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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

SYRIA

Syria to pay 35% of debt to Romania

Syria has pledged to repay 35% of its €118 million debt to Romania that was contracted in the 1980s. A memorandum was signed between the two sides whereby Damascus will pay its dues over 8 payments during a 4-year period. The deal with Romania signals a solution to the last outstanding external debt file Syria has with Eastern bloc countries. Syria signed in recent years a number of agreements with its creditors from the former Soviet bloc to reschedule its debt and pay back arrears. Russia, Syria's largest creditor, agreed in 2005 to write off 73% of Syria's $14.5 billion debt and to reschedule the balance. The rescheduling deals generally stipulate for payments to be made in euro, as Syria has diversified away from the US dollar following the imposition of US sanctions.
Source: Al-Hayat

IRAN

US pushes Europe on Iran sanctions

The US government is putting more pressure on Europe to extend financial sanctions to punish Iran for stepping up its nuclear program. The effort comes amid indications that US-only financial sanctions are having a bigger economic impact than expected. The US Treasury has tried to persuade the European Union to follow a US decision this month to impose sanctions on Bank Sepah, a state-owned Iranian bank, which it said had a role in financing acquisitions for Iran's missile program. But the EU is reluctant to take such a step, with officials saying it is legally difficult to impose sanctions on institutions or individuals that are not explicitly named by a UN resolution. Some European banks, including HSBC and ABN Amro, have curbed dealings with Iran. Commerzbank of Germany, which has lead managed international bonds for Iran, has said it will stop handling dollar transactions for Tehran. Unofficial estimates suggest Iranian deposits held in euros rose by 50% in the year to September 2006 to $15bn. Although the total deposits in all currencies rose from $25bn at the end of September 2005 to more than $30bn, the amount held in dollars was almost unchanged at about $13bn.
Source: Financial Times

Tehran changes tune on UN inspectors

Iran said on Tuesday it was still cooperating with the IAEA, the UN nuclear watchdog, despite announcing a day earlier that it was barring 38 inspectors from working in the country. Iran, accused by the West of seeking atomic bombs but insisting its plans are peaceful, barred the inspectors from the International Atomic Energy Agency after Parliament demanded retaliation for UN sanctions imposed on Tehran last month.

Government spokesman Gholamhossein Elham dismissed sanctions imposed by the Security Council, which passed a resolution on December 23 banning transfers of sensitive materials and know-how to Iran's nuclear and missile programs over its refusal to stop enriching uranium. The United States has ruled out talks with Iran on the nuclear issue until the Islamic Republic ends its enrichment work.
Source: Reuters

UKRAINE

Repeal of presidential veto

President Yushchenko suffered another major blow as parliament repealed his veto of a law shifting significant power from the presidency to the government headed by his arch-rival, PM Yanukovich. The move is considered to have broken a deal that brought the PM to power last August. Also surprising is support for the repeal from Yulia Tymoshenko, an erstwhile Yushchenko ally, in return for getting government support for two bills of her own. Systemic political risk is expected to remain high as long as short term individual interests dominate legislation, resulting in policy discontinuity.
Source: Euler Hermes

EU approves start of talks with Ukraine

The EU approved the start of talks with Ukraine on an "enhanced relationship" but failed to acknowledge a possibility of its future EU membership. As a way to meet demands from the UK and Poland for a recognition of Ukraine's EU aspirations, the participants agreed to make a reference about this in a separate statement. This statement observed that "a new enhanced agreement shall not prejudge any possible future developments in EU-Ukraine relations." Ukraine has been widely expected to start formal talks with the EU on a free trade zone once its WTO membership is secured. The EU external relations commissioner Ferrero-Waldner said that cooperation in the energy field will be central to the EU's enhanced relationship with Ukraine, a recognition of the country's special role both as a large energy importer and an important transit nation.
Source: Credit Suisse

SUDAN

China puts positive spin on Sudan ties

China defended its economic ties with Sudan ahead of a trip to Africa by President Hu Jintao during which he will visit Khartoum. Zhai Jun, a Chinese foreign ministry official, on Wednesday said "With Sudan we have co-operation in many aspects, including military co-operation. In this, we have nothing to hide." Mr Hu's trip to Khartoum will highlight international disagreement over the handling of the Darfur crisis. China has refused to join western attempts to press Sudan to allow United Nations peacekeepers into the region. Mr Zhai, who visited Sudan recently, said the crisis must be resolved through dialogue and not punitive sanctions advocated by some in the US and Europe, to avoid destabilizing the area. In 2005 China's trade with Sudan accounted for about a tenth of its commerce with the continent but Mr Zhai said trade with Sudan would fall slightly in 2006, as oil imports have slowed. Nearly a third of China's total crude oil imports come from African exporters, with Angola the leading supplier.
Source: Financial Times

OUTLOOK 2007

SYRIA

Dardari forecasts 5.6% GDP growth for 2007

Syria's Gross Domestic Product is expected to grow by 5.6% in 2007 according to Abdallah Dardari, Deputy Prime Minister for Economic Affairs. The figure is slightly higher than the estimate of the Central Bureau of Statistics of 5.2%. The upturn is due to "higher non-oil exports mainly textiles, garments and agricultural products, as well as the stability of the Syrian pound" Mr Dardari added. The development of the banking and insurance sectors and further state and private investment are additional factors in GDP growth. According to the 5-year plan, Syria needs $37 billion in investment in the coming five years to achieve a growth rate of 7% by 2010 and a reduction in unemployment and poverty.
Source: Syria Report

UAE

UAE economy to grow by more than 6% in 2007

The UAE economy will grow by 6.2% in 2007, according to HSBC, a decline from the estimated 9.3% growth experienced in the country last year. The bank predicted that the UAE's annual economic growth rate would slow slightly further in 2008, to an estimated 5.8%. The bank remains bullish on the outlook for the UAE economy for the coming two years, and says that it expects overall real growth to remain high. The increase in the country's real non-oil GDP will be even more marked. Against this backdrop of broad-based growth, HSBC also predicts that the country's annual inflation rate will be 7% this year, dropping to 6.5% in 2008. However, the bank sees the possibility of higher inflation as a real risk, particularly in Dubai. While the country's overall rate of economic growth will slow slightly in the next two years as oil prices ease and production falls, the non-oil sector will continue to expand strongly. The outlook for the UAE and for UAE companies remains good.
Source: AME Info

NIGERIA

Inflation to reach 12% in 2007

CPI inflation picked up to 8.5% in December (year-on-year), compared with 7.8% a month earlier. The increase mainly reflected a rise in the prices of energy, transport and services. Inflation is likely to pick up in the period ahead and average 12% in 2007, as domestic demand remains robust. Pressures on government spending ahead of the April elections may also accentuate inflationary pressures.
Source: Merrill Lynch

TURKEY

Meaningful improvement in 2007

2007 begins with a high perception of political risk and high rates. However, 2007 is likely to end with meaningful improvement on both fronts. Turkey got a palatable (yet not overly positive) result from the EU regarding Cyprus; inflation continues to reassure with moderating expectations and prospects for further declines from April; and the current account looks to have peaked as Turkey is a major beneficiary from falling oil prices. Politics however remain a constraint, at least from a timing perspective. PM Erdogan is not expected to announce his choice for the Presidency until April 16th.
Source: Merrill Lynch

OMAN

Standard & Poor's raises Oman's sovereign credit rating to 'A'

Standard & Poor's has raised Oman's long-term foreign and local currency sovereign credit rating to 'A' from 'A-'. Oman's strong fiscal position and solid external finances were cited as the main reasons. The rating on short-term sovereign credit improved as well to 'A-1' from 'A-2'. The outlook is stable. The government is expected to post a surplus representing 12.7% of GDP in 2006, while the country's net asset position should strengthen to 85% of GDP by the end of 2007, up from 16% in 2000. Net external assets are expected to come in at around 125% of current account receipts by the same time, and GDP per capita to reach $15,000, versus $10,000 as recently as 2004. Unemployment among young Omanis and the country's high dependence on hydrocarbons were nevertheless cited as causing concern.
Source: MENAFN

UKRAINE

Economy to grow by 5% in 2007

The state statistics agency confirmed the government's earlier 7% GDP growth estimate for 2006. The main drivers behind such impressive growth were the high global metal prices, the continued strength of private consumption and a rapid recovery of investment levels. Comparatively, growth in 2005 was only 2.7% year-on-year and the consensus view had been for a further decline in light of the Russian gas price increase. For 2007, growth is expected to moderate close to 5%, as global metal prices subside and social transfers from the budget decrease.
Source: Merrill Lynch

KUWAIT

Kuwait could abandon dollar peg

The Kuwaiti Finance Minister, Bader al-Humaidi, indicated that Kuwait might abandon its dinar peg against the US dollar to reduce losses owing to the dollar's weakness. The minister indicated that Kuwait would move to a trade weighted basket as an interim measure. Kuwait has always been more flexible than the other GCC countries with regards to the currency and such a move would be in line with previous policy.

Until January 2003, the Central Bank maintained the value of the Kuwaiti dinar against a basket of currencies that reflected Kuwait's trade profile, with the US dollar being the dominant currency. However, in preparation for the GCC monetary union planned for 2010, Kuwait formally pegged its currency to the US dollar from early January 2003 at a rate of KWD0.29963:US$, with a ±3.5% fluctuation margin. Since then, Kuwait has revalued the currency peg in order to offset USD weakness. Following a revaluation in May 2006, the KWD pegged at the top end of the 3.5% trading band set in January 2003. The central bank governor cited concerns of imported inflation.
Source: Standard Chartered

GCC

Cancellation of peg will not affect ratings of GCC

Moody's Investors Service said changes in exchange rate policies of Gulf Cooperation Council (GCC) states, including a move away from GCC currencies' peg to US dollar, will not have any significant impact on the sovereign ratings of these countries. According to Moody's analysts, pegging to one currency has benefits in terms of transparency and simplicity and the choice of the US dollar is a natural one given that the bulk GCC's trade is either conducted in dollars or in other currencies pegged to the US dollar.

According to Moody's, the most likely options for GCC are: an upward revaluation within the dollar peg; an upward revaluation and a change of peg, possibly to a trade-weighted currency basket or a free float of the currency, which would likely lead to an appreciation in most cases. This would mean not only of an appreciation of Gulf currencies but also the potential move to a more flexible exchange rate regime. An appreciation of GCC currencies would likely have an overall negative fiscal effect as well as negatively impact the balance of payments.

Despite the potential downside risks of a future change in exchange rate policy, Moody's said that there is no change in their sovereign ratings or its direction because the strong and improving financial strength of GCC governments gives them considerable room for maneuver on the policy front.
Source: Moody's Investor Services

LIBYA

Libya to lay off one-third of public workers to boost private sector

In an effort to boost Libya's private sector and ease budget pressures, Libyan authorities recently revealed plans to lay off more than one-third of the public-sector workforce. Some 400,000 civil servants and state employees will lose their jobs, announced Lybian Prime Minister al-Baghdadi Ali Al-Mahmoudi. He said the public sector workforce is made up of more than one million people, with total salaries of some 4 billion dinars ($3.13 billion) in 2006. The prime minister added that those laid off as part of the plan would be compensated. This week's move to scale down the public sector is part of the larger reform campaign to move towards a more market-based economy by liberalizing its socialist-oriented one. Libya has applied for WTO membership, reduced many subsidies, and announced plans for privatization.
Source: AP

New Cabinet

The General People's Congress (parliament) this week appointed a new cabinet. Although key posts, including PM, remain unchanged, there are new ministers of finance, economy and justice and the cabinet was trimmed by 2 to 17. The changes are not expected to alter policy direction. The economy is undergoing gradual liberalization, support for non-oil sectors, and further diplomatic and investment links with the west.
Source: Euler Hermes

NIGERIA

Positive assessment by the IMF, But risks ahead

The IMF has recently released its updated review of Nigeria's macroeconomic developments and policies, and the IMF's assessment is overall positive. In particular, the government's performance under the IMF-sponsored program has been broadly satisfactory in the past few months. The IMF noted that the government remains committed to the economic reform agenda. Meanwhile, most macroeconomic indicators have improved, including headline inflation, the external position and debt ratios.

The IMF underscored two major sources of risk for the period ahead. These relate to the Niger delta crisis and the upcoming elections in April. In the IMF's view, the elections constitute a risk to the reform efforts and could increase pressure on government spending. At the same time, the need to restore stability in the Delta will likely contribute to an increase in spending as well. Overall, the main challenge for the authorities will be to preserve a relatively prudent fiscal position. According to Merrill Lynch, the current rating of 'BB-' will be seriously at risk if the current sound economic management were to come to a halt after the elections.
Source:Merrill Lynch

BANKING

IRAN

Iranian banks suspend dollar transfers abroad

Iranian banks have decided to suspend their transfers of dollars abroad, because of the sanctions imposed by the US against Iran and the risk that the money transferred could be seized, several large Iranian banks said.

'We received a directive on Monday asking us not to make transfers of dollars to foreign countries any longer,' an official from the Export Development Bank of Iran (EDBI) said on condition of anonymity. This was confirmed by an official from a branch of the Mellat bank, one of the biggest banks in Iran.

Following the Iranian government's refusal to suspend its uranium enrichment program, the US decided to impose financial sanctions against Iran. The US banking authorities have forbidden all transactions in dollars between US entities and two large Iranian banks, Saderat and Sepah. As a result of US pressure, most of the large international banks have ceased all dollar transactions with Iran. Last December, the Iranian government decided to replace the dollar with the euro in its foreign exchange transactions and in its foreign assets.

Source:afxnews

KUWAIT

NBK reports net profit of $ 876 million for 2006

National Bank of Kuwait (NBK), the largest Kuwaiti bank announced net profits of $876 million in 2006, up 23% from last year. NBK also reported an improvement in return on average assets to 3.6% and return on equity to 38.6%. The bank said overall results continued to benefit from a positive economic environment despite some challenges. High oil prices and strong investor confidence have produced unprecedented economic growth in the region.

NBK is pursuing an ambitious expansion strategy in both its domestic market and across the region. During 2006, it increased the number of branches in Kuwait to 55, the largest distribution network in the country. In the last two years, the bank acquired a 20% stake in the International Bank of Qatar and a 75% controlling share in Credit Bank of Iraq. It also set up new operations in Jordan, Saudi Arabia and China. NBK's total assets reached $7.3 billion at the end of 2006, while its shareholders' equity stood at $3.2 billion.

Source: Al Bawaba

MOROCCO

Stable outlook for Moroccan banks

Moody's Investors Service said the stable outlook for Moroccan banks reflects the country's gradually improving regulatory environment, commercial banks' better financials and the strong likelihood of government support amid a still challenging operating environment.

The outlook also reflects the fact that the Moroccan economy remains significantly exposed to the performance of the agricultural sector, as well as the general population's low income levels, often insufficient customer financial information and lengthy judicial procedures for foreclosing collateral, all of which constitute barriers for dynamic lending and elevate credit risk. This is reflected in banks' historically high, though declining, NPL levels.

Banking sector penetration in Morocco is still relatively low and remains concentrated in urban areas while rural communities, which constitute 44% of the Moroccan population, have very little exposure to banking.

Source: Moody's

QATAR

Qatar bank seeks UK licence

Qatar Islamic Bank has applied for a banking licence in Britain, the bank's chief executive Salah Jaidah said. The bank, which manages real estate funds in France and Germany, will put up 51% of the capital of the $49.60 million venture called Europe Finance House, Salah Jaidah said.

The bank wants to increase its exposure to European markets where there is growing demand from Muslims for investments that comply with their beliefs, Jaidah said, declining to name other investors in the venture.

The global value of sharia compliant assets is $400 billion according to Standard & Poor's, and expanding at more than 15% a year, partly to meet demand from increasingly wealthy investors in the oil-producing nations of the Middle East.

Source: Reuters

Big crude builds weigh on prices

This week, the US Department of Energy reported a larger-than-expected crude build of 6.8 MMB, a large rthan- expected gasoline build of 3.5 MMB and a smaller-than-expected distillate build of 0.9 MMB. Higher imports are the main reason for the strong increase in crude inventories. Overall, this is quite a bearish set of numbers, which should add to negative market sentiment in the crude oil market. A test of the $50 mark looks increasingly likely. However, while the downside risks prevail over the short term, oil prices should recover over the more medium term. This week's DOE data showed another decline in refinery activity, which should be reflected in product inventories over the coming weeks.

Moreover, OPEC production cuts should start to stabilize prices in the coming months. We therefore believe that any price dip below $50 should prove to be short-lived and stick to our forecast of an average WTI oil price of $62.50/bbl in 2007**.**

Source: Credit Suisse

GCC power grid to start in 2009

The first phase of a GCC-wide power grid will be up and running in early 2009. It is expected to save money, improve efficiency and reduce the chances of power cuts. The first phase includes the interconnection of Kuwait, Saudi Arabia, Bahrain and Qatar, which is known as the GCC North Grid. The second phase will include the introduction of independent systems in the UAE and Oman, which is called the South Grid. The third phase includes the interconnection of the South and North grids, which complete the interconnection of all six GCC countries.

Source: TradeArabia News Service

Iran Government budget bill sets oil price at $33.7/barrel

Iran's government has set the price of crude oil in the proposed budget for the fiscal year beginning March 21 at $33.7 a barrel to protect itself against the anticipated fluctuations in its price, said Iran's President Mahmoud Ahmadinejad. The price of exported oil in the budget for the current financial year, originally set at $40 a barrel, has gradually risen to $44.1 to address unexpected expenditures. He also said in order to lessen reliance on oil income, the official parity or conversion rate of the dollar to the Iranian rial has been lowered from IRR8,950 to IRR8,900 to the dollar. The rate is a little higher in the open market. In line with reducing reliance on the oil income, the consumption of foreign exchange would be reduced from this year's $38.2 billion to $29.5 billion next year. The government also aims to reduce withdrawal from the country's foreign exchange savings account, or Oil Stabilization Fund, by 38%. The Oil Minister has projected an oil income of around $60 billion for this year. Due to the banking and monetary restrictions on the Iranian government, all hard currency budget revenue, including that of oil, will be calculated in euros instead of the dollar in the proposed budget.

Source: Dow Jones Newswires

Kurds deny Iraq oil law accord

Kurdish officials dismissed a suggestion that Iraq's main political factions had overcome their differences on a proposed oil law and said that a final agreement could still be some time away. Statements from Iraq's oil ministry last week said it had produced a draft of the long-awaited law governing the country's oil industry, seen as essential to restoring the economy and undermining insurgent violence.

The new law, if approved, is expected to encourage foreign oil companies to modernize Iraq's oil sector and meet the country's goal of doubling the current crude production of 2.5 million barrels per day by 2010. Iraq's proven oil reserves are the third largest in the world.

Source: Portal Iraq

Algeria's earnings from energy at $54bn in 2006

Algeria's Minister of Energy and Mines, Chekib Khelil, said on state radio that Algeria had earned nearly $54bn from its energy resources in 2006, describing it as an exceptional year. Algeria had earned $46.7 bn from its energy sector in 2005.

Source: SHUAACapital

Saudi Arabia to expand oil production facilities

Saudi Arabia will expand its oil production facilities from the current 9 million barrels per day (bdp) to 12.5 million bdp by 2009, and will double its refining capacity over the next five years, Oil Minister Ali al-Naimi said. This is part of an $80 billion plan to increase global supplies. The additional amount to be produced is roughly equal to Norway's production, and will be the first major increase in Saudi Arabia's production capacity since the 1980s.

Source: SHUAACapital

Oil Market		Yesterday Closing	Previous Price	Daily Δ
OPEC Basket	▼	49.52	49.63	-0.60
Brent	▲	55.70	54.48	2.19
Dubai	▲	51.77	50.81	1.85
WTI	▲	53.51	53.61	0.18

Source: SHUAACapital

Crude at $55 looks reasonable

The UAE's Minister of Energy and OPEC President Mohammad Bin Dha'en Al Hamili said in Davos that $55 per barrel for OPEC's crude basket is a reasonable price. He added that while not panicking about the current prices of $49.63 per barrel, he believed prices should protect investments in energy projects. Lastly, he said that OPEC members will not meet until March to review the current production landscape.

Source: Shuaa Capital

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	-	-	-	-	BBB								
	-	-	-	-	Positive	7.7	28.2	16.3	9.1	8.4	23.1	14.2	0.5
Angola	-	-	-	-	CCC								
	-	-	-	-	Stable	2.3	43.7	49.5	22.3	4.6	216.9	21.1	7.3
Egypt	BB+	Baa2	BB+	BB+	B								
	Stable	-	-	Stable	Stable	-4.9	92.8	35.9	68	6.6	174.1	3.7	1.9
Libya	-	-	-	-	BB								
	-	-	-	-	Stable	26.6	6.0	9.7	-130.9	2.7	7.8	31.4	2.8
Morocco	BB+	Baa2	-	BB	BB								
	Stable	-	-	Stable	Stable	-5.6	69.1	31.2	68.1	8.0	100.0	-0.6	1.6
Nigeria	BB-	-	BB-	-	BB								
	Stable	-	-	-	Stable	-1.0	10.7	5.2	9.7	1.9	14.18	9.7	1.6
Tunisia	BBB	A3	BBB	BBB	BB								
	Stable	-	-	Stable	Stable	-2.2	57.5	57.5	77.1	15.3	448.1	-2.5	2.3
Sudan	-	-	-	-	CC								
	-	-	-	-	Stable	-3.8	58.7	71.2	355.0	4.0	-	-13.8	5.8
Middle East													
Bahrain	A	A1	A-	BBB+	A								
	Stable	-	-	Stable	Stable	7.3	25.1	55.3	23.9	13.4	286.5	7.9	0.7
Iran	-	-	B+	-	BB								
	-	-	-	-	Negative	7.3	26.2	9.9	31.0	4.5	25.4	5.7	0.0
Iraq	-	-	-	-	D								
	-	-	-	-	Stable								
Jordan	BBB	Baa3	-	BB	B								
	Stable	-	-	Stable	Stable	-5.2	81.0	102.9	18.5	13.7	271.6	-11.5	6.4
Kuwait	A+	Aa2	AA-	A+	A								
	Stable	-	-	Stable	Stable	27.0	12.4	18.3	8.9	2.7	158.1	45.2	0.5
Oman	BBB+	A1	-	BBB+	A								
	Stable	-	-	Stable	Stable	13.6	10.3	16.5	18.0	5.0	116.9	12.1	1.0
Lebanon	B-	B2	B-	B-	CCC								
	Negative	-	-	Negative	Stable	-12.7	177.7	109.2	179.5	30.4	273.5	-19.0	6.7
Qatar	A+	Aa2	-	A+	A								
	Stable	-	-	Stable	Stable	15.1	20.0	39.9	55.3	8.4	352.1	56.6	4.3
Saudi Arabia	A+	Aa3	A+	A+	A								
	Stable	-	-	Stable	Stable	11.0	16.1	10.2	21.1	3.7	104.0	26.3	0.2
Syria	-	-	-	-	CCC								
	-	-	-	-	Stable	-3.6	41.9	30.8	68.0	5.6	146.9	2.0	1.6
UAE	-	Aa2	-	A+	A								
	-	-	-	Stable	Stable	28.2	7.9	12.6	10.0	1.8	77.9	21.9	7.9
Yemen	-	-	-	B-	B								
	-	-	-	Stable	Stable	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
Central & Eastern Europe													
Ukraine	BB-	Ba3	BB-	-	BB								
	Stable	-	-	-	Stable	-4.2	18.8	15.3	58.7	2.8	102.3	6.9	2.5
Russia	BBB+	A2	BBB+	-	BBB								
	Stable	-	-	-	Stable	5.7	12.1	25.6	81.3	3.6	92.5	11.2	0.8
Turkey	BB-	Ba1	BB-	BB-	B								
	Stable	-	-	Stable	Stable	-3.2	62.8	46.7	117.5	25.2	329.4	-5.6	2.5
Latin America													
Brazil	BB	Ba1	BB	-	BB								
	Stable	-	-	-	Stable	-3.3	69.5	24.2	56.3	29.3	300.0	1.2	2.0

Sources: Moody's; EIU