk car insurance came in third place with premiums of \$37m, up 38.8% and accounting for 18% of the market. It was followed by fire with \$24.8m, up 20.2% and representing for 12% of the market; marine with \$11.4m, down 13.4% and accounting for 5.5% of the total, and engineering with \$4.4m, down 27.3% and representing 2.1% of total premiums, while other categories accounted for the remaining 3.8% of the market. Premiums generated from life insurance jumped by 44.5% year-on-year and accounted for 1.2% of total premiums. Solidarity Alliance posted the highest growth in premiums at 154%, followed by Al-Aqeelah Takaful (+89%), Arope Syria (+84%), National Insurance Syria (+67%) and Arabia Insurance (+58%). Two companies posted a decrease in premiums, with Syria Islamic Insurance Company and United Insurance Company posting declines of 8% each.

Source: Syria Report

YEMEN

IMF approves \$370m to support economic reforms

The International Monetary Fund approved a three-year Extended Credit Facility Arrangement of about \$370m to support Yemen's economic reform program. It said an initial disbursement of \$52.8m is available immediately, with subsequent disbursements subject to semi-annual reviews. The Fund said Yemen faces difficult economic challenges related to its heavy dependence on declining oil revenues, widespread poverty, and water shortages. It added that the global financial crisis has aggravated these challenges through a reduction in world oil prices, resulting in mounting macroeconomic imbalances. It indicated that the medium-term adjustment strategy will need to address the prospect of lower oil revenues, while boosting public investment and social spending. It noted that the focus of the 2010 program is to contain unsustainable fiscal deficits, adding that a comprehensive structural reform agenda will be needed to meet the program's overall objectives. The IMF said the focus of the authorities' medium-term strategy is on accelerating non-hydrocarbon economic growth while maintaining inflation at moderate levels; combining fiscal consolidation with a restructuring of expenditures towards capital and social outlays; boosting non-hydrocarbon revenues through tax policy and administration measures to finance needed infrastructure and social spending; maintaining adequate foreign exchange reserve cover; and improving the business climate.

Source: International Monetary Fund

UKRAINE

Sovereign ratings upgraded

Standard & Poor's upgraded Ukraine's long-term foreign currency ratings by one notch to 'B+' from 'B' and the long-term local currency sovereign credit ratings to 'BB-' from 'B+', with a 'stable' outlook. It also affirmed the short-term local and foreign currency ratings at 'B' as well as the recovery rating on the unsecured debt at '4'. Further, it raised the transfer and convertibility assessment to 'B+', in line with the foreign currency rating. The agency attributed its decision to the approval by the IMF's Executive Board of a 29-month \$15.2bn Stand-By Arrangement, which provides a policy anchor and gives Ukraine immediate access to around \$2bn in financing. It said the IMF program will increase the chances of stability-oriented policy measures that should increase the resilience of the Ukrainian economy and its public finances. It added that the IMF program also reduces the economy's external vulnerability by providing external financing. It said the 'stable' outlook balances the relatively low level of government debt and significant natural and human resources with the volatility and vulnerability of the economy. In parallel, it said the revision of the budget in July 2010 was an important step, as the revised budget is based on more realistic revenue assumptions, which puts the 2010 budget balance in line with the IMF's budget deficit target of 5.5% of GDP. It also viewed the government's decision to increase domestic gas tariffs as evidence of political resolve to improve the finances of Naftogaz and meet the terms linked to a renewal of the interrupted IMF program.

Source: Standard & Poor's



BANKING

WORLD

Agreement reached on bank capital and liquidity requirements

The Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision (BCBS), reached broad agreement on the overall design of a capital and liquidity requirements reform package, including the definition of capital, the treatment of counterparty credit risk, the leverage ratio, and the global liquidity standard. The agreement allows certain assets, including minority stakes in other financial firms, to count as capital, while the BCBS set a leverage ratio to apply to banks globally for the first time, which could become binding by 2018 pending further adjustments to the method of calculating banks' assets. The agreement allows a bank to count part of a stake it owns in another financial firm in relation to the risk the capital is supposed to cover. Also, deferred tax assets and mortgage-servicing rights would be included in capital up to a limit, but the total for all three categories could not exceed 15% of a lender's common equity. The new leverage figure considers all assets without a risk assessment, while the capital ratios allow banks to assign weights to assets based on their risks. The BCBS initially set the figure at 3%, which means that a bank's total assets cannot exceed 33 times its Tier 1 capital, including securities that could help a lender cover unexpected losses. The ratio will be tested from 2013 until 2017, and banks would be required to start publishing their individual leverage figures starting in 2015.

Source: *Bank for International Settlements*

JORDAN

Private sector lending up 4.3% in first half

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD32.9bn at the end of June 2010, constituting a rise of 3% from end-2009 and an increase of 6.1% from JD31bn in June 2009. Resident private sector deposits reached JD16.9bn, up 4.1% from the end of 2009 and up 11.2% from a year earlier, while deposits of non-bank financial institutions declined by 6% in the first half of the year and rose by 7.6% annually to JD140m. Resident private sector loans rose by 4.3% in the first half and by 5.5% year-on-year to JD13.2bn, while credit facilities to the non-resident private sector grew by 3% year-to-June and rose by 27% year-on-year to JD973m. Resident private-sector lending accounted for 40.2% of total assets, unchanged from a year earlier. In parallel, central government deposits reached JD792m, up 12% year-on-year, while those of public non-financial institutions regressed by 38.7% to JD411m. Claims on the public sector increased by 3% in the first half and rose by 13.4% year-on-year to JD5.4bn, with claims on the central government accounting for 90% of lending to the public sector compared to 88% a year earlier. Claims on the public sector accounted for 16.3% of total assets compared to 15% at end-June 2009. Further, reserves at the Central Bank of Jordan totaled JD5.8bn, up from JD5.1bn a year earlier; while capital accounts and allowances rose by 12% annually to JD4.8bn. Deposits with foreign banks reached JD3.5bn at end-June down 14.5% year-on-year, while the sector's foreign liabilities were up 1% to JD5.6bn.

Source: *Central Bank of Jordan, Byblos Research*

SUDAN

Financial soundness improves in 2009

Figures released by the International Monetary Fund show that the risk-weighted capital adequacy ratio of banks operating in Sudan declined to 7.1% at end 2009 from 10.5% at the end of 2008 due to a change in the methodology used to calculate risk. The sector's liquidity improved, with liquid assets reaching 34.2% of total assets at end-2009 from 28% at end-2008, and liquid assets to total short-term liabilities increasing from 85% at end-2008 to 97% at end-2009. Also, the deposits-to-assets ratio increased to 12.7% at end-2009 from 9.1% at end-2008, while required reserves reached 2.1% of total assets at end-2009, down from 2.9% at end-2008. Further, foreign currency loans accounted for 20.4% of total loans at the end of 2009 compared to 15.8% at end-2008, while foreign currency deposits reached 19.2% of total deposits at the end of 2009 compared to 21.2% at the end of 2008. In parallel, the sector's gross non-performing loans (NPLs) to total loans decreased to 20.5% at year-end 2009 from 22.4% at year-end 2008, partly due to a reduction in domestic government arrears; while NPLs net of provisions-to-gross loans reached 18%, unchanged from the previous year. Further, the ratio of provisions-to-NPLs increased to 24% at end-2009 from 20% at end-2008. In parallel, banks' profitability improved, as the return on assets reached 3.8% at end-2009 relative to 3% at end-2008, and the return on equity reached 25.5%, up from 23.3% in 2008.

Source: *International Monetary Fund*

ARMENIA

Assets at \$3.6bn, loans at \$2.1bn at end-June 2010

Figures released by the Central Bank of Armenia show that commercial banks' total loans, excluding overdue loans, reached \$2.1bn at the end of June 2010, constituting an increase of 9.3% from the end of 2009, while the sector's total assets reached \$3.6bn at end-June 2010. Loans in local currency increased by 1.2% from year-end 2009 and loans in foreign currency grew by 15.8% over the same period. Foreign currency loans accounted for 54% of overall lending excluding overdue loans, with loans in Armenian drams represented 46% of the total. Long-term local currency loans, which represent 76% of total local currency loans, declined by 0.6% month-to-month in June, while short-term local currency loans decreased by 0.2% from the previous month. Long-term foreign currency loans, which represent 79% of total foreign currency lending, grew by 4.7% in June, while short-term local currency loans increased by 1.4% month-to-month. In parallel, the sector posted net profits of \$32.6m during the second quarter of 2010. Interest income reached \$175.2m, accounting for 57.6% of total income, while non-interest income reached \$46.8m, accounting for 15.4% of total income. Interest expenses totaled \$77.3m or 29.4% of total expenses, while non-interest expenses reached \$88m or 34.4% of total expenses.

Source: *Central Bank of Armenia*



ENERGY / COMMODITIES

Oil falls towards \$82 with stronger dollar and higher fuel stocks

Oil fell towards \$82 on August 5 as the dollar strengthened, neutralizing the effect of higher U.S. unemployment data and a drop in the nation's crude inventories. U.S. stockpiles of gasoline and distillate fuels, including diesel, recorded gains for the second week contributing to a mixed perception about the outlook for oil demand from the world's top consuming nation. U.S. crude for September fell 29 cents at \$82.18 a barrel, having reached a three-month high of \$82.97 on August 4, while ICE Brent fell 27 cents to \$81.93. Oil prices rose above \$80 a barrel for the first time since early May after ranging around \$75 for almost two months. The Energy Information Administration stated that the country's gasoline stocks rose for an unexpected sixth consecutive week by 729,000 barrels, and supplies of distillate fuel, including diesel, increased for a tenth week by 2.8 million barrels.

Source: Thomson Reuters

Syria's crude production increases to 386,200 barrels per day

Syria's average production of crude oil increased by 3% in the first half of 2010 as new joint venture companies started production. Average crude oil production stood at 386,268 barrels per day in the first six months of 2010, up by 2.9% from the same period of 2009. Syrian Petroleum Company's (SPC) production accounted for 49.7% of the country's production, while output by the eight joint-venture firms established between the General Petroleum Corporation and foreign operators stood at 194,162 barrels per day in the first half of 2010. Also, the country's average production of natural gas stood at 27.02 million cubic meters a day in the first half of 2010, an increase of 27.4% from the same period last year.

Source: Syria Report

Qatar completes first phase of Ras Laffan power and water plant

Qatar's Ras Girtas Power Company (RGPC) announced the completion of the first phase of the Ras Laffan C power and water project. With the completion of this phase, the company is expected to supply up to 1,833 Megawatts of power to the national network. The project is the largest in Qatar and one of the largest installations of its kind in the Middle East. The water plant is projected to be completed by October 2010 and the entire facility by April 2011. The total cost is estimated at \$3.9bn.

Source: Power-Gen Worldwide

Aramco reduces crude oil prices to Asia, Europe and the U.S.

Saudi Aramco, the world's largest state-owned oil company, lowered official selling prices on all crude grades for customers in Asia and Europe for September 2010 and cut the prices for light grades to the U.S. The formula price of Aramco's Arab Super Light to Asia was cut the most, dropping by 85 cents a barrel. Also, the discount for Arab Light crude to Asia was cut 65 cents below the Dubai assessment.

Source: Bloomberg

Base Metals: Aluminum oversupply to persist

Global Aluminum demand declined by 3.5% to 36.1 million metric tons in 2009 while production fell by 6.7% to 36.6 million metric tons resulting in a surplus of 587,000 metric tons for the year. China accounted for 40% of 2009 aluminum consumption, which is weighted more heavily to construction use than transportation. The U.S. and the EU are more heavily influenced by automotive and other transportation use, noting that they account for 12% and 15% of the world's aluminum demand respectively. Aluminum demand and supply are expected to show a persistent surplus in 2010.

Production remains down in the Americas and Europe but is up in Asia, Africa, and Oceania. In particular, production in China increased 40% in the first five months of 2010 compared with the same period of 2009. China is taking steps to cut overcapacity in the aluminum industry by ending discounts on electricity charges and doubling surcharges for high-consumption companies. Aluminum production in the Middle East was up by 24% to 2.5 million metric tons in 2009. Production is expected to increase 32% to 3.4 million metric tons in 2010 as the smelters of Sohar Aluminum in Oman and Qatalum in Qatar produce at full capacity. Also, the Emirates Aluminum Company is expected to start production in 2010. These projects are projected to increase production to 4.1 million metric tons in 2011.

Source: Fitch Ratings

Global Aluminum Outlook					
('000 metric tons)	2007	2008	2009	2010f	2011f
Production	38,046	39,256	36,390	39,155	41,722
Consumption	37,398	37,020	35,298	38,439	41,920
Closing Stocks	2,960	4,672	5,801	6,517	6,319
Less Weeks Consumption	4.1	6.6	8.5	8.8	7.8
Spot price (\$ per pound)	1.20	1.13	0.75	0.92	0.98

Source: The Australian Bureau of Agricultural and Resource Economics

Precious Metals: Gold steadies near \$1,200 as ETF holdings decline

Gold price have pulled back in recent days, as confidence in the European banking sector improves and worries about the BIS gold swap start to ease. Gold held steady around \$1,200 an ounce as ETF holdings declined. The drop in prices from a two-week high increased buying from jewelers in Asia. Dealers in Singapore noted physical buying from Indonesia and Thailand, but the volume was low keeping premiums unchanged to the spot London prices at 80 cents. U.S. gold futures for December delivery rose \$1.4 to \$1,197.3 an ounce. The world's largest gold-backed exchange-traded fund, SPDR Gold Trust stated that its holdings fell to 1,281.8 tons by August 4 from 1,282.3 on July 28th. China affirmed that it would allow more domestic banks to export and import gold as part of its plan to encourage more liquid trade, which could strengthen the country's growing private demand for gold.

Source: Thomson Reuters



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	-7.9	20.0	2.7	5.9	3.0	-	-2.4	0.9
Angola	B+	B1	B+	-	B	-1.9	20.2	21.2	39.7	9.5	116.6	-9.5	5.0
Egypt	BB+	Ba1	BB+	BBB-	BB	-7.0	73.2	16.8	43.9	10.2	107.7	-2.4	3.6
Ethiopia	-	-	-	-	CCC	-2.3	-	12.2	220.5	-	-	-6.7	-
Ghana	B+	-	B+	-	B	-9.8	-	34.5	94.7	-	-	-8.3	-
Ivory Coast	-	-	-	-	CCC	-1.6	-	49.4	107.6	-	-	7.3	-
Libya	A-	-	BBB+	-	BB	1.8	3.9	8.6	16.0	3.4	-	13.9	2.2
Mauritania	-	-	-	-	-	-5.1	-	6.7	149.3	-	-	-12.7	-
Morocco	BBB-	Ba1	BBB-	BBB-	BB	-3.1	47.2	26.8	95.5	8.6	113.7	-5.0	1.5
Nigeria	B+	-	BB-	-	B	-4.4	12.3	5.5	18.5	0.7	-	12.4	3.1
Sudan	-	-	-	-	C	-2.6	105.3	66.3	482.4	3.6	-	-5.2	-
Tunisia	BBB	Baa2	BBB	BBB	BB	-1.9	46.7	55.4	105.6	15.8	208.3	-2.8	3.9
Middle East													
Bahrain	A	A2	A	A	BBB	-5.2	24.2	169.6	246.4	7.2	991.9	1.4	0.8
Iran	-	-	B+	BB-	B	-0.9	17.0	3.5	13.4	3.2	-	0.1	0.25
Iraq	-	-	-	-	CC	-4.6	-	97.7	178.7	2.2	165.3	2.1	1.4
Jordan	BB	Ba2	-	BB	B	-8.9	63.5	63.1	135.2	4.6	133.1	-5.5	10.1
Kuwait	AA-	Aa2	AA	AA-	A	15.4	6.9	20.7	38.8	4.0	133.0	25.3	-2.6
Lebanon	B	B1	B	B	CCC	-8.6	136.3	100.6	738.9	18.5	135.3	-10.8	8.0
Oman	A	A2	-	A	A	-9.1	6.5	28.1	46.9	-	109.1	0.6	4.3
Qatar	AA-	Aa2	-	AA-	A	10.4	32.4	74.9	202.7	15.2	412.0	14.3	8.8
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	1.1	13.2	22.5	42.7	2.7	20.2	4.9	5.4
Syria	-	-	-	-	B	-9.4	30.1	15.0	63.6	1.0	43.3	-0.6	2.6
UAE	-	Aa2	-	AA-	BB	0.4	21.3	61.8	74.1	7.9	359.0	-2.6	-0.4
Yemen	-	-	-	B	CC	-10.3	-	23.6	113.8	-	-	-8.2	-



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-	-	-	-8.2	40.4	55.7	654.2	1.5	248.4	-15.4	8.0
	-	-	Stable	-	-								
Bulgaria	BBB	Baa3	BBB-	-	BB	-3.8	14.8	77.3	159.8	19.8	220.1	-9.4	9.8
	Stable	Stable	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB-	-	BB	-3.9	9.3	94.7	230.8	40.1	553.7	-2.9	8.1
	Stable	-	Negative	-	Stable								
Romania	BB+	Baa3	BB+	BBB-	BB	-8.3	23.7	68.1	226.6	29.9	279.7	-4.5	3.8
	Negative	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	-5.7	7.1	38.3	136.3	11.6	110.9	4.0	-0.6
	Stable	Positive	Stable	-	Stable								
Turkey	BB	Ba2	BB+	BB	B	-5.5	45.5	45.1	194.5	45.1	400.1	-2.8	1.2
	Positive	Stable	Stable	Stable	Stable								
Ukraine	B+	B1	B	-	CCC	-6.4	30.2	88.6	191.1	43.9	407.9	-1.5	4.0
	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	08-Jul-10	No change	05-Aug-10
UK	Bank Rate	0.50	08-Jul-10	No change	05-Aug-10
Japan	O/N Call Rate	0.10	15-Jul-10	No change	10-Aug-10
Australia	Cash Rate	4.50	06-Jul-10	No change	03-Aug-10
New Zealand	Cash Rate	3.00	29-Jul-10	Raise 25bps	Sep-10
Switzerland	3 month Libor target	0.25	17-Jun-10	No change	16-Sep-10
Canada	Overnight rate	0.75	20-Jul-10	Raise 25bps	08-Sep-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	Sep-10
South Korea	Base Rate	2.25	09-Jul-10	Raise 25bps	12-Aug-10
Malaysia	O/N Policy Rate	2.75	08-Jul-10	Raise 25bps	02-Sep-10
Thailand	1D Repo	1.50	14-Jul-10	Raise 25bps	25-Aug-10
India	Reverse repo rate	5.00	27-Jul-10	Raise 50bps	Sep-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	7.00	15-Jul-10	Raise 50bps	19-Aug-10
South Africa	Repo rate	6.50	22-Jul-10	No change	09-Sep-10
Kenya	Central Bank Rate	6.00	28-July-10	Cut 75bps	Sep-10
Nigeria	Monetary Policy Rate	6.00	02-May-10	No change	July-10
Ghana	Prime Rate	13.50	16-Jul-10	Cut 150bps	Sep-10
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	16-Jul-10	No change	N/A
Brazil	Selic Rate	10.75	21-Jul-10	Raise 50bps	01-Sep-10
Armenia	Refi Rate	7.25	21-Jul-10	No change	N/A
Romania	Policy Rate	6.25	06-Jun-10	No change	N/A
Bulgaria	Base Interest	0.18	01-Jul-10	Raise 2 bps	N/A
Kazakhstan	Refi Rate	7.00	01-Jul-10	No change	N/A
Ukraine	Discount Rate	8.50	08-Jul-10	Cut 100bps	N/A
Russia	Refi Rate	7.75	23-Jun-10	Cut 25 bps	N/A



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