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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Banks need €173bn to meet new capital ratio

The Basel Committee on Banking Supervision's assessment of the impact of the new capital adequacy standards and the Basel III capital and liquidity proposals on 263 banks indicated that the average common equity Tier 1 capital ratio (CET1) is 5.7% for Group 1 banks and 7.8% for Group 2 banks compared with the new minimum requirement of 4.5%. Group 1 includes 94 banks that have Tier 1 capital in excess of €3bn, are well diversified and are internationally active; while Group 2 includes 169 banks that do not meet these criteria. It estimated the additional capital needs of Group 1 banks to meet the new 4.5% CET1 ratio at €165bn and for Group 2 banks at €8bn. Further, the Committee estimated that Group 1 and Group 2 banks would have had a capital shortfall of €577bn and €25bn, respectively, at the end of 2009 under the new rules. Further, it said that the average Liquidity Coverage Ratio was 83% for Group 1 banks and 98% for Group 2 banks, while the average Net Stable Funding Ratio was 93% for Group 1 banks and 103% for Group 2 banks. Banks have until 2015 to meet the LCR standard and until 2018 to meet the NSFR standard. The LCR and NSFR are two quantitative tests that must be met at all times to ensure short- and long-term prudent financial management.

Source: Bank for International Settlements

EMERGING MARKETS

Developing economies affected by drop in capital inflows

The World Bank estimated that net global capital flows to developing countries reached $598bn in 2009, constituting a decline of 20% from $744bn in 2008 and equivalent to 3.7% of gross national income (GNI) relative to 4.5% of GNI a year earlier. It said such inflows were equivalent to 54% of the 2007 peak of $1,110bn, reflecting the direct impact of the financial crisis on developing countries. It said global private debt and equity flows declined by 27% in 2009 despite a rebound in bond issuance, portfolio equity flows, and mostly trade-related short-term debt flows. Further, net debt flows from private creditors dropped by 70% to $59bn in 2009, driven by the collapse in medium-term commercial bank lending to public and private borrowers. Also, global FDI inflows fell by 40% to $354bn, their sharpest drop in 20 years. The World Bank noted that net capital inflows from official creditors increased by 50% to $171bn in 2009, reflecting increased support to developing countries during the crisis. It added that this was driven by a 61% rise in new loans extended by international financial institutions to $98bn during the year. It said Europe & Central Asia has been the most affected region, as debt and equity fell from $411bn in 2007, or 15.8% of GNI, to $90bn or 3.6% of GNI. It was followed by Latin America & the Caribbean with a 6% drop to $167bn in 2009. In parallel, net capital inflows rose by 33% to $28bn in the Middle East & North Africa, driven by new official and private borrowing. It was followed by South Asia with a rise of 26% to $78bn, primarily because of a $37bn turnaround in portfolio equity flows, Sub-Saharan Africa with a 16% increase to $45bn, and East Asia & Pacific with a 4% rise to $191bn.

Source: World Bank

MENA

Equity markets up 12% in 2010

Arab stock markets increased by 12.2% and GCC markets grew by 12.7% in 2010; while they rose by 4.3% and 4.4%, respectively, in December 2010. Activity on the Doha exchange increased by 24.8% in 2010 and posted the best performance among Arab markets during the year. It was followed by the Casablanca equity market with a 21% improvement, the Tunis stock exchange with a 17.8% growth, the Egyptian stock market with a 15% increase, the Saudi equity market with an 8.2% rise, the Muscat bourse with a 6.1% growth and the Iraqi stock exchange with a 0.1% increase. In parallel, the Dubai financial market dropped by 9.6% in 2010, posting the worst performance among Arab stock markets. It was followed by the Amman stock exchange with a 6.3% decline, the Beirut Stock Exchange with a 5.8% downturn, the Bahrain stock market with a 1.8% drop, the Abu Dhabi market with a 0.9% contraction, and the Kuwait bourse and the Palestine equity market with a 0.7% decrease each. In comparison, emerging market equities rose by 17.7% and global equities increased by 11.6% in 2010. They improved by 7.2% and 7.4%, respectively, in December 2010.

Source: Local stock markets, Byblos Research

SAUDI ARABIA

Government unveils expansionary 2011 budget

The government's budget for 2011 shows revenues of SAR 540bn, constituting an increase of 15% from budgeted 2010 figures and relative to SAR735bn in actual results. The government expected oil revenues to rise by 13% to SAR 452bn and for non-oil income to increase by 26% to SAR 88bn. However, actual oil and non-oil income rose by 62.5% and 21.4%, respectively, from budgeted figures in 2010. In parallel, the budget projected total expenditures at SAR 580bn, up 7.4% from the 2010 budget and compared to SAR 626bn in actual spending last year. As a result, the fiscal balance is expected to post a deficit of SAR 40bn based on a conservative oil price assumption of $55 per barrel. The budget projects a deficit equivalent to 2.2% of GDP compared to a projected deficit of 4.2% of GDP in 2010 and a realized surplus of 6.5% of GDP last year. The budget allocates 26% of spending to education, the most important spending component. Also, health and social services account for 12% of the new expenditures; while transport and telecommunications represent 4%, and water, agriculture and infrastructure account for 9% of the total.

Source:Institute of International Finance, JP Morgan

POLITICAL RISK OVERVIEW - DECEMBER 2010

DEM REP CONGO

The Democratic Republic of Congo political scene is dominated by developments and coalitions related to the 2011 elections. The former opposition leader of Union for the Democracy and Social Progress Etienne Tshisekedi returned from exile, while the former National Assembly President Vital Kamerhe officially announced the creation of Union pour la Nation Congolaise party, splitting from President Jospeh Kabila's political party and showing intention of running for elections. During an unofficial campaign in Kivus, a confrontation between Kamerhe's supporters and the police left 20 people wounded.

EGYPT

The ruling National Democratic Party (NDP) won 83% of seats in the parliamentary election following the run-off on December 5, where the Muslim Brotherhood and Wafd parties boycotted the second round over alleged massive vote-rigging. Protests carried on for weeks, during which opposition and rights groups called for results to be annulled. Gamal Mubarak, son of the President, stated that the presidential election will be held on September 2011 and that the NDP will meet in July to choose the candidates. Authorities charged an Egyptian businessman of being an Israeli spy, trying to recruit operatives working for telecom companies in the region. Security forces uncovered weapons stockpiles in the Sinai Peninsula, including anti-aircraft missiles bound for Gaza strip. During a suspected suicide bombing of Coptic Christian church in Alexandria on January 1, 21 people were killed and more than 90 were injured. The police clashed with Christian protestors in Cairo the next day.

IRAN

The two-day nuclear talks held in Geneva on December 6 and 7 between Iran and the P5+1 ended with an agreement meeting in Istanbul in late January. Also, Iranian President Mahmoud Ahmadinejad announced his willingness to discuss possible nuclear fuel swap, whereas he dismissed any possibility of a slowdown in Iran's nuclear program. Further, Ahmadinejad dismissed Iran's current Foreign Minister Manouchehr Mottaki and appointed instead Ali Akbar Salehi, the Head of the Atomic Energy Organization. A suicide bomb attack on a Mosque in Chabahar city, claimed by Sunni Jundullah rebel group, killed 39 people, where the government retaliated by executing around 12 people linked to the Sunni group. The U.S. imposed new sanctions on three companies linked to the Islamic Revolutionary Guards.

IRAQ

The Iraqi Parliament unanimously approved a 42-member government headed by Prime Minister Nouri al-Maliki nine months after the parliamentary elections. It agreed on 29 members of the Cabinet including the Kurdish Hoshiyar Zebari as Foreign Minister and the Sunni leader Rafie al-Esawi as Finance Minister while the remaining 13 positions, mainly the defense, interior and national security posts are still subject to more discussions between the coalition partners. The Parliament also lifted the ban on three Sunni politicians over alleged links with the Baath party. Prime Minister Nour al-Maliki stated that all U.S. troops must leave Iraq by end-2011 and noted that the only way that U.S. soldiers could remain in the country is through negotiation of a new Status of Forces Agreement. The country witnessed a peak in attacks, targeting Shiite pilgrims during Ashura period killing 14 and leaving more than 80 injured, while a series of bombings targeted Christians in Baghdad killing two and injuring 16 people.

MOROCCO

The latest round of UN-mediated talks between the government and the Polisario Front ended in deadlock. The two sides agreed to meet again on January 21 and 22 and in March. The Interior Ministry stated on December 27 that six members of a cyber-terrorist cell were arrested for planning car bomb attacks on national security facilities.

SUDAN

The South Sudan Referendum Commission extended the voter registration period for an extra week to begin on December 1 and end on December 9, while it reported that more than 3.2 million Sudanese registered for the January 9 southern Sudan independence referendum. The UN and other involved parties launched the Satellite Sentinel Project to monitor violence and human rights violations in Sudan as well as the referendum process and its consequences. Also, preparations for the simultaneous referendum on Abyei region are falling behind schedule as different northern and southern Sudanese parties failed to agree over terms of Abyei voting process. The situation in Darfur deteriorated as the Sudanese Armed Forces attacked south Darfur killing 40 rebels and causing 12,000 people to flee the region.

SYRIA

Saudi-Syrian mediation efforts to defuse tension in Lebanon ahead of the Special Tribunal decision on former PM Hariri's murder have continued, but did not produce anything tangible yet. The International Atomic Energy Agency (IAEA) Director General Yukiya Amano said that he had formally urged Damascus to provide inspectors with prompt access to remains of alleged nuclear weapons site al-Kibar. UN Secretary-General Ban Ki-moon urged Israel and Syria to resume peace talks as soon as possible and recommended the UN Disengagement Observer Force mandate to be extended by six months. U.S. President Barack Obama appointed Robert Ford as ambassador to Syria, the first American ambassador since 2005.

YEMEN

The Parliament unilaterally passed electoral reforms on December 11 and announced scheduled 2011 elections to be held on time with or without opposition participation. The opposition threatened to boycott polls and protests on the streets. President Ali Abdullah Saleh set April 27 as a date for parliamentary elections, accepted international monitors and urged the opposition to participate. The army contained southern movement demonstrations in the town of Habilayn, after a member was killed on November 16 by the military. Clashes continued in the north between rebels and pro-government tribesmen, where at least 10 people were killed on December 11th. The government released 426 northern Shiia rebels on December 30 as part of the February peace deal. Al-Qaeda in the Arab Peninsula continued attacks on security forces in the south including the killing of two soldiers in Zinjibar.

Source: International Crisis Group

OUTLOOK

EMERGING MARKETS

Emerging economies to account for 55% of global construction by 2020

Oxford Economics projected the size of the global construction market at $12.7 trillion in 2020, constituting a growth rate of 70% from $7.5 trillion in 2010. Further, it estimated the market to be equivalent to 14.6% of global GDP by 2020 relative to 13.4% of GDP currently. It forecast the construction market in emerging economies to more than double in size over the decade, growing by an estimated 110% to reach a $7 trillion or 17.2% of GDP in 2020. In parallel, it said developed countries' construction markets will grow by just 35% from $4.2 trillion currently to an estimated $5.7 trillion in 2020. As a result, emerging markets will account for 55% of the global construction market by the end of the decade, up from 35% in 2005; while developed countries' share will decline from 65% in 2005 to 45% in 2020. It forecast that infrastructure will help drive construction growth in emerging markets as countries upgrade their transport systems, utilities and buildings. It estimated that infrastructure construction in emerging markets will grow by 128% over the current decade compared with just an 18% growth in developed countries. It also expected non-residential construction to grow by almost 100% in emerging markets. It noted that the downturn in the global construction industry from 2007 to 2009 has hit hard developed economies, as annual construction output contracted by about $650bn, while most emerging markets have simply slowed down from an annual growth rate of 11% in 2006 to a modest growth of 0.6% in 2009.

Oxford Economics noted that the world's top 10 construction markets by size today will change over the 2010-2020 period, as growth in emerging markets such as BRIC countries outpace developed countries. It noted that Nigeria, India, China, Vietnam and Russia will be the fastest growing construction markets over the covered period. It projected the growth of the construction industry in Asia-Pacific at 125% between 2009 and 2020, and that China will overtake the U.S. as the largest construction market globally to reach $2.4 trillion in 2020, equivalent to 19% of global construction output at 2008 prices and exchange rates.

Source: Oxford Economics, Global Construction Perspectives

MENA

Consolidation and slower revenues to be key trend in region's telecom sector in 2011

Fitch Ratings expected the telecommunications market in the Middle East & North Africa to undergo significant consolidation in 2011. It attributed this trend to limited growth prospects in most of the bigger markets, falling EBITDA margins that will come under further pressure due to possible tighter regulation and increased competition, and cash rich players that may feel the pressure to use this cash for M&As, in addition to the large asset sales that are on track for completion this year. It noted, however, that political and regulatory hurdles still need to be cleared due to the region's sensitive internal balances, before the number of operators in the region is reduced to a few in the next three years.

In parallel, Fitch expected slower growth in 2011 for the region's telecom sector as markets mature and competition increases. It projected the sector's aggregate revenues at $16.7bn in 2011, constituting an annual increase of 3.3% compared to revenue growth of 10.4% in 2009 and 6.2% in 2010. Further, it forecast EBITDA margins to decline to 51.3% in 2011 from 55.6% in 2010 and 59% in 2009. It said that certain markets such as Kuwait, Qatar, and Bahrain remain highly competitive, while Saudi Arabia and the UAE may become more competitive due to the maturity level of these markets.

It projected the mobile and fixed data traffic in the MENA region to continue to grow at double-digit rates in each of 2011and 2012, which may offset some of the pressure on margins. Further, mobile broadband may offset some of the loss in voice average revenues per user (ARPUs) in the long term. Fitch noted that most operators in the region are owned and controlled by the state, which reduces regulatory risks over the short term. It also expected the operators' leverage and liquidity profiles to remain relatively low versus West European peers, and for the leverage metrics of leading operators to increase in 2011 and 2012 due to new acquisitions and investments.

Source: Fitch Ratings

QATAR

Risks to World Cup positive impact include higher costs, lower surpluses and reputational risks

Standard & Poor's indicated that the decision by FIFA to award the 2022 World Cup to Qatar will have a significant impact on the country's economic and financial future. It anticipated that Qatar will aim to raise the level of public and private investment in infrastructure, real estate and tourism, and estimated additional government infrastructure spending for the World Cup at about $64bn, or 47% of 2010 GDP.

The agency did not anticipate any change in Qatar's sovereign ratings over the near term, as 2022 is much further into the future than the horizon for its 'stable' outlook. Further, it did not foresee a significant increase in the level of Qatar's sovereign debt, and expected most of the infrastructure to be financed via revenues from the oil and gas sectors, which could lead to a lower surplus in the government's budget at around 7% of GDP in 2011-2013. It noted the possibility of additional moderate borrowing, such as the $3.5bn in government-guaranteed bonds issued earlier this year by a subsidiary of the Qatar Investment Authority to finance large-scale real estate projects. In addition, it estimated that the government will use its substantial assets, while the private sector could be asked to play a bigger role, notably in hotel construction and real-estate.

S&P cautioned, however, about several downside risks. It said the investment costs in preparation for the World Cup could increase substantially compared to the original financial outlay. It further identified a potential reputational risk in case the World Cup becomes beset with logistical problems. It said that in this case, Qatar could miss an opportunity to present itself to the world as a destination for tourism and investment, which could hamper the country's economic diversification prospects.

Source: Standard & Poor's

ECONOMY & TRADE

SYRIA

Government authorizes foreign reinsurance brokers to operate in the country

The Ministry of Finance issued a decree authorizing foreign reinsurance brokers to operate in Syria and to open branches in the country. The decree provides three options for foreign reinsurance brokers. The first option consists of registering the broker with the Syrian Insurance Supervisory Commission (SISC) without having to open a branch in the country. The second option allows the broker to register with the SISC after receiving authorization to open a local branch; while the third option consists of establishing a Syrian reinsurance broker. The decree set the capital of a foreign reinsurance broker at $1m and for a Syrian broker at SP50m. The decree stipulates that the founders should own no less than 25% of the broker’s capital, that insurance and reinsurance firms should not own any shares in the firm, that the share of founding corporations should not exceed 40%, and that individual shareholders should not hold more than 5% of the broker's share capital. There are 12 private insurance firms and one state firm operating in Syria. Insurance premiums generated in Syria totaled $315m in the first 9 months of 2010, constituting an increase of 4% from the same period of the previous year.

Source: Syria News

SUDAN

Government takes austerity measures to reduce public spending

The National Assembly ratified a plan submitted by the Cabinet that aims to reduce government spending, restrict imports, contain the budget deficit and raise the level of foreign currency reserves in light of mounting difficulties in financing the country's fiscal deficit. The government lifted subsidies on the prices of petroleum products, which would result in a 31% rise in the price of gasoline; a 44% jump in the price of diesel; an 8% increase in the price of cooking gas; and a 44.5% jump in the price of jet fuel. It also raised the price of sugar by 22% per 50 kilograms. The Ministry of Finance & National Economy indicated that the removal of subsidies to fuel and sugar prices will save SP2.1bn to the Treasury, adding that additional price increases will follow. It pointed out that the government has subsidized the price of petroleum for a long time, which has created a burden on the state’s financial resources. The ministry also announced a 25% cut in salary for 149 ministerial-level government officials and a 30% reduction in foreign travel for government officials. Other measures include prohibiting the purchase of furniture and vehicles for most ministries unless for extreme necessity, stopping the issuance of building permits for government agencies, reviewing government structure on state and federal levels, and reducing budget of diplomatic missions abroad by 10%. Further, the ministry reiterated that the privatization of state-owned assets will proceed as planned, while ministries and agencies will be required to transfer to the treasury any hard currency in their possession within a week of receiving it. It will also ban the import of several items and increase duties on others.

Source: Thomson Reuters, Bloomberg

ARMENIA

Inflation averages 8.2% in 2010

Figures issued by the National Statistical Service indicate that Armenia's inflation rate reached 9.4% in December compared to 7.5% in November and 6.5% in December 2009. It added that inflation increased for a third consecutive month in December, and that the average inflation rate was 8.2% in 2010. Consumer prices grew by 1.8% month-to-month in December compared to a 1.6% rise in November. Also, food prices grew by 3.7% month-on-month, taking the annual rate to 15.2%; while food inflation rate for the 12-month period ending December was 9.4%. Prices of consumer goods increased by 11.9% annually and by 2.7% monthly. Prices of alcoholic beverages and tobacco recorded a 1.7% growth from the previous month. Further, non-food prices grew by 4.6% year-on-year, while the annual growth rate of the cost of services was 4.2%.

Source: National Statistical Service

KAZAKHSTAN

Rating agencies upgrade sovereign ratings and outlook

Standard & Poor's raised Kazakhstan's long-term foreign and local currency sovereign credit ratings by one notch to 'BBB' and 'BBB+' from 'BBB-' and 'BBB', respectively, with a 'stable' outlook. It also raised the short-term local currency rating to 'A-2' from 'A-3' and revised the transfer and convertibility assessment to 'BBB+'. It attributed the upgrade to the resiliency of the government's balance sheet after several bank failures and terms of trade shock in 2008 and 2009. It said the government remains a net fiscal creditor at about 19% of GDP, and that the robust economic recovery is likely to lead the government's fiscal position back to balance by 2013. It noted that the economy's improving external position increased monetary and fiscal reserves by $4.2bn and $5.9bn in 2010, respectively, boosting the country's external liquid assets to nearly 8% of GDP. S&P expected that the availability of external financing for the banking sector to remain modest over the next few years due to write-offs of nearly 6% of GDP worth of banks' external debt. In parallel, Fitch Ratings revised the outlooks on Kazakhstan's Long-term foreign and local currency Issuer Default Ratings to 'positive' from 'stable' and affirmed the ratings at 'BBB-' and 'BBB', respectively. It attributed the outlook revision to the continuing recovery from the severe impact of the global financial crisis and the strengthening of the sovereign's balance sheet.

Source: Standard & Poor's, Fitch Ratings

GHANA

Accra gets $38m loan for oil & gas management

The World Bank approved a $38m loan to Ghana for the implementation of an Oil & Gas Capacity Building Project. The project, which has become necessary following Ghana’s discovery of oil and gas in commercial quantities, aims to help improve public management and regulatory capacity and enhance sector transparency by strengthening the institutions managing and monitoring the sector. It also aims to support the development of related domestic technical and professional skills.

Source: World Bank

BANKING

UAE

Central Bank asks banks to raise provisions against Saudi groups

The UAE Central Bank asked banks with exposure to troubled Saudi conglomerates Saad Group and Ahmed Hamad Al Gosaibi Bros. & Co. (AHAB) to increase their provisions to 80% from 50%. In a circular addressed to banks in the UAE, the Central Bank said banks and finance companies should increase their specific funded and unfunded provisions made against exposures to Al Gosaibi and Saad Groups to 80% of such exposures. It added that the provisions must be made on or before December 31, 2010; and that Central Bank approval of lenders' 2010 annual audited accounts will be subject to making these provisions. The Central Bank also asked banks to maintain their 100% provisions against Bahrain-based lenders Awal Bank and The International Banking Corp., or TIBC, which are units of Saad Group and AHAB, respectively. The circular did not require banks in the UAE to take provisions against Dubai flagship conglomerate Dubai World or other Dubai government-related entities that are currently working on restructuring their debts.

Source: Dow Jones Newswires

SAUDI ARABIA

Lending remains subdued

Figures issued by the Saudi Monetary Agency (SAMA) show that total assets of commercial banks reached SAR 1,402bn at the end of November, constituting a 2% increase month-on-month and a 2.3% growth from end-2009; while lending to the private sector remained almost flat in November dropping by 0.2% month-on-month but rising by 5.7% from end-2009 to SAR 776bn. Further, customer deposits totaled SAR 965bn at end-November, increasing by 2.1% month-on-month and by 2.6% from end-2009. The loans-to-deposits ratio was 80.5% at end-November relative to 78.1% at the end of 2009. In parallel, Saudi banks' aggregate net profits reached SAR 24.3bn in the first 11 months of the year and reached SAR 2.2bn in November relative to SAR 2.4bn in October. The November profits decrease is attributed to higher provisioning charges relative to the previous month as well as to high pressure on banks' gross revenues. The sector's profits are expected to remain subdued in the near term as banks clean their books as advised by SAMA.

Source: Shuaa Capital

QATAR

Public sector continues to drive banking activity

Figures issued by the Central Bank of Qatar show that total assets reached QAR 564bn at the end of November, up by 4.4% month-on-month and constituting a rise of 20% from end-2009. Lending reached QAR 318bn, up by 1.3% month-on-month and by 17% from end-2009. Loan provisioning rose by 0.5% from October to QAR 3.5bn, with specific provisions up 0.5% month-on-month to QAR 3.5bn, while general provisions rose by 3% month-on-month to QAR 6.9bn. Credit to the economy is still driven almost exclusively by the public sector borrowing that grew by 4.2% month-on-month, while the private sector lending contracted by 0.4% in November. Public sector lending accounts for 34% of total credit facilities. In parallel, customer deposits totaled QAR 306.5bn at end-November, increasing by 24.2% in the first 11 months of the year but declining by 0.5% month-on-month as public sector deposits contracted by 53% in November. The loans-to-deposits ratio reached 104% in November compared to 102 % in the previous month.

Source: Shuaa Capital

LIBYA

ABC acquires stake in Libyan bank, ratings downgraded

Fitch Ratings downgraded the Arab Banking Corporation's (ABC) Long-term foreign currency Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and Short-term foreign currency IDR to 'F3' from 'F2', with a 'stable' outlook. It also downgraded ABC's senior unsecured debt to 'BBB' from 'BBB+' and subordinated debt to 'BBB-' from 'BBB', and affirmed the Support Rating at '2'. It attributed the downgrade to the decision by the Central Bank of Libya (CBL) to increase its stake in ABC to 59.4% from 41.7% by acquiring the entire stake held by the Abu Dhabi Investment Authority (ADIA). Last March, the CBL increased its stake in ABC to 41.7%, from 29.5% when it took up ADIA's rights in ABC's $1.1bn capital issue. Fitch said the ratings reflect its view that ABC has a high probability of support from its main shareholders if needed, given their commitment to recent rights issues. In parallel, ABC announced that it has acquired a 49% stake in the Libya-based Mediterranean Bank. ABC will inject about $60m into the bank's capital in exchange for the 49% stake and will manage the bank on a day-to-day basis.

Source: Fitch Ratings, Arab Banking Corporation

TURKEY

Ratings on leading banks upgraded

Capital Intelligence raised the Long-term Foreign Currency rating to 'BB' from 'BB-' and affirmed the short-term foreign currency rating at 'B' of Türkiye Is Bankasi, Türkiye Cumhuriyeti Ziraat Bankasi, Türkiye Garanti Bankasi, Akbank, Yapi ve Kredi Bankasi, Türkiye Halk Bankasi and Finansbank. It attributed the decision to the upgrade of Turkey's sovereign ratings last May and added that the ratings carry a 'stable' outlook. The upgraded institutions are 7 of the top 8 banks in the country. The agency said Is Bankasi’s ratings reflect the full coverage of its NPLs, a balanced and diversified loan portfolio, strong levels of non-interest income and a liquid balance sheet. It noted that Ziraat Bankasi has the lowest NPLs ratio among rated banks, and coverage by loan-loss reserves is more than full. It also has the best liquidity profile among its peers due to the low level of loans on its balance sheet, the best cost-to-income ratio and low necessity for loan-loss provisioning. CI said the ratings on Garanti reflect the bank’s strong capital ratios, its strength in most aspects of profitability, and its maintenance of full coverage of its lower than average NPL portfolio. Further, Akbank's ratings are underpinned by the bank’s strong capital ratios, its improved liquidity, and its maintenance of more than full coverage of its lower than average NPL portfolio. The agency noted that Yapi's ratings reflect rising interest differential, a continually improving cost structure, and growing fee and commission income.

Source: Capital Intelligence

Oil demand to slow in 2011, global production to rise

Oil prices fell for a second day on January 5, as investor enthusiasm for commodities diminished with a stronger dollar, following a sharp year-end increase in raw material prices. U.S. crude for February dropped 20 cents to $89.2 a barrel, after reaching a 27-month high of $92.6 on January 3rd. Global oil consumption rose by nearly 2.4% in 2010, led mainly by the growth in emerging countries, but also by a healthy rebound in OECD consumption. Consumption growth is expected to slow in 2011 owing to somewhat slower real GDP growth in China, slow growth in the European Union and a still-fragile recovery in the US economy. Global crude oil production also increased by 2.4% or 2.1 million barrels per day in 2010. OPEC's production is expected to have risen by 3.3% in 2010 as member states' compliance with the production ceiling fell.
Source: Economist Intelligence Unit, Thomson Reuters

Iraq to tender new power plants

Iraq is expected to invite bids during the year to build three power plants that would increase the country's generation capacity by 1,500 Megawatts. The plants are part of a plan that aims to triple the country power generation capacity to 17,000 Megawatts by 2013 through new power plants. The country's current output is around 6,000 Megawatts and can only meet half of the 12,000 Megawatts domestic demand, which is expected to grow by 8% in 2012.
Source: Bloomberg

Iraq plans fourth bidding round for gas exploration

Iraqi government officials stated that the country is considering holding a fourth bidding round for international energy firms interested in gas exploration contracts. Following the two oil bidding rounds in 2009, Iraq will initially offer 12 exploration blocs and will not engage in further explorations of oil fields. Current oil production exceeds 2.7 million barrels per day, the first time it has reached that level in 20 years.
Source: Thomson Reuters

Oil subsidies cost Syrian Treasury $3bn in 2010

The cost of subsidizing gas oil and other oil derivatives in Syria reached SYP142bn or $3bn in 2010, of which SYP75bn in fuel oil subsidies, SYP65bn in gas oil subsidies and SYP2bn in domestic gas subsidies. The cost of subsidies was SYP14bn in 2009.
Source: Al-Thawra

Saudi oil exports rise 24.6% in 2010

Saudi Arabia's oil exports increased 24.6% to SAR762.1bn or $203.2bn in 2010, up from SAR611.5bn or $163.1bn a year earlier, according to the Central Department of Statistics & Information.
Source: Dow Jones Newswires

Algeria's oil and gas revenues up 25% in 2010

Algeria's oil and gas revenues rose 25% year-on-year in 2010 to $55.7bn for a production of 220 million tons of oil and gas. Overall hydrocarbon production registered a slight contraction.
Source: AFP

Base metals: Copper prices to remain on an upward trend in 2011

Copper prices are expected to maintain an upward trend in 2011 due to the ongoing global economic recovery, tightening fundamentals in the copper market, restocking in China, a weak U.S. dollar and high levels of liquidity and risk appetite across financial markets. Prices stand at $3.4 per pound, and are forecast to rise to $3.7 per pound in 2011. With copper market fundamentals tightening further in 2012, additional price increases are expected.

Global consumption is projected to grow by 4.9% in 2010 compared to a growth of 3% in 2009, where China and emerging Asian markets continue to be the main drivers for global demand. Consumption growth is forecast to moderate to 3.7% in 2011 and 3% in 2012 as fiscal stimulus is withdrawn in the developed world. Following a contraction of 0.5% in 2009, global refined production is expected to increase to a growth of 4.7% in 2010, with an 11% rise in Chinese production, the main contributing factor. Average head grades at mines across the industry are on a downward trend, and there is a shortage of new mines to offset declining production from aging mines.
Source: Economist Intelligence Unit

Copper Consumption Outlook

(kilo tons)	2008	2009	2010f	2011f	2012f
China	5,149	7,144	7,501	7,951	8,269
EU	3,860	3,204	3,329	3,389	3,439
US	1,945	1,673	1,715	1,749	1,777
Japan	1,184	947	1,014	1,029	1,049
South Korea	852	870	896	914	937
Latin America	582	524	566	583	600
Taiwan	598	544	571	600	630
Others	3,840	3,648	3,871	3,967	4,086
World Total	**18,010**	**18,554**	**19,462**	**20,181**	**20,788**

Source: Economist Intelligence Unit

Precious metals: Gold to continue its uptrend in 2011 as the U.S. economy struggles

Gold prices for immediate delivery fluctuated on January 5 between a 0.2% loss earlier in the day to $1,378.2 an ounce and a 0.3% gain to $1,380.34 an ounce. The January 4 decrease was the highest since November 12 and was mainly driven by speculation that recovering economies would limit the demand for investment. Gold for February delivery rose by 0.1% to $1,380.20 on the Comex in New York. Analysts expect gold prices to continue its upward trend since the U.S. economy is not in a full recovery and interest rates levels remain low. Gold bullion is expected to average $1,502 an ounce in 2011 and reach a peak of $1,780.

Gold assets in exchange-traded products decreased by 3.95 metric tons to 2,094.8 tons on January 4 after reaching a record high of 2,114.6 on December 20th. Silver for immediate delivery dropped by 1.6% to $29.27 an ounce while it dropped by 3.1% on December 4, the steepest decrease in four weeks. Palladium fell by 3.2% to $753.8 an ounce, and is considered as the best performing precious metal in 2010 with a 97% increase during the year. Platinum dropped by 2.6% to $1,712.8 an ounce.
Source: 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								
Africa													
Algeria	- -	- -	- -	- -	BB Stable	-7.9	20.0	2.7	5.9	3.0	-	-2.4	0.9
Angola	B+ Stable	B1 Positive	B+ Positive	- -	B Stable	-1.9	20.2	21.2	39.7	9.5	116.6	-9.5	5.0
Egypt	BB+ Stable	Ba1 Stable	BB+ Stable	BBB- Stable	BB Stable	-7.0	73.2	16.8	43.9	10.2	107.7	-2.4	3.6
Ethiopia	-	-	-	-	CCC Stable	-2.3	-	12.2	220.5	-	-	-6.7	-
Ghana	B Stable	- -	B+ Negative	- -	B Stable	-9.8	-	34.5	94.7	-	-	-8.3	
Ivory Coast	- -	- -	- -	- -	CCC Stable	-1.6	-	49.4	107.6	-	-	7.3	-
Libya	A- Stable	- -	BBB+ Stable	- -	BB Stable	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- Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-3.1	47.2	26.8	95.5	8.6	113.7	-5.0	1.5
Nigeria	B+ Stable	- -	BB- Negative	- -	B Stable	-4.4	12.3	5.5	18.5	0.7	-	12.4	3.1
Sudan	- -	- -	- -	- -	C Stable	-2.6	105.3	66.3	482.4	3.6	-	-5.2	-
Tunisia	BBB Stable	Baa2 -	BBB Stable	BBB Stable	BB Stable	-1.9	46.7	55.4	105.6	15.8	208.3	-2.8	3.9
Middle East													
Bahrain	A Stable	A3 Stable	A Stable	A Stable	BBB Stable	-5.2	24.2	169.6	246.4	7.2	991.9	1.4	0.8
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	-0.9	17.0	3.5	13.4	3.2	-	0.1	0.25
Iraq	- -	- -	- -	- -	CC Stable	-4.6	-	97.7	178.7	2.2	165.3	2.1	1.4
Jordan	BB Stable	Ba2 -	- -	BB Stable	B Stable	-8.9	63.5	63.1	135.2	4.6	133.1	-5.5	10.1
Kuwait	AA- Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	15.4	6.9	20.7	38.8	4.0	133.0	25.3	-2.6
Lebanon	B Positive	B1	B Stable	B Stable	CCC Stable	-8.6	136.3	100.6	738.9	18.5	135.3	-10.8	8.0
Oman	A Stable	A2 -	- -	A Stable	A Stable	-9.1	6.5	28.1	46.9	-	109.1	0.6	4.3
Qatar	AA- Stable	Aa2 Stable	- -	AA- Stable	A Stable	10.4	32.4	74.9	202.7	15.2	412.0	14.3	8.8
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	BBB Stable	1.1	13.2	22.5	42.7	2.7	20.2	4.9	5.4
Syria	- -	- -	- -	BB- Stable	B Stable	-9.4	30.1	15.0	63.6	1.0	43.3	-0.6	2.6
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	0.4	21.3	61.8	74.1	7.9	359.0	-2.6	-0.4
Yemen	- -	- -	- -	B Stable	CC Stable	-10.3	-	23.6	113.8	-	-	-8.2	

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	S&P	Moody's	Fitch	CI	EIU								
Central & Eastern Europe													
Armenia	-	Ba2	BB-	-	-								
	-	-	Stable	-	-	-8.2	40.4	55.7	654.2	-	248.4	-15.4	8.0
Bulgaria	BBB	Baa3	BBB-	-	BB								
	Stable	Stable	Stable	-	Stable	-3.8	14.8	77.3	159.8	19.8	220.1	-9.4	9.8
Kazakhstan	BBB	Baa2	BBB-	-	BB								
	Stable	-	Stable	-	Stable	-3.9	9.3	94.7	230.8	40.1	553.7	-2.9	8.1
Romania	BB+	Baa3	BB+	BBB-	BB								
	Negative	-	Stable	Negative	Stable	-8.3	23.7	68.1	226.6	29.9	279.7	-4.5	3.8
Russia	BBB	Baa1	BBB	-	BBB								
	Stable	Positive	Stable	-	Stable	-5.7	7.1	38.3	136.3	11.6	110.9	4.0	-0.6
Turkey	BB	Ba2	BB+	BB	B								
	Positive	Positive	Stable	Stable	Stable	-5.5	45.5	45.1	194.5	45.1	400.1	-2.8	1.2
Ukraine	B+	B1	B	-	CCC								
	Stable	Positive	Negative	-	Stable	-6.4	30.2	88.6	191.1	43.9	407.9	-1.5	4.0

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	14-Dec-10	No change	26-Jan-11
Eurozone	Refi Rate	1.00	02-Dec-10	No change	13-Jan-11
UK	Bank Rate	0.50	09-Dec-10	No change	13-Jan-11
Japan	O/N Call Rate	0-0.10	05-Nov-10	No change	21-Dec-10
Australia	Cash Rate	4.75	07-Dec-10	No change	01-Feb-11
New Zealand	Cash Rate	3.00	09-Dec-10	No change	27-Jan-11
Switzerland	3 month Libor target	0.25	16-Dec-10	No change	17-Mar-11
Canada	Overnight rate	1.00	07-Dec-10	No change	18-Jan-11
Emerging Markets					
China	One-year lending rate	5.56	19-Oct-10	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	14-Dec-10	No change	26-Jan-11
Taiwan	Discount Rate	1.50	30-Sep-10	Raise 12.5bps	30-Dec-10
South Korea	Base Rate	2.50	09-Dec-10	No change	13-Jan-11
Malaysia	O/N Policy Rate	2.75	12-Nov-10	No change	27-Jan-11
Thailand	1D Repo	2.00	01-Dec-10	Raise 25bps	12-Jan-11
India	Reverse repo rate	6.25	16-Dec-10	No change	25-Jan-11
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 50bps	N/A
Saudi Arabia	Repo rate	0.25	16-Jun-09	Cut 25bps	N/A
Egypt	Overnight Deposit	8.25	24-Dec-09	No change	N/A
Turkey	Base Rate	6.50	16-Dec-10	Cut 50bps	13-Jan-11
South Africa	Repo rate	5.50	18-Nov-10	Cut 50bps	Jan-11
Kenya	Central Bank Rate	6.00	25-Nov-10	No change	Jan-11
Nigeria	Monetary Policy Rate	6.25	23-Nov-10	No change	Jan-11
Ghana	Prime Rate	13.50	10-Dec-10	No change	Feb-11
Angola	Rediscount rate	30.00	16-Jun-10	No change	N/A
Mexico	Target Rate	4.50	25-Nov-10	No change	21-Jan-11
Brazil	Selic Rate	10.75	08-Dec-10	No change	19-Jan-11
Armenia	Refi Rate	7.25	08-Dec-10	No change	N/A
Romania	Policy Rate	6.25	05-May-10	No change	N/A
Bulgaria	Base Interest	0.18	01-Jan-10	Raise 1bps	N/A
Kazakhstan	Refi Rate	7.00	01-Jan-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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Karada - Salman Faeq Street
Facing Al Sheruk Building
P.O.Box: 3085 Al Elweyah - Iraq
Phone: (+ 964) 1 7177493
(+ 964) 1 7177294
E-mail: aabdelkader@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+ 971) 2 6338400
E-mail: byblosbankuae@byblosbank.com

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+ 374) 10 530 362
Fax: (+ 374) 10 535 296

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433 / 4 / 5
Fax: (+ 357) 25 367139
E-mail: bybloscyprus@byblosbank.com

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+32) 2 551 00 20
Fax: (+32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+44) 207 493 35 37
Fax: (+44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+249) 183 566 444
Fax: (+249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC
4, Avenue du Marche
C/Gombe, Kinshasa, Democratic Republic of Congo
Phone: (+ 243) 817 070701
(+ 243) 991 009001
E-mail: melamm@byblosbank.com.lb