

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### **Bond and equity inflows at \$104bn in first 10 months of 2010, AUM at \$924bn**

Capital inflows to emerging market equity and bonds totaled \$103.7bn in the first 10 months of 2010, with bonds receiving \$38.2bn and equities \$65.5bn. Latin America accounted for \$14.2bn or 37.1% of bond inflows, followed by Emerging Europe, the Middle East & Africa (EMEA) with \$12.8bn (33.4%), and Emerging Asia with 29.4%. Further, Emerging Asia accounted for \$39.4bn or 60.2% of equity inflows to emerging markets, followed by EMEA with \$13.9bn (21.2%), and Latin America with \$12.15bn (18.6%). Brazil was the biggest recipient of bond inflows with \$4.4bn, or 11.6% of total inflows into emerging market bonds, while China was the largest recipient of equity funds with \$12.6bn, or 19.2% of overall inflows into emerging market equities. In parallel, emerging markets' assets under management (AUM) totaled \$923.8bn at the end of October 2010, with bonds accounting for \$142.8bn and equities for \$781bn. The EMEA region had \$52.6bn in AUM in bonds, followed by Latin America with \$52.5bn and Emerging Asia with \$37.7bn. Further, Emerging Asia accounted for \$492.2bn in equity-related AUM, followed by Latin America with \$156.4bn and EMEA with \$132.3bn. Brazil had \$17.7bn in bonds-related AUM, or 12.4% of the total, while China had \$170bn in equity-related AUM, accounting for 21.8% of overall equities under management in emerging markets.

Source: Barclays Capital, Byblos Research

#### MENA

##### **Economic freedom in Arab world stagnates**

The Fraser Institute's annual Index of Economic Freedom in the Arab World shows that overall economic freedom in the region was nearly unchanged year-on-year, as the region's average numerical score for overall economic freedom reached 6.9 points in 2010 compared to 7.1 points in 2009. The index evaluates individual economies on the basis 18 variables that are divided into five broad factors of economic freedom that measure the size of government; legal structure and security of property rights, access to sound money, freedom to trade internationally, and the regulation of credit, labor and business. The rankings of two Arab countries improved, seven were unchanged and five regressed, while the scores of one country improved, three were unchanged and 10 regressed with Djibouti ranked for the first time in the survey. Bahrain had the highest level of economic freedom in the Arab world, followed by Kuwait and Lebanon; while Tunisia, Syria and Algeria had the least free economies in the region.

Source: Fraser Institute, Byblos Research

##### **Human development level unchanged in Arab countries**

The United Nations' Human Development Index for 2010 showed that the level of human development in the Arab world was unchanged year-on-year, as the average score of the 16 Arab countries included in the index was 0.64 points, almost unchanged from 0.63 points in 2009 and slightly above the global average of 0.62 points. The index measures a country's achievements in terms of life expectancy, educational attainment, and adjusted real income. The UAE was the top ranked Arab country and came in 32nd place globally among 169 countries. It was followed by Qatar in 38th place, Bahrain (39th) and Kuwait (47th), while the lowest ranked Arab countries were Yemen, which came in 133rd place worldwide; Mauritania (136th), Djibouti (147th), and Sudan (154th). The rankings of four countries improved, one regressed, while the rankings of 11 countries were unchanged year-on-year. In parallel, Kuwait showed the biggest improvement in the Arab world between 1980 and 2010, as its rank rose by 80 spots, posting the 16th highest change globally during the covered period. It was followed by Syria, which improved by 74 spots and posted the 22nd best improvement globally; and Jordan, improving by 32 spots and ranking 64th globally. Also, the United Nations considered that the UAE, Qatar and Bahrain have a 'very high' level of human development, while it placed Kuwait, Libya, Saudi Arabia, Tunisia, Jordan and Algeria among countries with a 'high' level of human development. Further, Egypt, Syria and Morocco had a 'medium' level of human development; and Yemen, Mauritania, Djibouti and Sudan came in the 'low' level category.

Source: UNDP, Byblos Research

##### **Equity markets up 7% in first 10 months of 2010**

Arab stock markets increased by 7% and GCC markets grew by 6.8% in the first 10 months of 2010 compared to a rise of 23.4% for each in the same period last year. Arab and GCC markets regressed by 0.92% and 1.4%, respectively, in October 2010. Activity on the Tunis equity market increased by 23.7% during the covered period, posting the best performance among Arab markets. It was followed by the Casablanca stock exchange with a 17.2% improvement, the Doha equity market with a 12% rise, the Egyptian stock market with a 7.4% growth, the Saudi exchange with a 3.8% increase, the Muscat exchange with a 2.9% improvement, the Abu Dhabi market with a 2.64% rise, the Kuwait bourse with a 0.8% growth and the Bahrain stock market with a 0.3% increase. In parallel, the Beirut Stock Exchange dropped by 9.5%, posting the worst performance among Arab stock markets year-to-October. It was followed by the Iraqi stock exchange with a 7.9% decrease, the Amman stock exchange with a 7.8% drop, the Dubai financial market with a 2.2% downturn and the Palestine equity market with a 0.3% decline. In comparison, emerging market equities rose by 11.8% and global equities increased by 5.5% in the first 10 months of the year. They increased by 2.8% and 3.53%, respectively, in October 2010.

Source: Local stock markets, Byblos Research

# POLITICAL RISK OVERVIEW - OCTOBER 2010

## DEM REP CONGO

The UN High Commission for Human Rights (HCHR) reported six attacks and three ambushes by the LRA in recent weeks in Haut Uele Province, while around 50 armed men attacked the UN base in Ruwindi, North Kivu. The UN HCHR released a detailed report on human rights violations committed in East DRC between 1993 and 2003. The French authorities arrested the exiled FDLR leader Callixte Mbarushimana on October 15, who is charged by the International Criminal Court (ICC) with crimes committed in East DRC in 2009. Human Rights Watch advised the UN to suspend the logistical support to FARDC until the FARDC leader Bosco Ntaganda, who is an ICC indictee, is arrested. The ICC overturned the order to release Thomas Lubanga on October 8th.

## EGYPT

President Hosni Mubarak set November 28 as a date for parliamentary elections. The Muslim Brotherhood opposition group ignored calls for opposition boycott led by Mohamed el Baradei. The government increased state control over the media and information through a series of new measures. The journalists' union accused the government of cracking down on media freedom. The High Administrative Court banned the presence of Interior Ministry permanently on university campuses on October 23rd.

## IRAN

President Mahmoud Ahamdinejad welcomed a new set of international talks on nuclear program but under special conditions, while the government accepted to participate in the Vienna talks which are scheduled to be held between November 15 and 17. The U.S. in collaboration with the EU is drafting a new fuel swap deal for Iran that is expected to be discussed in future talks, but the Iranian Parliament ruled out the uranium enrichment process from negotiations. The IAEA Director General Yukiya Amano urged Iran to step out to calm the international concerns about its nuclear program as it started loading fuel into the Bushehr nuclear plant. Further, the government announced that the local media is expected to be banned if they cover the news of opposition leaders, while it started the food and energy subsidies cancellation. Four policemen and one civilian were shot on October 7 in the Kurdistan province by anti-revolution groups while 18 revolutionary guards were killed on October 12 in an explosion in the Khoramabad base.

## IRAQ

The National Alliance Shiite bloc, including the Sadrist movement, nominated Nouri al-Maliki for a second term as Prime Minister of Iraq; however Maliki still needs 163 votes to ensure the parliament majority. The Iraqiya party dropped the nomination of its leader Ayad Allawi for the Prime Minister position in efforts to facilitate the government formation, but insisted on equal share of power. Maliki visited neighboring countries to endorse his candidacy and received the supports of the United States, where in return he insured the U.S. that Sadr's supporters will not lead the security forces of the country. Further, more than 400,000 classified military documents on Iraq were released by Wikileaks, which claimed abuse of prisoners by Iraqi forces; the UN HCHR insisted on investigating the allegations. Al-Qaeda affiliated gunmen seized a Church in Baghdad on October 31 and led to the death of more than 52 people dur-

ing the rescue operations. The Convoy of the United Nations Special Representative of the Secretary General in Iraq, Ad Melkert, was attacked on October 19 following a meeting with Ayatollah al-Sistani.

## MOROCCO

The police arrested seven suspects in al-Qaeda in the Islamic Maghreb (AQIM) on October 12, linked to a drug network and seized large quantities of money. Trial began on October 22 of seven Sahrawi activists accused of "undermining internal security" for visiting refugee camps in Algeria run by the Polisario Front, a national liberation movement working on the independence of Western Sahara from Morocco.

## SUDAN

A high-level UN panel expressed concern over the hostility between the National Congress Party (NCP) and Sudan People's Liberation Movement (SPLM). The President of South Sudan, Silva Kiir requested a UN-administered buffer zone. A vote on whether the contested Sudanese oil district of Abyei should remain part of the north or join the south was declared impossible by northern leaders. SPLM restated that delays are unacceptable and violate the Comprehensive Peace Agreement. The Southern Sudan Referendum Commission released timetable for polls including voter registration that will take place between November 14 and November 30th. Rebel Justice and Equality Movement spokesman, Ahmed Hussein Adam stated that the group is ready to restart discussions with international mediators in Doha following the breakdown of the February accord.

## SYRIA

Foreign Minister Walid Moallem stated that Turkey must mediate any indirect peace talks with Israel. The Israeli media reported on October 8 satellite images revealing Syrian scud missile and a Hizbollah training base near Damascus. Syrian President Bashar Asad accused the U.S. of creating chaos abroad. U.S. ambassador to the UN Susan Rice accused Damascus of destabilizing Lebanon by arming militias including Hizbollah. President Assad visited Iran to reinforce ties on October 2 and met Turkish Prime Minister Tayyip Erdogan on October 11 to discuss security strategy against Kurdistan Workers' Party.

## YEMEN

At least six militants and four civilians were killed mid-month in an army assault on the town of Madiyah in southeastern Abyan province. In a new counter-terrorism approach, over 2,500 pro-government tribesmen and soldiers began looking for al-Qaeda members in southern Shabwa province. New U.S. Ambassador Gerald Feierstein stated that the U.S. is committed to Yemen's counter-terrorism campaign but would not support negotiations with militants. Four people were injured on October 6 in an al-Qaeda rocket attack on a senior UK diplomat's car in Sanaa and a French energy contractor was killed on the same day by al-Qaeda. Two parcel bombs destined to reach the U.S. were intercepted in Dubai and Britain on October 29, and were linked to the Yemen-based al-Qaeda. Several airlines suspended direct air traffic from Yemen.

Source: *International Crisis Group*



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# OUTLOOK

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## GCC

### **Non-oil growth to average 4.1% in 2010-11, diversification is key for growth prospects**

The Institute of International Finance indicated that the economies of the Gulf Cooperation Council (GCC) are returning to solid growth due to higher oil prices that are supporting government spending and exports, and some normalization of global trade and capital flows. It noted, however, that credit growth has remained weak more than two years into the crisis due to increased provisioning of non-performing loans and weak private sector demand. It projected overall real GDP for the region to grow by 4% in 2010 and 4.6% in 2011, up from 0.4% in 2009. It also forecast non-hydrocarbon growth to increase from 2.4% in 2009 to 3.7% in 2010 and 4.5% in 2011. It expected Qatar to post non-hydrocarbon growth of 15% this year, highest in the GCC, followed by Oman with 7.2%, the UAE with 2.2%, Saudi Arabia with 1.7%, Kuwait with 1.5% and Bahrain with 0.4%. Further, the IIF forecast non-hydrocarbon GDP growth in Abu Dhabi at 3.5% relative to 3.3% last year; and expected Dubai's economy to grow this year by 0.7% after a contraction of 3% last year. It noted that the continued stagnation in construction and real estate could offset the modest recovery in Dubai's core activities of trade, retail sales and tourism. It expected inflationary pressures in the region to remain contained, and projected average inflation in the GCC at 3.5% in 2010 and 4.2% 2011, up from 2.7% in 2009.

The IIF forecast the GCC's consolidated current account surplus to widen from \$62bn in 2009 to \$119bn in 2010 and \$134bn in 2011, mainly due to higher projected oil revenues and non-hydrocarbon exports. As a result, it expected the region's net foreign assets to rise from \$1,000bn at end-2009 to \$1,234bn at end-2011, providing substantial funds to sustain robust government spending levels in the next few years. Also, it forecast the aggregate fiscal surplus to widen from a deficit of 2.5% of GDP in 2009 to a surplus of 5.5% of GDP in 2010-11 despite a continued rise in government spending. The IIF noted, however, that the region will need to find new growth engines in the long-term through further diversification of the economy and enhancing the private sector.

*Source: Institute of International Finance*

## SYRIA

### **Real GDP growth to average 5.3%, current account deficit at 3.7% in 2010-11**

The International Monetary Fund projected Syria's real GDP growth at 5% in 2010 and 5.5% in 2011, up from 4% in 2009, and compared to growth in Mashreq countries of 5.4% in 2010 and 2011. The IMF forecast Syria's annual average inflation rate at 5% in 2010 and 2011, up from 2.8% in 2009 and compared to inflation of 9.2% in 2010 and 8.1% in 2011 for Mashreq economies. Further, it expected the growth of broad money at 12% this year and 11.5% next year relative to 9.2% last year. The Fund projected the central government's fiscal balance to post a deficit of 4.3% of GDP in 2010 and 3.1% of GDP in 2011, down from 5.4% of GDP in 2009, and compared to a deficit in Mashreq countries of 7.5% of GDP in 2010 and 7% of

GDP in 2011. It estimated public revenues at 21.4% of GDP this year and 21.6% of GDP next year and total expenditures at 25.8% of GDP in 2010 and 24.7% of GDP in 2011.

The IMF forecast Syria's public debt to reach 27% of GDP at end-2010 and 26.4% of GDP at end-2011 relative to 27.3% at end-2009, as well as total external debt at 15% of GDP at the end of this year and at 13.7% of GDP at the end of next year. Further, the Fund estimated exports of goods & services from Syria at \$18.5bn in 2010 and \$20.2bn in 2011, up from \$16.7bn in 2009; and imports of goods & services at \$21.2bn in 2010 and \$22.9bn in 2011, up from \$19.1bn in 2009. It forecast the country's current account deficit at \$2.3bn or 3.9% of GDP in 2010 and at \$2.3bn or 3.4% of GDP in 2011, compared to a deficit for Mashreq countries of 3.8% of GDP in 2010 and 3.5% of GDP in 2011. The Fund expected the country's gross official reserves to reach \$16.8bn at end-2010 and \$16.3bn at end-2011, down from \$17.1bn at end-2009.

*Source: International Monetary Fund*

## NIGERIA

### **Non-oil growth to average 7.8%, fiscal deficit at 6.1% of GDP in 2010-11**

The International Monetary Fund projected Nigeria's real GDP growth at 7.4% for each of 2010 and 2011, up from 7% in 2009. In parallel, it forecast growth of 4.9% in 2010 and 5.5% in 2011 for Sub-Saharan Africa and at 6.4% in 2010 and 6.7% in 2011 for the region's oil exporting countries. It expected the country's real non-oil GDP to grow by 7.9% in 2010 and 7.7% in 2011, down from 8.3% in 2009 and relative to a growth of 7.2% in oil exporting countries this year and 7.3% next year. The IMF forecast Nigeria's annual average inflation rate at 11.9% in 2010, and 9.8% in 2011, relative to 12.4% a year earlier and compared to inflation of 10.6% in 2010 and 8.9% in 2011 for oil exporting economies. Also, it expected broad money to grow by 25.4% this year and 17.5% next year compared to 17.5% last year. The Fund forecast the central government's fiscal balance to post a deficit of 7.9% of GDP in 2010 and 4.3% of GDP in 2011, down from 10.3% of GDP in 2009. It estimated public revenues at 25.8% of GDP in 2010 and 26% of GDP in 2011, and total expenditures at 33.8% of GDP in 2010 and 30.3% of GDP in 2011.

The IMF estimated total investment at 27.9% of GDP in 2010 and 25.1% of GDP in 2011, down from 28% of GDP in 2009. Further, it projected the country's current account to post a surplus at 13% of GDP in 2010 and at 11.8% of GDP in 2011, down from 14.1% of GDP in 2009. In comparison, oil exporting countries are forecast to post current account surpluses of 7.5% of GDP this year and 6.7% of GDP next year. The Fund expected the country's gross official reserves to reach 7.2 months of imports of goods & services at end-2010 and 5.4 months at end-2011, down from 10 months of imports of goods & services at end-2009.

*Source: International Monetary Fund*



# ECONOMY & TRADE

## MENA

### Remittance inflows to increase by 5% to \$35.4bn in 2010

The World Bank projected remittance inflows to the Middle East & North Africa region to reach \$35.4bn in 2010, constituting an increase of 5.3% from \$33.7bn in 2009 and a decline of 1.4% from \$36bn in 2008. Inflows to the region would account for 8% of global remittance flows and for 10.8% of remittances to developing economies in 2010, ranking the MENA region as the second smallest recipient in emerging markets ahead of only Sub-Saharan Africa. Also, it forecast the growth rate of remittance inflows to the region to be the third highest this year among developing economies, after South Asia with 10.3% and East Asia & Pacific with 6.4%. The World Bank expected Lebanon to be the biggest recipient of remittances with \$8.2bn in such inflows this year, followed by Egypt with \$7.7bn, Morocco with \$6.4bn, Jordan with \$3.8bn, and Algeria and Tunisia with \$2bn each as the top Arab recipients of remittances in 2010. Remittance inflows to Lebanon were equivalent to 22.4% of GDP in 2009, highest in the region, followed by Jordan with 15.6% of GDP, Morocco with 6.6% of GDP, Tunisia with 5.3% of GDP, and Yemen with 5.2% of GDP as the top five recipients relative to the size of their economy. Inflows to Iran improved the most regionally and rose by 9.2% year-on-year, while inflows to Algeria and Tunisia regressed by 0.3% and 1.3% respectively. In parallel, the World Bank estimated remittance outflows from the region at \$8.1bn in 2009, equivalent to 0.7% of GDP, making the MENA region the third highest source of remittances in nominal terms among developing economies and the second biggest source relative to the size of the region's economy.

Source: World Bank, Byblos Research

### Regulatory reforms slow down in the region

The World Bank/International Finance Corporation's Ease of Doing Business survey for 2011 indicated that the MENA region continues to be active in terms of easing the regulatory burden of doing business. The survey said that 11 out of 18 economies in the region implemented business reforms in the covered period. It recorded 22 reforms between June 2009 and June 2010 that make it easier to do business in the region, down from 41 regional reforms during the same period of last year. Saudi Arabia was the top ranked Arab economy, coming in 11th place worldwide. It was followed by Bahrain in 28th place, the UAE (40th), Qatar (50th) and Tunisia (55th) as the top 5 ranked Arab countries. The lowest ranked Arab economies were Syria in 144th place, Sudan (154th), Djibouti (158th), Mauritania (165th) and Iraq (166th). It said the rankings of 4 countries in the region improved, 9 declined and 5 were unchanged in this year's survey. Egypt showed the highest improvement, rising by 5 spots, while Qatar regressed by 11 spots, posting the steepest decline in the region year-on-year. The survey indicated that none of the Middle Eastern countries ranked within the top 10 economies in the world that reformed their business regulations. The survey noted that the region's most popular areas for reforms were getting credit and trading across borders, with 6 economies making improvements in each of these areas.

Source: World Bank, International Finance Corporation

## ALGERIA

### New tax rules imposed on foreign firms

Algeria's 2010 Supplementary Finance Act (SFA 2010) included several tax measures that affect companies doing business in the country. The SFA 2010 includes a new "super profit" tax ranging from 30% to 80% that will apply when a company has experienced "exceptional profitability" or "exceptional profits under specific circumstances." The tax will not apply to companies in the oil and gas sector, and authorities should be issuing additional guidance on how the super profit tax will apply in practice. Further, the SFA stipulates that a foreign company will be subject to taxes at the same "theoretical" rate as would apply to an Algerian company in the relevant foreign country. The SFA 2010 also includes provisions addressing the preemptive rights of the state. It stipulates that a foreign shareholder may not transfer its interest in an Algerian company without first submitting a document from the Algerian state that it has renounced its preemptive right to the interest. Further, both the Algerian state and public companies have a pre-emptive right on all transfers of shares owned by foreign shareholders and on all transfers of shares sold to foreign shareholders. Also, Algerian authorities must be consulted before any indirect transfer of shares takes place if the Algerian company in question was granted incentives at the time it was established.

Source: Deloitte & Touche

## GHANA

### Revised GDP shows economy is 60% bigger

The Ghana Statistical Services (GSS) indicated that a rebasing of the country's national accounts shows that the economy is 60.3% larger in the base year of 2006 compared to the previously calculated size. As such, the total size of the economy has increased to \$31.4bn from less than \$20bn previously. The GSS said that the revision changed the base year from 1993 to 2006. The new rebased series shows that the services sector is the largest economic sector, contributing 51% to GDP in 2010, followed by agriculture with 30% and industry with 19%. The contribution of the services sector increased from 36% previously to 51% under the new system; while the share of agriculture declined from 35.6% to 30%, and that of industry regressed from 28.3% to 18.6%. The GSS also raised its growth forecast for this year to 6.6% from 5.9%, and revised up its calculations for the previous three years. GDP expanded by 4.7% in 2009, 8.4% in 2008 and 6.5% in 2007, compared with previous estimates of 4.1%, 7.2% and 5.7%, respectively. The size of the economy was revised up after new economic activities were added, the oil sector, forest plantations and information and communication, which were not included in previous estimates. The new figures are expected to significantly reduce ratios such as the fiscal deficit to GDP, currently at 15.5% of GDP; current account deficit to GDP and external debt to GDP. Also, the new figures raise Ghana's per capital GDP to \$1,318.4, placing Ghana among middle-income countries, defined as countries with a per capita income of more than \$976 a year.

Source: Ghana Statistical Services, Bloomberg



# BANKING

## GCC

### Short term challenge is to revive credit growth

The International Monetary Fund considered that the short term challenge for the GCC countries is to support a revival in credit growth, which has decreased sharply as a result of the global financial crisis. It said the fundamentals to address this challenge have improved, as considerable progress has been made in financial and corporate restructuring in 2010, helping shore up market confidence. It also noted that GCC banks' capital adequacy ratios remain strong. The Fund added that the long-term challenges for the region's financial sectors include enhancing supervision, macro-prudential policy tools, liquidity management, and resolution frameworks for banks and non-banks, and to reduce dependence on name lending. It noted that developing local financial markets will be key to deepen financial intermediation; while authorities should clarify creditor rights and court enforceability, and strengthen disclosure standards in order to meet the rising demand for Sukuk in the region.

Source: *International Monetary Fund*

## SYRIA

### Anti-money laundering 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 that Syria made a high-level political commitment in February 2010 to work with the FATF and the FATF-style regional body MENAFATF to improve its AML/CFT regime, but considered that certain strategic deficiencies remain. It urged authorities to address these deficiencies, and to implement 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*

## QATAR

### Lending to the private sector up

Figures issued by the Central Bank of Qatar show that total assets reached QAR 523.6bn at the end of September, up by 2.2% month-on-month and constituting a rise of 11.1% from end-2009. Lending reached QAR 308.9bn, up by 0.9% month-on-month and by 14% from end-2009. Loan provisioning rose by 0.7% from August and by 11.9% in the first 9 months of the year to QAR 6.6bn, with specific provisions up 20.3% to QAR 3.3bn from the end of last year. Shuaa Capital said that that the increase in provisions was for investments need since specific and general provisions decreased respectively by 0.7% and 13.6% month-on-month. In parallel, customer deposits increased by 0.3% month-on-month and grew by 17.4% from end-2009 to QAR 289.9bn. The loans-to-deposits ratio was

106.6% at end-September relative to 106% in the previous month. Shuaa Capital attributed the lending growth in September to private sector borrowing which increased by 1.7% month-on-month and was used to finance services, consumption and contracting; while public sector borrowing decreased by 1.3% in September marking the first drop in several months. Further, it said deposit growth was driven by the private sector and particularly the inflow of foreign currency deposits that offset the drop in local currency funds. It added that the enhancement of asset quality combined with the increase in private lending are expected to improve the performance of the Qatari banking sector in the last quarter of the year.

Source: *Shuaa Capital*

## TUNISIA

### Currency controls to be lifted by 2014

President Zine al-Abidine Ben Ali announced a timetable for switching to a fully convertible currency by 2014. The president asked the Central Bank of Tunisia to draw up an executive plan for the total convertibility of the dinar in two stages. He said the first stage, from 2010 to 2012, would involve fine-tuning current account convertibility. The second stage, extending from 2013 until 2014, would entail liberalizing capital transactions, implementing rules on currency transactions and a radical revision of the country's currency code to adapt it for total convertibility. President Ben Ali pledged six years ago to liberalize the dinar by 2009, but last year postponed the reform and set a new deadline of 2014. Tunisia already has current account convertibility, which means money can be freely exchanged for settling payments for goods and services. However, it has restrictions on converting capital for investments and loans. The announcement of the timetable was in line with a recommendation made by the IMF last September that Tunisia should prepare the ground for the switch to a fully convertible currency.

Source: *Thomson Reuters*

## ANGOLA

### 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 Angola has demonstrated progress in improving its AML/CFT regime, but considered that certain strategic deficiencies remain. It noted that Angola made a high-level political commitment last June to work with the FATF to address these deficiencies, and enacted an AML/CFT law and ratified the UN Convention on Transnational Organized Crime since then. But the FATF determined that certain strategic AML/CFT deficiencies remain and urged authorities to continue implementing their action plan to address the remaining shortcomings. This includes adequately criminalizing money laundering and terrorist financing; establishing a fully operational and effectively functioning Financial Intelligence Unit; establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets; and ratifying the UN Convention for the Suppression of the Financing of Terrorism.

Source: *Financial Action Task Force*

# ENERGY / COMMODITIES

## Oil prices reach a 25-month high rising above \$88

Oil prices reached a 25-month high, exceeding \$88 on Thursday mainly because of China's oil demand which increased by 13% in October from a year earlier, marking a record high consumption of 8.92 million barrel per day. Also, the rise of oil prices was stimulated by an unexpected decrease of 3.3 million barrel in the U.S crude oil inventory, instead of 1.4 million barrel gain as forecasted by the Energy Information Agency. Further, OPEC increased its 2011 estimate of global oil demand growth by 120,000 barrels per day to 1.17 million barrels per day, which pressured oil prices to rise further. U.S crude for December rose by 20 cents to \$88.01 a barrel after reaching \$88.63 a barrel Thursday morning, a record high since October 2008. ICE Brent increased by 3 cents to \$88.99 a barrel after reaching \$89.3 a barrel earlier on Thursday marking more than a two-year high. Oil prices have increased in eight of the last nine sessions and rose above the \$70-\$80 a barrel where they have mostly traded for a year.

Source: Thomson Reuters

## Iran's 2009 energy subsidy highest in the world

The International Energy Agency (IEA) stated that Iran's fossil-fuel subsidy amounting to \$66bn in 2009, was the highest in the world. Consumers in Iran pay around 11% of market prices for energy products while the government subsidizes the remaining 89% which burdens the economy and creates inefficiencies in the energy sector. Iran plans to reform its energy subsidy policy by gradually implementing market-based energy pricing and by redistributing 50% of the fiscal benefits as part of a 5 year development plan till 2015. The IEA however, stated that many details of the plan remain uncertain including the level and frequency of price adjustments, the eligibility and amount for compensation, and mechanisms to contain inflation.

Source: Dow Jones Newswires

## Qatar inaugurates \$1.3bn petrochemicals plant

Q-Chem II plant, a \$1.3bn petrochemicals plant, was opened in the Masaeed industrial city in Qatar. The plant has an annual production capacity of around 700,000 tons of polyethylene and olefins, which is expected to increase the capacity of Qatar Chemical Company, the plant's owner, by more than 75%. Qatar Chemical Company is a joint venture between Qatar Petroleum Corp (51%) and Chevron Phillips Chemical Co (49%). Qatar plans to increase its yearly petrochemicals production to 28 million tons by the year 2014.

Source: AFP

## Egypt, World Bank sign two loan agreements for power projects

Egypt and the World Bank signed two loan agreements for a total of \$820m, the largest funding provided by the World Bank to the country's electricity sector. The agreements are expected to cover the construction of a 1,500 Megawatt combined cycle gas turbine power plant in Giza for \$600m as well as investment in a wind farm amounting to \$220m. The World Banks stated that at least 7,200 Megawatts could be potentially generated by the year 2022.

Source: Bloomberg

## Base Metals: Zinc prices rebound in recent months

Zinc prices increased by 0.9% to \$2,548 a ton on November 11th. LME three-month zinc prices have increased by nearly 70% from \$1,577 per ton on June 7 to \$2,639 per ton on October 26, before falling back to \$2,043 per ton at the end of the third quarter of 2010. Zinc has moved from being the worst-performing base metal so far this year to the best performer of the past month. Increase in prices resulted from falling LME stocks where a global market deficit was estimated in both July and August, after a period of oversupply in the first half of 2010.

World demand for zinc has been recovering, but the pace for growth slowed during the June-September period, particularly in the Americas and Europe. Also, Chinese demand was hit by production cuts in galvanized steel production because of attempts to save energy, including widespread power restrictions. On the supply side, a 10% annual increase in global mine production in the first half of 2010 encouraged smelters to expand refined zinc output by 17% annually over the same period. There are risks to China's refined zinc output however in the fourth quarter of 2010 stemming from increasing central government control over electricity usage.

Source: Standard Chartered, Bloomberg

Global Zinc Outlook					
(kilo tons)	2008	2009	2010f	2011f	2012f
Refined supply	11,555	11,359	12,268	12,758	13,396
(% change)	3.0	-1.7	8.0	4.0	5.0
Refined demand	11,146	10,365	11,816	12,880	13,653
(% change)	-0.5	-7.0	14.0	9.0	6.0
Balance	410	994	451	-122	-256
Reported stocks (end-period)	1,208	2,202	2,653	2,532	2,275
Three-month price (\$/ton)	1,896	1,690	2,192	2,375	2,400

Source: Standard Chartered

## Precious Metals: Gold heading for tenth annual gain

Commodities hit multiyear highs in intraday trading on November 9, as producers of metals and agricultural goods are finding it more difficult to meet robust demand. Gold futures reached a record high the same day at \$1,423.8 an ounce on the Comex division of the New York Mercantile Exchange, gaining additional momentum from renewed fears about the European Unions' ability to handle some members' high sovereign-debt levels.

All six main industrial metals on the London Metal Exchange gained after China's inflation reached a two-year high. Gold futures for December added \$8.7 or 0.6% to \$1,408 per ounce. It was up 28% in 2010 and is heading for a tenth annual gain, the longest winning streak since at least 1920 in London. Also, the November contract for silver settled at its highest level in 30 years, up 5.4% at \$28.9 on Comex.

Source: The Wall Street Journal, Bloomberg



# 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								
<b>Africa</b>													
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
<b>Middle East</b>													
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								
<b>Central &amp; Eastern Europe</b>													
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	03-Nov-10	No change	14-Dec-10
Eurozone	Refi Rate	1.00	04-Nov-10	No change	02-Dec-10
UK	Bank Rate	0.50	04-Nov-10	No change	09-Dec-10
Japan	O/N Call Rate	0-0.10	28-Oct-10	No change	05-Nov-10
Australia	Cash Rate	4.75	02-Nov-10	Raise 25bps	07-Dec-10
New Zealand	Cash Rate	3.00	28-Oct-10	No change	09-Dec-10
Switzerland	3 month Libor target	0.25	16-Sep-10	No change	16-Dec-10
Canada	Overnight rate	1.00	19-Oct-10	Raise 25bps	07-Dec-10
<b>Emerging Markets</b>					
China	One-year lending rate	5.56	19-Oct-10	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	03-Nov-10	No change	14-Dec-10
Taiwan	Discount Rate	1.50	30-Sep-10	Raise 12.5bps	23-Dec-10
South Korea	Base Rate	2.25	14-Oct-10	No change	16-Nov-10
Malaysia	O/N Policy Rate	2.75	02-Sep-10	No change	12-Nov-10
Thailand	1D Repo	1.75	20-Oct-10	No change	01-Dec-10
India	Reverse repo rate	6.25	02-Nov-10	Raise 25bps	16-Dec-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	14-Oct-10	No change	11-Nov-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	Nov-10
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	15-Oct-10	No change	25-Nov-10
Brazil	Selic Rate	10.75	20-Oct-10	No change	08-Dec-10
Armenia	Refi Rate	7.25	01-Nov-10	No change	N/A
Romania	Policy Rate	6.25	02-Nov-10	No change	N/A
Bulgaria	Base Interest	0.17	01-Nov-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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