

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

SUDAN

Britain warns of further sanctions

Foreign Secretary Margaret Beckett stated that Britain will push for tougher U.N. sanctions against Sudan if its government does not support international efforts to end the conflict in Darfur. She added that if Sudan failed to honor agreements, Britain and its partners would seek to introduce a new sanctions resolution at the U.N. Security Council. The United States and Britain have been working on an expanded U.N. sanctions resolution for weeks, but Russia and South Africa have questioned the timing and China has opposed further penalties. The Security Council has imposed an arms embargo on rebels and militia but not on the government, although it forbids offensive military flights by Khartoum over Darfur. The U.S. and Britain are considering an arms embargo over the entire country, a halt to all military flights over Darfur, monitors at Sudanese airports, and an expansion of the list of people under sanctions.

Source: Reuters

IRAQ

Iraq calls for Arab states to open Baghdad embassies

Iraq's Vice President Tareq al-Hashemi called on Egypt and other Arab states to reopen their embassies in Baghdad to help preserve what he termed Iraq's 'endangered' Arab identity. A meeting of Iraq's Arab neighbors in December issued a statement that contained veiled references to the fears of Arab governments that Iranian influence is growing in Iraq and that Iraq might break up or lose its Arab identity.

Source: Reuters

UKRAINE

WTO accession on track, EU and NATO membership still a priority

President Viktor Yushchenko said that the approval of the WTO-related laws will be finalized shortly and pledged to sign into law the remaining legislative changes relating to Ukraine's WTO accession bid as early as this week. The changes were recently approved by parliament, as part of the legislative package agreed with the government as a precondition for holding early Rada elections in September. Ukraine still needs to finalize one bilateral agreement with Kyrgyzstan but the bulk of the needed domestic policy changes have already taken place. Yushchenko also confirmed that membership of EU and NATO remain among Ukraine's strategic objectives. On relations with Russia, Yushchenko spoke about "serious work" being done on a number of issues, including border demarcation, energy cooperation and the future of Russia's Black Sea fleet. Earlier, the two governments confirmed that they have been able to agree on a draft treaty resolving the contentious border issues between the two countries.

Source: Financial Times

TURKEY

Parliament approves constitutional amendments

The parliament approved various constitutional amendments, including the article that allows for the election of the new president by popular vote rather than by parliament. The amendments, with the exception of the article that reduces the term of parliament to four years from five years, received the support of more than two thirds of the 550 deputies, as the deputies from the opposition ANAP cooperated with the ruling AKP to pass the amendments. These amendments were vetoed by President Sezer last May 25. President Sezer will now either approve the amendments or take them to a referendum. This means that the new set-up for presidential elections will not be in place by the time the new parliament is formed after the July 22 elections and Turkey's next president will still be chosen by the new parliament, not by the people.

Source: Credit Suisse

NIGERIA

Parliament ratifies Fiscal Responsibility Bill

The House of Representatives ratified the Fiscal Responsibility Bill after the Senate passed the bill earlier this year. The draft bill had been stuck in the National Assembly for over a year amid challenges to its legality by state and local governments and unions. The Fiscal Responsibility Bill is a key part of Nigeria's economic reform process because it fully entrenches some of the major fiscal reforms implemented over the past two years. Many components of the bill were already largely in practice, although it had not yet been passed, but its passage ensures that Nigeria's recent positive track record in fiscal reforms cannot be easily derailed during the current and future administrations. Specifically, and importantly, it allows the federal government some oversight on state and local government expenditure by setting borrowing limits for all three tiers of government and restricting borrowing to concessionary lending. It also supports the practice of saving into the Excess Crude Account (ECA).

Source: Credit Suisse

ALGERIA

Deal to be signed with U.S. on nuclear cooperation

The United States and Algeria are expected to sign a deal this month for closer nuclear energy cooperation. Algeria already has two experimental nuclear reactors. The new agreement with Washington would set up cooperation mechanisms and various exchanges in the field of civil nuclear energy, including joint programs. Algeria's two reactors have a strength of three and 15 megawatts respectively. One was built by Argentina near the capital Algiers, while the other, constructed by China, is situated 250 kilometers south of Algiers. Both are regularly inspected by the United Nations' International Atomic Energy Agency.

Source: AFP

MAY POLITICAL RISK OVERVIEW

ALGERIA

Up to 18 soldiers and 22 Islamist rebels were killed in fresh clashes before May 17 parliamentary polls. Bomb attack on May 16 in Constantine killed a policeman. Al-Qaeda in the Islamic Maghreb called for boycott of elections on May 14, but fears of election-day violence did not materialize. Ruling coalition won reduced majority, losing 67 seats, with lowest ever turnout of 35%. Security forces reportedly arrested 12 suspected Islamic militants linked to April 11 triple suicide bombings in Algiers, and seized large quantities of explosives.

ARMENIA

Ruling Republican Party won 64 seats of 131 in May 12 parliamentary elections. Pro-presidential parties, Prosperous Armenia and Armenian Revolutionary Federation, won 24 and 15 seats; opposition parties, Rule of Law and Inheritance, 10 and 7. Alliance Party and 9 independent MPs also won seats. Opposition complained of pre-poll intimidation including arrest of campaigner on May 7.

BAHRAIN

Police clashed with supporters of Shiite opposition movement Haq in Nuwaidrat, Maamer and several Shiite villages on May 20-21.

EGYPT

The Supreme Administrative Court overturned an earlier ruling against presidential order to try 40 Muslim Brothers before military court. At least 87 Brothers were arrested, including 30 in Dakhaliya allegedly after the group named 2 candidates in province for June 11 elections for upper house of parliament. A total of 19 Brothers were reported to be running in vote. Around 135 al-Jihad members, active in 1990s, were released from prison after renouncing violence.

IRAN

International Atomic Energy Agency reported to UN Security Council on May 23 that Iran expanded its uranium enrichment in defiance of UN demands. Washington called for tough international action and expanded sanctions while 9 U.S. warships were deployed to Gulf for exercises. U.S. and Iran held talks at ambassadorial level on May 28 in Baghdad, highest-level talks in almost 30 years. U.S. Ambassador Ryan Crocker and Ambassador Hassan Kazemi Qumi exchanged respective positions on Iraq security. Tehran started campaign of intimidation of journalists, scholars and activists.

IRAQ

Both houses of U.S. Congress passed compromise bill on May 25, allocating \$100bn new funding for Iraq war; no timetable was given for U.S. troop withdrawal following President Bush's veto threat. An International Ministerial Conference on Iraq was held in Sharm al-Sheikh on May 3. Foreign Ministers of Iraq, its 6 neighbors, Egypt, Bahrain and G-8/P-5, heads of UN, Arab League and Organization of the Islamic Conference, issued 19-point final consensus statement on May 4 but no real progress was made beyond initial March 10 meeting in Baghdad. Violence continued throughout Iraq. U.S. troops suffered third worst month since 2003 with over 120 killed.

KAZAKHSTAN

President Nazarbayev ratified constitutional amendments increasing parliamentary powers and placing 2-term limit on future presidents but none on himself. Kazakh president's son-in-law was charged with abduction of two senior bank managers on May 23.

MOROCCO

Security forces announced break-up of recruitment network for al-Qaeda in the Islamic Maghreb on May 6; 20 were arrested.

NIGERIA

Umaru Musa Yar'Adua was inaugurated president on May 29 after a month of moderate protests over badly flawed April elections. The civil society groups called for a national unity conference and a re-run of elections within 18 months. The government warned disruption of May 29 ceremonies for new administration would be treated as "coup attempt". 7 opposition candidates filed separate petitions with Court of Appeal in Abuja, seeking annulment of results. But most major powers embraced new president. Attacks on oil pipelines and kidnappings of foreign workers and some Nigerians by the Delta militants worsened.

SUDAN

U.S. President Bush imposed largely symbolic new unilateral economic sanctions on Sudan on May 29 and sought support for international arms embargo in response to Khartoum's refusal to end conflict in Darfur. UN and AU drafted plans for 23,000-strong hybrid force to be approved by UNSC and AU Peace and Security Committee. Eastern rebels finally agreed on a list of 3 candidates for government posts to allow delayed October 2006 peace plan to go forward. Key national census, set for November, may be postponed to January/February 2008.

SYRIA

Parliament nominated President al-Assad for second term, who was endorsed in a May 27 referendum with 97% of vote. Syrian FM Walid Muallem and U.S. Sec. State Rice met on sidelines of regional conference on Iraq in Egypt on May 3 in highest-level contact in 2 years. Dissident Kamal Labwani and prominent political writer Michel Kilo were sentenced to 12 and 3 years in prison respectively.

UKRAINE

President Yushchenko and PM Yanukovich agreed on May 27 to hold early parliamentary elections on September 30. At the end of the month, Yushchenko threatened to call snap elections if reconvened parliament missed June 1 deadline to pass legislation needed for September elections.

YEMEN

Clashes continued between government and rebel forces in northwestern Saada province. Army backed by tribesmen retook town of Qalaa and government building in Razih area from Shiite rebels supported by Iran and Libya.

Source: International Crisis Group



OUTLOOK

ROMANIA

Authorities to strengthen public financial management

The International Monetary Fund's Article IV consultation urged the authorities to strengthen public financial management, restrain expenditure growth, and enhance the quality and composition of public spending. It also encouraged the development of a credible medium-term fiscal framework to enhance the transparency and effectiveness of budget planning and execution, and to improve the efficiency of absorbing EU funds. The Fund emphasized the importance of ambitious structural reforms to support convergence to EU living standards. It encouraged the authorities to improve the legal framework with a view to reducing corruption and enhancing the business environment. It commended the Central Bank's commitment to price stability and the success in reducing inflation, but urged authorities to increase interest rates as needed to attain the inflation targets. The IMF was encouraged that financial soundness indicators and stress tests point to a relatively healthy and resilient financial system. It emphasized the importance of effective domestic and crossborder supervision and regulation, and commended the central bank's continued progress in developing its capacity for assessing overall stability. It welcomed the authorities' interest in a Financial Sector Assessment Program update this year.

Source: International Monetary Fund

GHANA

Real GDP growth to remain strong at 6.3% in 2007

In its Article IV consultation with Ghana, The International Monetary Fund said that Ghanaian authorities are considering a further monitoring relationship with the IMF following Ghana's debt relief under the Heavily Indebted Poor Countries Initiative (HIPC), which brought Ghana's external public debt down to 22.3% of GDP in 2006. It also noted that while "risks to Ghana's external debt distress are moderate", maintaining creditors' confidence in the aftermath of its planned Eurobond issuance will still require the government to sustain a solid policy performance. However, the IMF acknowledged that, in the absence of growing donor support, on which Ghana relies extensively, Ghana will need access to lending in order to achieve its growth and poverty reduction goals. It forecast external debt at 23.6% of GDP this year.

The IMF expects real GDP growth to remain strong at 6.3% in 2007 versus the 6.2% recorded in 2006. Growth in 2006 was supported by an exceptionally good cocoa harvest, mining, construction and services. The IMF also noted that Ghana has proven resilient to the ongoing energy crisis, and commended Ghana for its progress on some structural reforms, particularly with public financial management. However, the IMF highlighted the vulnerability of the fiscal situation arising from the country's dependence on aid flows, as the deficit increased in 2006 by 4.4% to 7.7% of GDP due to shortfalls in import-related

taxes, high public sector wage increases and higher than budgeted expenditures on subsidies and transfers to state-owned energy-related firms. It projected the 2007 deficit to remain high at 6.8% of GDP.

The IMF welcomed the soundness of Ghana's banking system and the authorities' record on compliance with the recommendations of the 2003 Financial Sector Assessment Program update. They underscored that rapid financial deepening, while important to support private sector-led investment and growth, requires continued supervisory vigilance and enhancement of the regulatory framework. It projected foreign reserves at \$2.6bn for end-2007, equivalent to three months of import cover.

Source: International Monetary Fund

EGYPT

Currency to appreciate in the short term

Merrill Lynch expects a clear upside for the Egyptian pound over the medium term. It projected the Egyptian pound to appreciate by some 2.1% by year-end from current levels, closing 2007 at USD-EGP 5.58. The appreciation pressure mainly reflects the country's strong macroeconomic momentum, including its robust economic growth, a healthy current account surplus, and large FDI inflows. In addition, the government has made significant progress on the structural reform front, which has contributed to stronger investor confidence. Merrill Lynch forecasts economic growth to exceed 6% this year, while the current account surplus should be around 1% of GDP. Meanwhile, with CPI inflation projected to pick up to roughly 11% on average, the Central Bank is expected to maintain a relatively tight stance.

Going forward, the pound may benefit further from the recent revaluation of the Kuwait dinar, a move that may trigger further currency adjustment in the region. While the overall fundamentals clearly point to a stronger EGP, there are a few factors that may constrain appreciation in the short term. First, the authorities are currently following a managed floating exchange rate regime. Against this backdrop, preserving external competitiveness is an important policy objective, given the country's high degree of openness. This is expected to change, however. The central bank is currently working on an inflation target regime which, by its nature, should create more room for the currency to appreciate. The second risk to the pound's appreciation is the country's vulnerability to portfolio investment outflows, especially if there is a sharp correction in global investor appetite.

Source: Merrill Lynch



ECONOMY & TRADE

GCC

Net foreign assets at \$542bn during 2002-06

The Institute of International Finance estimated that GCC countries accumulated net foreign assets of \$542bn during the 2002-06 period, as global oil prices tripled during the period. The United States was the main destination of Gulf capital outflows, accounting for \$300bn or 55.4% of the total. It was followed by Europe with \$100bn, or 18.5% of the total, and Asia and the MENA region with \$60bn, or 11%, each. The figure for the MENA region excludes intra-GCC investments. The IIF said the rising surplus of the GCC over the past five years has been an increasingly important element in the evolution of global imbalances during the period.

The distribution by asset class of GCC holdings show that bank deposits have declined significantly over the past five years as a share of total external asset holdings whereas equities and FDI have been claiming a growing share. U.S. equities account for the single largest asset class with 29% of the total, with net FDI accounting for 15%, up from 11% at end-2001. The allocation of short term U.S. government debt increased from 1.4% in 2001, to 7.9% in 2006 and holdings of long term debt increased from 14% to 20% over the period. Further, it estimated that the total net foreign asset position of the GCC was \$1.6 trillion at end-2006, with more than 90% held by the UAE (\$600bn), Saudi Arabia (\$450bn), and Kuwait (\$400bn). It added that the figures may be understated given changes in market valuations of various assets over time.

Source: *Institute of International Finance*

EGYPT

Net FDI expected at \$10bn this year

Egypt is set to see record net foreign direct investment flows of more than \$10bn in the current fiscal year ending June, according to the country's investment minister. Egypt is drawing interest from international firms, keen to benefit from the country's privatization program. Foreign investors are expected to participate in the sale of the government stake in Bank of Alexandria, expected in October or November. Egypt is offering 15% of the shares in Bank of Alexandria on the stock market. It already sold 80% of the bank to Italy's Sanpaolo in October for \$1.6bn. Bank of Alexandria was the first of four state-owned banks to be privatized.

Source: *Reuters*

KAZAKHSTAN

Inflation slightly down in May

Consumer price inflation in May was 0.7% month on month, down slightly from 0.8% in May 2006. The year-on-year inflation was estimated to have decreased to 7.6% from 7.7% in April. Inflation has been declining over the past 12 months, albeit very slowly, from 9% yoy recorded in May 2006. Inflation is expected to be contained within the Central Bank's base-case scenario of 7.3-8.3% in 2007, but monetary policy moves will likely be needed to reach this goal.

Source: *Credit Suisse*

SYRIA

Stock Exchange Commission licenses two new brokerage firms

The Syrian Commission on Financial Markets and Securities (SCFMS) has granted preliminary licenses to Jordan's Elite Financial Services (EFS) and Egypt's Orouba Stock Brokers to establish brokerage firms.

EFS will open a Syrian subsidiary, Elite Financial Services-Syria, with a capital of SYP50m (\$1m). EFS-Syria will offer consultancy services, brokerage, funds management and IPO management. Operations will start with the launch of the Syrian bourse. EFS is owned in majority by Saudi and Libyan investors and is licensed by the Amman Stock Exchange authority.

Orouba Stock Brokers will set up Orouba-Syria with a capital of SYP70m and will own 60% of the shares, while the balance will be held by other Egyptian investors. OSB's Syria venture will offer consultancy and brokerage services. The SCFMS has now licensed six financial intermediary firms following earlier approvals given to Pioneers-Egypt, the Commercial Bank of Syria as well as the UAE-based IFA-MAG and Orion Holding.

Source: *Syria Report*

SAUDI ARABIA

New equity trading system postponed

The Saudi bourse regulator has postponed for five months the launch of a new trading system designed to enhance market transparency and efficiency, according to business newspaper *Al Eqtisadiyah*. Remarks by Capital Market Authority (CMA) chief in April that the system would be launched in May have contributed to a decline in the bourse, which has been criticized by foreign investors as being poorly regulated, analysts said. The paper quoted sources as saying the system will not be launched before September. "This is due to the need to connect it with other relevant departments," it said. The envisaged system includes platforms for trading and market data dissemination, a market surveillance system and the integration of a central securities depository.

Source: *Al Eqtisadiyah*

TURKEY

Current account deficit narrows in April

The Central Bank of Turkey announced that the current account deficit reached \$3.1bn in April, compared to expectations of \$3.2 bn. The data brought the 12-month rolling current account deficit down to 8% of GDP in April from 8.2% of GDP in March. At its peak in October-November last year, the 12-month rolling current account deficit was running close to 9% of GDP. The deficit is expected to continue to narrow in the coming months, mainly on the back of the continuing strength of exports and the slowdown in domestic demand growth which is leading to a deceleration in import growth.

Source: *Credit Suisse*



BANKING

KAZAKHSTAN

Moody's announces rating actions for Kazakhstan banks

Moody's Investors Service issued rating results for banks in Kazakhstan as part of the application of its refined joint default analysis (JDA) and updated bank financial strength rating (BFSR) methodologies. The BFSRs of most banks were unaffected by the updated methodology. However, the agency placed the BFSR of Kazkommertsbank on review for possible downgrade in order to consider the potential impact on the bank from the rapid increase in foreign currency borrowing and rapid credit expansion.

Also, Moody's lowered by one notch the foreign currency deposit or debt ratings of Caspian Bank to 'Ba3' from 'Ba2', Halyk Savings Bank of Kazakhstan to 'Baa2' from 'Baa1', JSC Nurbank to 'B1' from 'Ba3', and Texakabank to 'Ba2' from 'Ba1'. Further, the agency placed on review for downgrade the foreign currency debt ratings of Bank TuranAlem, Kazkommertsbank, and Temirbank. It said the rating actions reflect the inherent uncertainty of systemic support, and the relatively weak intrinsic financial strength of most of these banks. The agency affirmed the ratings of Alfa-Bank Kazakhstan, ATF Bank, Bank CenterCredit, Eurasian Bank, and Tsesna Bank. It said the outlook on all of the banks' ratings is Stable.

Source: Moody's Investors Service

Money supply up 83%

The National Bank of Kazakhstan (NBK) released the monetary survey data for April showing Money supply (M2) growth picked up to 83% year on year in April from 79% yoy in March. Strong money supply growth was accompanied by rampant growth in private sector domestic credit, which accelerated to 96% yoy in April from 94% yoy in March, with the credit to household growth component was particularly high at 139% yoy. Nominal GDP in Q1 2007 expanded at a rate of 27.3% yoy, well below the current pace of monetary expansion and credit growth.

Source: Credit Suisse

ALGERIA

Crédit Populaire opens books to bidders

Crédit Populaire d'Algérie, one of Algeria's largest state-owned banks, is opening its books to potential bidders as part of its planned privatization by the Algerian government. BNP Paribas, Crédit Agricole, Société Générale, French cooperative bank Banque Populaire, Citigroup and Santander Bancorp are among potential bidders for CPA. Analysts believe the 51% stake in CPA could yield as much as \$1.5bn. Authorities said the purpose of the sale is not to raise money for the government as such, but rather to strengthen CPA as a national bank and regional player. The government is actively seeking a large foreign bank to take over CPA and bring its expertise and experience to upgrade standards in line with international best practice.

Source: Dow Jones Newswires

SYRIA

Syria lifts peg to U.S. dollar

The Central Bank of Syria announced it will abandon the peg of the Syrian pound to the U.S. dollar in exchange for a peg to the IMF's Special Drawing Rights. The basket of currencies will consist of 44% euro, 34% U.S. dollars, 11% yen and 11% pound sterling. Central Bank Governor Adib Mayala said the move will help stabilize the Syrian currency and safeguard it from fluctuation, and is aimed at reducing inflationary pressures. A peg to the SDRs may add some credibility to domestic monetary policy, but the implicit diversification away from the U.S. dollar is consistent with the government's desire to move further away from the dollar due to geopolitical issues. Last year, the Central Bank indicated it had shifted half of its foreign reserves to the euro.

Source: Asharq Al Awsat

NIGERIA

Policy rate cut by 200bps

In an unexpected move, the Central Bank of Nigeria's Monetary Policy Committee has cut the Monetary Policy Rate (MPR) from 10% to 8%. The band around the MPR, at which commercial banks can access the CBN's liquidity support window, has also been tightened from a previous +/-3% to +/- 2.5%. With inter-bank rates expected to trade within these levels, this creates a new range of 5.5% -10.5%, from 7-13% previously, a clear easing of monetary policy. The fall in the rate of headline CPI to only 4.2% y/y in April appears to be behind the move. A significant liquidity injection into the economy just prior to Nigeria's recent elections, with a withdrawal from the excess crude savings for fund disbursements to state and local governments, had already seen market interest rates plummet, with the 91-day T bill at one stage yielding less than the overnight rate. But with inflation falling rapidly, real interest rates remained positive. Although acknowledging the potential threats to future inflation, the CBN has decided to cut interest rates.

Source: Standard Chartered

RUSSIA

Rise in reserve requirements

The Central Bank of Russia (CBR) announced that it will increase reserve requirements on foreign currency and rouble loans from non-residents, from 3.5% to 4.5%, effective July 1 of this year. Reserve requirements on retail deposits have been raised 50 bps to 4%. The CBR's statement explicitly linked the hike in reserve requirements on loans from non-residents to the strength of capital inflows, the related rapid rise in lending and the associated inflationary pressures. It estimated the impact of the higher reserve requirements on the banking sector liquidity at \$1.9bn-\$2.3bn, or about 4% of total. The total amount of the banks' mandatory reserves kept at the CBR is currently \$8.1bn.

Source: Credit Suisse



ENERGY/ COMMODITIES

Oil trades below \$66

Crude oil traded below \$66 a barrel in New York as tropical cyclone Gonu missed oil rigs and fields in the Middle East, causing only some disruption to shipping. Gonu battered southern Iran on June 7 after hitting the eastern coast of Oman, closing all its seaports and oil-export terminals two days ago and causing the country to suspend oil and gas exports. Ships continued to pass through the Strait of Hormuz, a waterway between Iran and Oman at the mouth of the Persian Gulf. Crude oil for July delivery was down 1 cent at \$65.95 a barrel in after-hours electronic trading on the New York Mercantile Exchange. Prices rose on June 6 following reports that Turkish troops chased Kurdish guerrillas into northern Iraq. Government officials from Turkey and the U.S. denied any attack occurred. Iraq has the world's third-biggest proven oil reserves. Turkey has threatened to launch a military operation unless U.S.-led coalition forces in Iraq eradicate the threat posed by the Kurdistan Workers' Party. The Turkish military has deployed tens of thousands of troops near the border to stop members of the group from entering Turkey. In London, Brent crude oil for July settlement fell 13 cents to \$70.89 a barrel on the ICE Futures Exchange.

Source: Bloomberg

Tamoil sold to U.S. firm

The Libyan government agreed to sell a majority stake in its European refining and marketing company Tamoil to U.S. private equity firm Colony Capital. The transaction to Colonyoil Co., an affiliate of Colony Capital, valued Tamoil at a gross enterprise value of €4bn. The Libyan government will retain a 35% stake in the firm. Tamoil owns and operates more than 3,000 service stations in Europe, is a market leader in Italy and has oil refineries in Italy, Switzerland, Spain, and Germany.

Source: Dow Jones Newswires

OPEC not convinced by supplies plea

OPEC's secretary-general has rejected calls by oil consuming nations for the group to lift production, saying it would first need evidence of a sustained drop in oil inventories. Analysts have forecast crude prices could go to \$80 a barrel this summer due to geopolitical tensions in the Middle East, an expanding Chinese economy and a reluctant OPEC.

Source: Upstream

OPEC warns of biofuels plan

OPEC has warned it could cut investment in oil production in response to moves by the developed world to use more biofuels. The U.S. and Europe want to use biofuels to combat global warming and to strengthen energy security; OPEC said the move risked driving the price of oil 'through the roof'.

Source: Financial Times

Base metals: Prices increase following the correction of previous weeks

After the significant correction of the last few weeks, base metal prices rebounded over the last few days, driven by a generally friendlier commodity environment and the unexpected increase in the Chicago PMI. Despite this, downside risks prevail. Copper inventories monitored by the Shanghai Futures Exchange have more than doubled since the beginning of March. Over the last weeks, nickel inventories registered by the London Metal Exchange have also started to increase. Apparently, high prices are starting to affect demand and supply. With availability of many metals increasing, further downward pressure is expected in the weeks ahead.

Source: Credit Suisse

Precious metals: Consolidation after the correction

After the corrections of the previous two weeks, precious metals recovered somewhat. Gold prices are testing the \$660 mark again and silver prices even increased to above \$13.30. Gold remains the preferred exposure to the sector. Latest data from the physical side of the market indicate ongoing strength. According to the World Gold Council, gold jewellery demand increased 17% year-on-year in the first quarter. Apparently, the gold market even exhibited a physical supply deficit of 19 tons during the first quarter of 2007. Since investment demand is also expected to remain strong, the current price dip represents a good entry opportunity. In the second half of the year, a test of the \$700 mark seems possible.

Source: Credit Suisse

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	201.8	191.8	184.0	0.1	10.9
LME metals price index	4155.7	3860.6	3765.3	-3.1	11.4
Oil prices USD	64.2	60.7	63.7	-2.2	-10.0
Oil prices SDRs	42.4	40.2	42.6	-1.3	-11.2
Gold \$/troy oz	662.1	654.4	633.4	-2.8	2.3
Silver cents/troy oz	1311.0	1333.0	1253.1	-2.9	-0.2
Platinum \$/troy oz	1280.0	1211.8	1197.5	-0.5	0.0
Copper \$/MT	7440.3	6654.6	7055.0	-4.9	-8.6
Nickel \$/MT	50897.5	43610.2	36211.9	1.7	120.8
Aluminium \$/MT	2733.3	2803.3	2674.3	-3.4	0.8
Zinc \$/MT	3685.0	3695.4	3641.2	-0.1	-5.6
Steel - HR coil dry \$/MT	600.0	600.0	578.7	0.0	29.0

Source: Credit Suisse



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	9.9	19.5	3.8	6.4	1.6	5.0	15.7	0.8
	-	-	-	-	Positive								
Angola	-	-	-	-	CCC	1.8	16.9	21.6	22.0	11.4	216.9	22.7	4.6
	-	-	-	-	Stable								
Egypt	BB+	Baa2	BB+	BB+	B	-7.5	91.5	24.7	119.2	5.8	118.0	1.4	5.1
	Stable	-	-	Stable	Stable								
Ethiopia	-	-	-	-	CCC	-5.7	77.9	23.7	128.7	2.7	246.1	-16.5	2.2
	-	-	-	-	Stable								
Libya	-	-	-	-	BB	32.2	5.8	10.3	14.5	3.1	7.8	18.5	2.8
	-	-	-	-	Stable								
Morocco	BB+	Baa2	-	BB+	BB	-2.7	55.9	24.0	130.8	9.6	75.3	4.0	1.9
	Stable	-	-	Stable	Stable								
Nigeria	BB-	-	BB-	-	BB	-1.4	11.1	4.0	8.7	3.7	14.18	9.7	1.4
	Stable	-	-	-	Stable								
Sudan	-	-	-	-	CC	-2.3	51.5	58.4	296.5	3.6	-	-9.8	7.4
	-	-	-	-	Stable								
Tunisia	BBB	A3	BBB	BBB	BB	-2.9	54.8	54.7	134.2	15.2	260.1	-1.6	2.7
	Stable	-	-	Stable	Stable								
Middle East													
Bahrain	A	A1	A-	BBB+	A	6.1	25.8	129.0	63.1	5.8	750.7	9.9	12.1
	Stable	-	-	Stable	Stable								
Iran	-	-	B+	BB-	BB	-11.1	24.1	5.2	20.3	3.2	25.4	3.1	0.0
	-	-	-	Stable	Negative								
Iraq	-	-	-	-	D	-0.3	-	111.9	195.7	3.8	-	4.7	-
	-	-	-	-	Stable								
Jordan	BB	Baa3	-	BB	B	-3.4	73.2	89.0	137.0	6.6	221.6	-13.6	12.6
	Stable	-	-	Stable	Stable								
Kuwait	A+	Aa2	AA-	A+	A	33.3	9.2	17.9	32.8	2.0	106.2	39.3	-4.5
	Stable	-	-	Stable	Stable								
Oman	A	A1	-	BBB+	A	10.1	7.7	17.2	19.8	5.9	113.7	8.6	2.0
	Stable	-	-	Stable	Stable								
Lebanon	B-	B2	B-	B-	CCC	-13.1	174.6	101.6	492.5	14.8	242.6	-10.8	4.7
	Negative	-	-	Negative	Stable								
Qatar	AA-	Aa2	-	A+	A	6.8	15.5	47.0	96.5	10.9	407.7	27.8	4.3
	Stable	-	-	Stable	Stable								
Saudi Arabia	A+	Aa3	A+	A+	A	19.4	4.7	8.4	26.1	2.4	122.9	31.9	0.5
	Stable	-	-	Stable	Stable								
Syria	-	-	-	-	CCC	-5.3	44.1	20.1	49.3	4.1	107.8	-1.1	1.4
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	A	23.9	10.6	60.0	29.8	2.0	332.9	18.8	5.2
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	B	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
	-	-	-	Stable	Stable								



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Central & Eastern Europe													
Armenia	-	Baa3	BB-	-	-	-3.3	17.6	27.1	210.0	2.6	161.6	-4.1	3.5
Bulgaria	BBB+ Stable	A1	BBB	-	BBB	2.6	19.5	80.0	147.3	18.0	228.2	-16.1	11.0
Kazakhstan	BBB Stable	A2	BBB	-	BB	0.3	4.4	60.4	225.2	36.0	197.8	2.3	5.1
Romania	BBB- Positive	A1	BBB	BBB- Stable	BBB	-2.9	12.8	42.0	178.3	22.3	233.1	-11.9	6.9
Russia	BBB+ Stable	A2	BBB+	-	BBB	3.6	8.2	33.5	90.8	12.5	98.5	6.3	1.3
Turkey	BB- Stable	Ba1	BB-	BB- Stable	B	-2.0	60.9	52.3	194.8	37.6	340.6	-7.9	4.6
Ukraine	BB- Negative	Ba3	BB-	-	BB	-2.6	17.5	44.7	105.6	17.5	207.5	-3.6	4.2

Sources: Moody's Investors Service; EIU - The above figures are estimated for 2007



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	5.25	09-May-07	No change	28-Jun-07
Eurozone	Refi Rate	4.00	06-Jun-07	No change	05-Jul-07
UK	Base Rate	5.50	10-May-07	No change	07-Jun-07
Japan	O/N Call Rate	0.50	17-May-07	No change	15-Jun-07
Australia	Cash Rate	6.25	02-May-07	No change	05-Jun-07
New Zealand	Cash Rate	7.75	25-Apr-07	Raise 25bps	06-Jun-07
Switzerland	3 month Libor target	2.25	15-Mar-07	Raise 25bps	14-Jun-07
Emerging Markets					
China	One-year lending rate	6.57	18-May-07	Raise 18bps	N/A
Hong Kong	Base Rate	6.75	08-Aug-06	No change	N/A
Taiwan	Discount Rate	2.875	29-Mar-07	Raise 12.5bps	21-Jun-07
South Korea	O/N Call Rate	4.50	10-May-07	No change	08-Jun-07
Malaysia	O/N Policy Rate	3.50	28-May-07	No change	24-Jul-07
Thailand	1D Repo	3.50	23-May-07	Cut 50bps	18-Jul-07
India	Reverse repo rate	6.00	24-Apr-07	No change	31-Jul-07
UAE	3M EBOR	5.50	N/A	N/A	N/A
Saudi Arabia	Repo Rate	5.20	29-Jun-06	Raise 20bps	N/A
Egypt	overnight lending	10.75	10-May-07	No change	N/A
Turkey	Base Rate	17.50	14-May-07	No change	14-Jun-07
South Africa	Repo rate	9.00	12-Apr-07	No change	07-Jun-07
Kenya	Central Bank Rate	10.00	Apr-07	No change	Jun-07
Nigeria	Monetary Policy Rate	8.00	06-Jun-07	Cut 200bps	Aug-07
Ghana	Prime Rate	12.50	21-May-07	No change	N/A
Mexico	Target Rate	7.25	25-May-07	No change	22-Jun-07
Brazil	Selic Rate	12.50	18-Apr-07	Cut 25bps	06-Jun-07
Armenia	Repo Rate	4.50	N/A	N/A	N/A
Romania	Policy Rate	7.25	N/A	N/A	N/A
Bulgaria	Overdraft rate	8.40	N/A	N/A	N/A
Kazakhstan	Reverse repo rate	9.00	01-Jul-06	N/A	N/A

Source: Standard Chartered - Countries in bold updated on June 7, 2007



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