

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

IMF urges additional reforms of financial system

The International Monetary Fund indicated that more comprehensive reforms of the global financial system are essential to reduce the likelihood and impact of another crisis, and to alleviate regulatory uncertainty. It stressed the need for a global effort to design reforms that are nationally relevant and internationally consistent. It said policies need to address more than just the risks posed by individual banks, but also the risks from non-banks and the financial system as a whole. It noted that the recent proposals of the Basel Committee on Banking Supervision represent a substantial improvement in the quality and quantity of bank capital, but added that these tougher standards apply only to banks and do not cover non-bank financial institutions.

The IMF identified five key priorities. First, it called for global coordination to promote the benefits of global finance, foster competition, and minimize regulatory arbitrage. Second, it urged improving the effectiveness of supervision, as stronger supervision is necessary if a new cycle of leveraging and excessive risk taking is to be prevented. Third, it stressed the need for an enhanced cross-border resolution framework that eliminates moral hazard while preserving financial stability. It said the first step is to focus on a small set of countries that are home to most cross-border financial institutions in order to address the "too big to fail. problem" Fourth, it called for establishing a comprehensive macro prudential framework that strengthens the resilience of the financial system, which will require identifying, monitoring and addressing systemic risks generated by individual firms and collective behavior. Fifth, it said reforms must address emerging exposures and risks in the entire financial system, not just at banks, as riskier activities and products may migrate to less regulated or un-regulated segments of the system.

Source: International Monetary Fund

EMERGING MARKETS

Bond and equity inflows at \$76.4bn in first 9 months of 2010, AUM at \$839bn

Capital inflows to emerging market equity and bonds totaled \$76.4bn in the first 9 months of 2010, with bonds receiving \$32.3bn and equities \$44.1bn. Latin America accounted for \$11.9bn or 37% of bond inflows, followed by Emerging Europe, the Middle East & Africa (EMEA) with \$10.75bn (33.3%), and Emerging Asia with 29.8%. Further, Emerging Asia accounted for \$27.93bn or 63.3% of equity inflows to emerging markets, followed by EMEA with \$9.55bn (21.6%), and Latin America with \$6.64bn (15%). Brazil was the biggest recipient of bond inflows with \$3.7bn, or 11.53% of total inflows into emerging market bonds, while China was the largest inflows into emerging market bonds, while China was the largest recipient of equity funds with \$8.95bn, or 20.3% of

overall inflows into emerging market equities. In parallel, emerging markets' assets under management (AUM) totaled \$839.4bn at the end of September 2010, with bonds accounting for \$132.33bn and equities for \$707bn. The EMEA region had \$49.35bn in AUM in bonds, followed by Latin America with \$47.66bn and Emerging Asia with \$35.3bn. Further, Emerging Asia accounted for \$445.9bn in equity-related AUM, followed by Latin America with \$138.55bn and EMEA with \$122.6bn. Brazil had \$16.55bn in bonds-related AUM, or 12.5% of the total, while China had \$152.5bn in equity-related AUM, accounting for 21.6% of overall equities under management in emerging markets.

Source: Barclays Capital, Byblos Research

MENA

Equity markets up 8% in first 9 months of 2010

Arab stock markets increased by 8% and GCC markets grew by 8.2% in the first 9 months of 2010 compared to rises of 25.8% and 27%, respectively, in same period last year. Arab and GCC markets improved by 5.5% and 6%, respectively, in September 2010. Activity on the Tunis equity market increased by 32% during the covered period, posting the best performance among Arab markets. It was followed by the Casablanca stock exchange with a 14% improvement, the Doha equity market with a 10.57% rise, the Egyptian stock market with a 6.9% growth, the Saudi exchange with a 4.4% increase, the Palestine equity market with a 2.2% rise and the Muscat exchange with a 1.63% growth. In parallel, the Iraqi stock exchange dropped by 10.2% posting the worst performance among Arab stock markets year-to-September. It was followed by the Amman stock exchange with a 9% decline, the Beirut Stock Exchange with an 8.2% decrease, the Dubai financial market with a 6.7% downturn, the Abu Dhabi market with a 2.8% contraction, the Bahrain stock market with a 1% drop and the Kuwait bourse with a 0.3% decline. In comparison, emerging market equities rose by 8.7% and global equities increased by 1.92% in the first 9 months of the year. They increased by 11% and 9.4%, respectively, in September 2010.

Source: Local stock markets, Byblos Research

IFC invests in growth fund

The International Finance Corporation announced it is investing \$20m in Intaj Capital II fund, a \$300m fund that will invest in businesses from a range of sectors in the Middle East, North Africa, and Turkey. It said the fund seeking to acquire stakes in 12 to 15 medium to large companies operating in sectors driven by growth in consumer demand including consumer goods, retail, communications, construction materials, and consumer financial services. It added that its investment aims to act as a catalyst by demonstrating that the growth of funds in emerging markets can play a significant role in developing private sector companies. The IFC will also help invested firms to implement better corporate governance.

Source: International Finance Corporation

POLITICAL RISK OVERVIEW - SEPTEMBER 2010

ALGERIA

A suicide attack on a military convoy killed at least two soldiers in eastern Kabylie region on September 1st. A policeman was killed while he was trying to defuse a bomb in Boumerdes region where the Al-Qaeda in the Islamic Maghreb is the primary suspect. The Sahel region intelligence chiefs approved the establishment of a joint intelligence center to manage efforts in fighting the growing al-Qaeda threat.

DEM REP CONGO

The UN Department of Peacekeeping Operations in the Democratic Republic of Congo announced on September 7 that 500 rape cases took place in Walikale and Uvira areas between the end of July and the start of August. It added that the UN response was inadequate. The MONUSCO launched on September 1 a plan to develop civilian protection in North Kivu, while the FARDC initiated the second phase of Operation Ruwenzori against the Allied Democratic Forces. President Josph Kabila announced the possible suspension of FARDC General and International Criminal Court's indictee, Bosco Ntaganda, as he suspended mining in Walikale territory, Kivu and Maniema provinces. The Ugandan police handed to the Congolese authorities Shariff Manda following his arrest in the border town of Arua.

EGYPT

Egypt Reformist Mohamed El Baradei and Opposition Al-Ghad party called for the boycott of the November parliamentary elections and are considering civil disobedience if political reforms are not implemented by election time. Al-Wafd party however is expected to participate in the elections. At least 55 protesters were arrested on September 21 in anti-government demonstrations in Cairo and Alexandria. Cairo airport security arrested the top Hamas internal security official, Mahmoud Dababash, for using falsified travel documents to enter the country on September 19th. A police station in a distant Sinai village was surrounded on September 14 by Bedouins who also set a police vehicle on fire.

IRAN

The Director of the International Atomic Energy Agency (IAEA) Yukiya Amano stated that Iran is not cooperating with inspectors who are not able to confirm the peaceful usage of Iran's nuclear plants. Iranian President Mahmoud Ahmadinejad announced his intentions to discuss Iran's nuclear strategy. The United States called for further sanctions on Iran on September 29 because of alleged human rights abuses. Two Iranian diplomats defected on September 13 in a protest against the current regime. A bomb targeting a military parade in the city of Mahabad killed 12 people, after which the military allegedly killed 30 Kurdish fighters blamed for the bombing. The house of opposition leader Mehdi Karrubi was attacked by Basij militia on September 1 and the office of opposition leader Hossein Musavi by security forces on September 16th. The Iranian government banned two major opposition parties as well as two newspapers. Rights activist Shiva Nazar-Ahari and Hossein Derakhshan were sentenced for six and 19 years in prison respectively.

IRAQ

The Government's formation remains in deadlock as Ayad Allawi refused Nour al-Maliki's position as Prime Minister with reduced powers. Foreign Minister Hoshiyar Zebari urged the United States on September 27 to help end the stalemate over the government's formation. Ongoing insurgent attacks claimed by al-Qaeda led to the killing of 20 people on September 19 in a car bomb in Baghdad. Also, 12 people were killed in an attack on an army base and two U.S. soldiers were shot on September 7 by an Iraqi soldier in the North. At least four people were killed in clashes between security forces and militants in Diyala province. Four prisoners with alleged al-Qaeda links escaped from a U.S.-guarded prison in Baghdad. Restoration of diplomatic ties with Syria was announced on September 24, by returning the ambassadors to their posts.

SUDAN

The U.S. increased its diplomatic engagement in the country ahead of January 2011 Sudan self-determination referendum and continued fighting in Darfur. The U.S. Secretary of state, Hillary Clinton announced that Washington will increase efforts to prepare Sudan to peacefully accept the outcome of the coming referendum. United Nations Secretary General Ban Ki-Moon announced the appointment of three panel members to monitor Sudan and Abyei area referenda. Attacks at Hamidiya IDP camp resulted in the killing of more than 50 people. The Sudan Liberation Movement claimed that government planes bombed villages in Jebel Marra in South Darfur killing 18 people. The UN-AU Doha committee produced a preliminary draft document aimed at ending the Darfur conflict.

SYRIA

United States Special Envoy for Middle East Peace, George Mitchell met the Syrian President, Bashar Assad on September 16 and affirmed the U.S. commitment to Israeli-Syria peace deal. The deal was discussed further by the U.S. Secretary State, Hillary Clinton and the Syrian Foreign Minister, Walid Muallem on September 27th. Iranian President Mahmoud Ahmadinejad met with President Assad on September 18th. Israeli President Shimon Peres stated that Israel is ready for direct negotiations with Syria. Further pressure from the International Atomic Energy Agency and the West started mid-month over Dair Alzour alleged nuclear site. The restoration of diplomatic ties with Iraq was announced on September 24th.

YEMEN

The Yemeni Military conducted a 5-day war against al-Qaeda in the Arab Peninsula cell on September 29 in the southern town of Hawta in Shabwa province where at least five militants and two soldiers were killed and up to 15,000 civilians were displaced. Violence continued in the southern town Loder, where soldiers have been battling al-Qaeda militants since mid-August. Four police and two separatist militants were killed on September 4 in clashes at the checkpoint in southern Lahej province. In his first official confirmation, Yemeni Foreign Minister Abu Bakr al-Kurbi acknowledged that the U.S. has launched strikes against al-Qaeda suspects in the country.

Source: International Crisis Group



OUTLOOK

EMERGING MARKETS

Net private capital inflows to increase by 16% to \$825bn in 2010

The Institute of International Finance expected total net private capital flows to emerging markets to recover to \$825bn in 2010 and \$834bn in 2011, up from \$581bn in 2009 and from an April forecast of \$709bn. It attributed the increase to continued strength in emerging market fundamentals and weakness in mature markets. It noted that the economic backdrop for private capital flows to emerging economies continues to be unusually favorable in the current economic expansion. It said a key driver for capital inflows is that short-term interest rates will remain close to zero for longer than expected in most mature markets. Other drivers are higher interest rates in some key emerging economies, strong growth, and improved terms of trade, which are especially powerful in attracting inflows into commodity exporting economies.

The IIF forecast net equity investment to improve to \$553bn in 2010 and \$550bn in 2011 from \$490bn in 2009. It also forecast net direct investment at \$366.5bn this year and \$406.5bn next year, compared to \$342bn last year. It estimated net portfolio investment in emerging markets at \$149bn last year and expected inflows to rise to \$186.5bn in 2010 and \$143bn in 2011. Also, it forecast net commercial bank lending to shift from a net outflow of \$44.4bn in 2009 to net inflows of \$85bn in 2010 and \$111.6bn in 2011. It estimated net non-bank private lending to rebound to \$187bn in 2010 from \$135bn in 2009, before falling to \$172bn in 2011. It also projected net lending by official creditors to have reached \$63bn last year and to decline to \$53.2bn this year and \$42.5bn next year. The IIF noted that the momentum is strongest in portfolio equity inflows, as global investors seem to be in the process of shifting their asset allocations towards emerging market companies.

Source: *Institute of International Finance*

MENA

Growth at 4% in 2010 and 5% in 2011, key risk is volatile global environment

The International Monetary Fund projected economic growth in the Middle East & North Africa region at 4.1% in 2010 relative to 2% in 2009, and compared to growth of 7.1% for developing economies and 4.8% for the world economy this year. It also forecast growth in the region to improve to 5.1% in 2011, relative to 6.4% in emerging markets and 4.2% for the global economy. The Fund's projections for the region are lower by 0.4 percentage points for 2010 but up by 0.2 percentage points for 2011 from its July forecast. It expected inflation in the region to average 6.8% this year and 8.2% next year, compared to 6.2% in 2010 and 5.2% in 2011 for developing economies.

The Fund said the outlook for the region is closely linked to global developments, primarily through the impact of global economic activity on oil prices. It added that the impact is not confined to the oil exporters, as oil-importing economies in the region also benefit with about 25% of their exports going to oil exporters. It noted that the possibility of increased economic turbulence in Europe poses a significant downside risk for the

region's oil importers, as Europe is their largest trading partner and accounts for about 50% of their total exports, in addition to being as a source of tourism, remittances, and FDI flows. It added that the volatile global environment poses significant policy challenges for the region, and called on governments to put in place plans for fiscal consolidation, once recovery is more entrenched or if signs of incipient overheating emerge.

The IMF considered that the immediate challenge for the region's policymakers is to revive the financial intermediation process, as credit growth in many economies has been sluggish in the aftermath of the crisis due to weak balance sheets both for the banking sector and the non-financial corporate sector. It said that the spillover from corporate defaults in the GCC to other MENA economies has been limited so far. The Fund noted that the region has largely been bypassed by the recent surge in capital flows to emerging markets, as portfolio flows turned negative in 2009 and are expected to remain so over the next two years. It added that bank flows to the region are also unlikely to rebound quickly because of the ongoing restructuring and regulatory changes in advanced economies.

Source: *International Monetary Fund*

GHANA

Growth at 10% in 2010, key risk is fiscal slippage

The International Monetary Fund projected economic growth in Ghana at 5% in 2010, similar to growth in Sub-Saharan Africa this year, and at 10% in 2011. It said growth is being led by a recovery in construction and strong business services activity ahead of the start of oil production around end-2010. It forecast inflation at 9.2% by year-end, underpinned by the strength of the Ghanaian cedi, which has remained broadly stable against the dollar. It added that external performance has been good, with gross reserves at \$3.3bn at end-August 2010, equivalent to almost three months of import cover. The Fund called for continued efforts to reduce fiscal deficits and associated public borrowing in order to sustain and build on this year's favorable trends, and to maintain progress toward broader macroeconomic stability. It urged authorities to adopt contingency fiscal plans to limit fiscal slippages in 2010, as this year's fiscal deficit is likely to exceed the set targets, while new arrears to contractors and on public wages will also be incurred in 2010.

The Fund indicated that Ghana will post over the medium term substantially larger fiscal deficits and public borrowing than envisaged under the IMF program. It highlighted the importance of tailoring spending plans to projected revenues, as oil income will increase only modestly in the coming years. It stressed the importance of tackling government arrears to contractors as well as the bank liabilities of a few public enterprises, which have contributed to sharply higher non-performing loans in the banking system. It expressed the need to sustain the reform momentum, given the fiscal management challenges that Ghana faces. It added that early parliamentary passage of the Petroleum Law and Oil Revenue Management bills will help clarify the outlook for the oil sector. It noted that the rebased national accounts are expected to show a substantial upward revision to the size of the Ghanaian economy and its per capita income.

Source: *International Monetary Fund*



ECONOMY & TRADE

SYRIA

Syria ranks 34th on poverty index

The United Nation's first Multidimensional Poverty Index (MPI) ranked Syria in 34th place among 104 countries worldwide. The MPI is an attempt to numerically measure a range of deprivations beyond low income levels, such as education, health outcomes and standard of living. Syria also ranked in fourth place among 9 Arab countries and in 15th place among 39 lower-middle income countries (LMICs) included in the survey. Globally, it had the same poverty level as Azerbaijan and Sri Lanka, is less poor than Belize and Egypt, and is poorer than Trinidad & Tobago and Kyrgyzstan. Regionally, it had a lower poverty level than Egypt, Iraq, Djibouti, Morocco and Yemen, and was considered poorer than Tunisia, Jordan and the UAE. It received an MPI value of 0.021 points, better than the global average of 0.18 points, the LMIC average of 0.084 points and the Arab average of 0.069 points. The survey did not cover people living below \$2 a day in Syria.

Source: United Nations, Byblos Research

IRAQ

IMF approves \$741m disbursement

The International Monetary Fund approved the disbursement of \$741m to Iraq as part of a Stand-by Arrangement (SBA), bringing total resources currently available under the program to \$1.2bn. Last February, the IMF approved the 24-month SBA for \$3.7bn to provide budgetary support, help the country ensure macroeconomic stability and provide a framework for advancing structural reforms in Iraq. It said authorities are making progress in rebuilding key economic institutions and maintaining macroeconomic stability under very difficult circumstances. It noted that oil revenues remained strong, inflation continued to be subdued, and the budget recorded a surplus in the first half of 2010. It expected Iraq's external and fiscal positions to remain in deficit in 2010 and 2011, but to return to a surplus in 2012. It said the 2011 budget will need to be consistent with the goal of achieving medium-term fiscal sustainability and be based on conservative assumptions for oil prices and volumes. It stressed that containing current spending would allow further increases in investment, while a stronger emphasis on improving the quality of spending and rebuilding public infrastructure will help achieve higher economic growth. The Fund indicated that rebuilding the economy will depend on accelerating the pace of implementation of the government's fiscal and financial sector structural reform agendas. It added that further progress in strengthening the Central Bank of Iraq's supervisory role and moving ahead with the financial and operational restructuring of the two largest state-owned banks will help increase financial intermediation.

Source: International Monetary Fund

TURKEY

Outlook on ratings revised to positive from stable

Moody's Investors Service changed the outlook on Turkey's 'Ba2' local and foreign currency government bond ratings to 'positive' from 'stable'. It also upgraded the outlooks on the 'Ba1' foreign currency bond ceiling and the 'Ba3' foreign currency deposit ceiling to 'positive' from 'stable'. It attributed the change

in outlook to improvements in the country's economic and fiscal resilience, adding that the economy has proven to be unexpectedly robust and has recovered to pre-crisis levels. It revised upwards its forecasts for real GDP growth to 6.5% this year and 5% in 2011, which will help improve the country's deficit and debt levels beyond the targets set in the government's 2010-12 plan. The agency noted that a sovereign upgrade to 'Ba1' is contingent upon a further strengthening of Turkey's fiscal fundamentals, particularly in light of the country's significant external vulnerabilities, such as its large current account deficit and its reliance on portfolio investment flows, rather than on FDI, to fund the current account deficit. It added that Turkey's challenge is to post larger primary surpluses and continue to reduce its debt levels in order to further bolster its resilience to external shocks.

Source: Moody's Investors Service

ARMENIA

Sovereign ratings affirmed, outlook stable

Fitch Ratings affirmed Armenia's long-term foreign- and local currency Issuer Default Ratings (IDR) at 'BB-' respectively, with a 'stable' outlook. It also affirmed the short-term local currency IDR at 'B' and Country Ceiling at 'BB'. It said Armenia's economy is recovering from the crisis and real GDP growth has turned positive, while pressure on foreign currency reserves and the exchange rate have eased. It forecast real GDP growth at 5% for this year compared to a contraction of 14.2% in 2009. It added that an extended IMF program boosts confidence in continued policy discipline, and official international financing is helping to ease the necessary economic adjustment. It noted, however, that Armenia's large twin fiscal and current account deficits, along with policy loosening to face the global economic shock, have raised the level of the public debt and of gross external debt, which will take time to correct. The agency expressed confidence that the government will reduce the fiscal deficit to its target of 4.9% of GDP this year due to stronger growth and higher revenues, adding that the IMF targets a deficit of 2.3% of GDP in 2013.

Fitch expected the current account deficit to narrow to 13% of GDP in 2010 from 16% of GDP in 2009, with further narrowing to below 10% in 2012. It noted that financing will be supported by the IMF program, which lasts until June 2013, and other official external borrowing. It added that the current account deficit needs to be narrowed further in order to place the country's external finances on a more sustainable path over the medium-term, and will partly depend on the implementation of structural reforms. It said gross external debt rose to 59% of GDP at end-2009 from below 30% in 2008, but Armenia's external liquidity remains strong and the external debt servicing burden moderate relative to 'BB' peer median levels, reflecting the high share of concessional borrowing by the sovereign in the total external debt stock.

Source: Fitch Ratings



BANKING

WORLD

IIF warns about negative impact of regulatory fragmentation

The Institute of International Finance indicated that the new regulatory and accounting measures from global financial regulatory reforms need to be introduced in a coordinated way to avoid fragmentation and the risks of distortion and regulatory arbitrage. It expressed concerns about signs of deviation from the recent Basel agreement, as some national authorities have indicated that they intend to place additional regulatory requirements on firms or to accelerate implementation. It noted that such steps are detrimental to a balanced and coordinated approach to financial regulatory reform and will increase its economic impact and contribute to further fragmentation. It urged regulators to understand and factor in potential market pressure for accelerated implementation, which itself is likely to be exacerbated by their announcements.

Source: *Institute of International Finance*

SAUDI ARABIA

Banks focusing on risk management

Figures issued by the Saudi Monetary Agency (SAMA) show that total assets reached SAR 1,359bn at the end of August, constituting a decrease of 1% month-on-month and from end-2009, while lending to the private sector reached SAR 767bn, unchanged month-on-month, but up 4% from end-2009. In parallel, customer deposits totaled SAR 926bn, down by 2% month-on-month and from end-2009. The loans-to-deposits ratio was 82.8% at end-August relative to 78% at the end of 2009 as a result of a 2% drop in deposits. Shuaa Capital attributed the decrease in deposit growth to a strategy of reducing funding costs by Saudi banks. It noted that the slow lending activity in the kingdom is in contrast to the ample lending capacity of the banking system. It considered that Saudi banks remain wary of extending new loans to the private sector since they aim at lowering the risk profile of their balance sheets by investing in liquid assets such as Treasury bills. As a result, the banks' cash balance rose by 27% month-on-month to SAR 15.8bn while their aggregate profits decreased by 4.4% month-on-month to SAR 2.7bn in August.

Source: *Shuaa Capital*

TUNISIA

NPLs at private and public banks still high

Figures released by the International Monetary Fund indicated that the risk-weighted capital adequacy ratio (CAR) of banks operating in Tunisia reached 12.4% at the end of 2009 relative to 11.7% at end-2008. The CAR of private banks reached 11.6%, while that of public banks was 10.9% at end-2009. Credit to private sector grew by 11.2% year-on-year compared to an increase of 10.3% in 2008, while broad money increased by 11.6% in 2009, down from 13% in 2008. Also, the sector's non-performing loans reached 13.2% of total loans at end-2009, down from 15.5% at end-2008 and 17.6% at end-2007. The private banks' NPLs reached 12.5% of total loans at end-2009, down from 15.3% at end-2008 and 18.1% at end-2007, while the public banks' NPLs totaled 14.1% at end-2009 relative to

16% at end-2008. Further, the sector's provisions-to-NPLs ratio increased to 58.3% at end-2009 from 56.8% at end-2008, as private banks' provisions increased to 59.2% at end-2009 and those at public banks reached 57% at end-2009. In parallel, the sector's return on assets was 1% in 2009, unchanged from a year earlier; while return on equity was 11.7% in 2009, up from 11.2% in 2008.

Source: *International Monetary Fund*

NIGERIA

Ratings on three banks affirmed, outlook stable

Fitch Ratings affirmed First Bank of Nigeria (FBN) and Zenith Bank's long- and short-term foreign currency Issuer Default Rating (IDR) at 'B+' and 'B', respectively, and Diamond Bank's long- and short-term foreign currency IDRs at 'B'. It said the banks' long-term ratings have a 'stable' outlook. The agency noted that the ratings reflect Zenith's acceptable levels of Tier 1 capital, as well as its weakened financial performance and asset quality deterioration in 2009, but noted improved financial performance in the first half of 2010. In parallel, it said FBN's earnings were materially affected by higher impairments, lower revenue growth and increased operating costs. It added that the significantly higher impairment charges were driven by defaults arising from loans secured by listed shares, exposures to the oil and gas sector and a weaker credit environment. It noted the high levels of credit concentration risk at both banks. Fitch considered that the Central Bank of Nigeria's willingness to support the three banks may be high, but its ability is limited by Nigeria's sovereign ratings of 'BB-'. FBN is Nigeria's largest bank by total assets, while Zenith Bank is one of the country's largest banks with a 12% market share. Diamond is a mid-sized Nigerian bank.

Source: *Fitch Ratings*

ANGOLA

Banks' liquidity on the decline

The risk-weighted capital adequacy ratio of banks operating in Angola reached 22.8% at the end of March of 2010 relative to 22.4% at the end of 2009 and 19.5% at end-2008. The sector's liquid assets reached 30% of total assets at end-March 2010 relative to 31.4% at end-2009 and 42.6% at end-2008. Further, the sector's loans-to-deposits ratio increased to 67% at end-March from 55.8% at the end of 2009 and 53.7% at end-2008 while credit to the private sector accounted for 85% of total credit at end-March relative to 91% at end-2009. Also, foreign exchange liabilities accounted for 50.6% of total liabilities compared to 55% at end-2009, while foreign currency loans accounted for 50.2% of total loans at end-March relative to 65.3% at end-2009. The sector's non-performing loans reached 13.5% of total loans, while provisions accounted for 19% of net capital at the end of March of 2010. In parallel, banks' return on assets reached 1.5% at end-March 2010 on an annualized basis, down from 3.4% in 2009 and 2.4% in 2008; while their return on equity reached 12.3% at end-March 2010 annually, down from 36.5% in 2009 and 26.5% in 2008. Finally, the net open position in foreign exchange accounted for 61% of the capital at end-March 2010, down from 88.8% at end-2009 and 45% at end-2008.

Source: *International Monetary Fund*



ENERGY / COMMODITIES

Oil near \$84, due to expectations of a tightening in monetary policy

Oil rose toward \$84 a barrel on October 7 within sight of a five-month high due to the expectations that central banks will ease monetary policy. Increased money flows into oil and other commodities resulted from a weakened U.S. dollar linked to the expected inflow of fresh dollars into the economy. U.S. crude for delivery in November rose 41 cents to \$83.64 a barrel, while ICE Brent increased by 28 cents to \$85.34 a barrel. Oil in New York traded at \$84.09 on October 6, the highest since May 4th. The rally in oil prices may be running to an end according to some technical indicators. Also, U.S. crude's relative strength index is overbought, which can indicate that a drop in prices is approaching. The rise in prices was also helped by the drop in inventories on October 6th. Stocks of gasoline and distillates fell more than expected, while crude oil supplies rose more than forecast.

Source: Thomson Reuters

Siemens and KOSPO Jordan signed a 25 years contract

Siemens and KOSPO Jordan Ltd, a subsidiary of KOSPO Korea, signed a 25-year contract for the the Al Qatrana Independent Power Project (IPP). Under the agreement, Siemens is expected to provide customized solutions and maintenance of the plant's gas turbine installations. The contract is Siemens' first long-term contract in Jordan and is the second IPP in the country.

Source: Business Intelligence Middle East

Egypt secures \$270m from the World Bank for a solar power plant

The World Bank granted Egypt \$270m to finance a solar power plant which is expected to supply 100 Megawatts. The amount is divided into a \$100m investment from Clean Technology Fund, an affiliate of the World Bank, and a \$170m loan. The plant is expected to supply 100 Megawatts. The Egyptian Supreme Council of Energy passed a renewable energy plan in 2008 that is expected to increase Egypt's dependency on renewable energy to 20% by 2020. The latter plan is part of a more inclusive energy plan that is expected to triple Egypt's current power capacity of 25,000 Megawatts by 2027 while costs are expected to exceed \$100bn.

Source: Reuters Africa

General Electric signs a \$700m deal with Saudi Electricity

General Electric signed a \$700m deal with Saudi Electricity Company to provide power generation equipment as well as long term services for a new gas-fired, independent power plant. The plant is built in response to the growing energy needs of the Kingdom, which are increasing by 8% a year. It is expected to supply 1,730 Megawatts of power which meets 15% of Saudi Arabia's central region power demand. Saudi Arabia's installed capacity is 44,000 Megawatts, and is expected to need 70,000 megawatts of power by the year 2020.

Source: Arab News

Base Metals: Prices continue to rally led by copper and tin

Base metals prices continued to rally over recent weeks, boosted further on October 1 by the increase in the headline Chinese PMI. Copper and tin now moved above their respective 2010 peaks and are beginning to close in on the all-time nominal highs seen in 2008. Copper traded at \$8,160 per ton within 10% of its all-time peak, while tin traded at \$24,850 per ton and is only 4% below the cycle top. Copper increased to trade near its highest price in almost 27 months as U.S. employment data added to signs that the Federal Reserve may expand credit-easing measures, weakening the dollar and boosting demand for alternative assets. Copper for delivery in three months on the London Metal Exchange rose as much as 0.5% to \$8,300 a metric ton and traded at \$8,296 in Singapore on October 6th. Copper futures for December delivery in New York gained 0.6% to \$3.76 a pound.

All base metal prices are supported by a weaker dollar. A rally in regional equities and concerns about possible supply disruptions helped support prices. Aluminum and lead in London were unchanged at \$2,365 a ton and \$2,316 a ton respectively, while zinc was little changed at \$2,335 a ton. Nickel rose 0.4% to \$24,898 a ton and tin gained 1% to \$26,500 a ton.

Source: Credit Suisse, Bloomberg

Precious Metals: Spot gold at record high and palladium at eight-year high

Spot gold surged higher to a new record on October 7, fueled by confident sentiment and a weak dollar. News that Vietnam had lifted a two-year old ban on gold imports increased demand, adding steam to the rally as gold races towards \$1,400 an ounce which is faster than predicted. Spot gold reached a high of \$1,364.95 an ounce. Also, palladium rose 4% to an eight-year high of \$600.50 per ounce. Silver increased by 1% to \$23.382 an ounce.

Indexed against the world's top 10 currencies, gold prices dropped 3.3% on July 1, one day after completing the strongest quarter in more than a decade, gaining more than 14% from end-March to end-June amid the European debt crisis. Further, gold ended the third quarter of 2010 5% higher compared to the U.S. dollar and 3.6% higher compared to the Chinese Yuan, but it lost more than 5% against the Euro and almost 10% to the Australian dollar. Silver prices rose 17.8% against the dollar between June and end-September, squashing the gold-to-silver ratio of relative prices per ounce down from 66.4 to a one-year low of 59.2. The gold-to-silver ratio's four-decade average now stands at 53.5.

Source: Dow Jones Newswires, Bullion Vault

Gold price forecasts (\$ per ounce)				
Quarter	Q3 10	Q4 10	Q1 11	Q2 11
Year	1,230	1,350	1,300	1,350
		2010	2011	2012
		1,222	1,400	1,200

Source: Standard Chartered



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	A3	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	-	-	-	BB-	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	-	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	Positive	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	21-Sep-10	No change	03-Nov-10
Eurozone	Refi Rate	1.00	02-Sep-10	No change	07-Oct-10
UK	Bank Rate	0.50	09-Sep-10	No change	07-Oct-10
Japan	O/N Call Rate	0.10	07-Sep-10	No change	05-Oct-10
Australia	Cash Rate	4.50	07-Sep-10	No change	05-Oct-10
New Zealand	Cash Rate	3.00	16-Sep-10	No change	28-Oct-10
Switzerland	3 month Libor target	0.25	16-Sep-10	No change	16-Dec-10
Canada	Overnight rate	1.00	08-Sep-10	Raise 25bps	19-Oct-10
Emerging Markets					
China	One-year lending rate	5.31	23-Dec-08	Cut 27bps	N/A
Hong Kong	Base Rate	0.50	21-Sep-10	No change	03-Nov-10
Taiwan	Discount Rate	1.50	30-Sep-10	Raise 12.5bps	Dec-10
South Korea	Base Rate	2.25	09-Sep-10	No change	14-Oct-10
Malaysia	O/N Policy Rate	2.75	02-Sep-10	No change	12-Nov-10
Thailand	1D Repo	1.75	25-Aug-10	Raise 25bps	20-Oct-10
India	Reverse repo rate	6.00	16-Sep-10	Raise 25bps	02-Nov-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	16-Sep-10	No change	04-Oct-10
South Africa	Repo rate	6.00	09-Sep-10	Cut 50bps	18-Nov-10
Kenya	Central Bank Rate	6.00	23-Sep-10	No change	Nov-10
Nigeria	Monetary Policy Rate	6.00	21-Sep-10	Raise 25bps	Nov-10
Ghana	Prime Rate	13.50	24-Sep-10	No change	01-Nov-10
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	24-Sep-10	No change	15-Oct-10
Brazil	Selic Rate	10.75	01-Sep-10	No change	20-Oct-10
Armenia	Refi Rate	7.25	07-Sep-10	No change	N/A
Romania	Policy Rate	6.25	04-Aug-10	No change	N/A
Bulgaria	Base Interest	0.17	01-Oct-10	No change	N/A
Kazakhstan	Refi Rate	7.00	01-Oct-10	No change	N/A
Ukraine	Discount Rate	7.75	10-Aug-10	Cut 75bps	N/A
Russia	Refi Rate	7.75	01-Jun-10	Cut 25 bps	N/A



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