



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond inflows at \$19bn, equity outflows at \$4bn in first 7 months of 2011, AUM at \$1,059bn

Capital inflows to emerging market equity and bond funds totaled \$14.8bn in the first 7 months of 2011, with bond inflows at \$18.8bn and equity outflows at \$4bn. Emerging Europe, the Middle East & Africa (EMEA) and Latin America accounted for \$6.7bn or 35.7% of bond inflows each, followed by Emerging Asia with \$5.4bn or 28.7%. Further, the EMEA region posted \$1.6bn in equity inflows year-to-July, while equity outflows from Latin America totaled \$3.35bn and reached \$2.3bn from Emerging Asia. Brazil was the biggest recipient of bond inflows with \$2.2bn, or 11.7% of total inflows into emerging market bonds, while Taiwan was the largest recipient of equity inflows with \$2.9bn and China the largest source of equity outflows with \$2.8bn during the covered period. In parallel, assets under management (AUM) in emerging markets totaled \$1,059bn at the end of July 2011, with bonds accounting for \$210bn and equities for \$849.5bn. The EMEA region had \$82.2bn in AUM in bonds, followed by Latin America with \$74.6bn and Emerging Asia with \$53.2bn. Further, Emerging Asia accounted for \$540.3bn in equity-related AUM, followed by Latin America with \$159.2bn and EMEA with \$150bn. Mexico had \$25.4bn in bonds-related AUM, or 12% of the total, and China had \$176.6bn in equity-related AUM, or 20.8% of the total.

Source: Barclays Capital, Byblos Research

FDI up 10% to \$641bn in 2010

Figures released by the UN Conference on Trade & Development (UNCTAD) show that FDI to developing and transition economies reached \$641bn in 2010, constituting an increase of 10.2% from \$582bn in 2009. FDI to developing economies rose by 12% to \$574bn in 2010 and inflows to transition economies reached \$68bn, down 5% year-on-year. In comparison, FDI to developed countries contracted by 0.2% to \$602bn and global FDI rose by 5% to \$1,243bn. The UN said FDI to South, East & Southeast Asia reached \$300bn, followed by Latin America & the Caribbean with \$159bn, Southeast Europe and the Commonwealth of Independent States with \$68bn, West Asia with \$58bn and Africa with \$55bn. Further, FDI to South, East & Southeast Asia rose by 24% year-on-year, followed by Latin America & the Caribbean with a 13% growth while FDI to West Asia contracted by 12%, inflows to Africa declined by 8.5% and flows to Southeast Europe and the CIS decreased by 5%. UNCTAD noted that FDI to developing and transition economies accounted for 52% of global FDI, exceeding the 50% mark for the first time. In parallel, cross-border mergers and acquisitions totaled \$87bn in developing and transition economies in 2010, up 88.6% from \$46bn in 2009, but accounted for just 26% of global cross-border M&As that rose by 36% to \$339bn last year. Cross-border M&As in developing economies increased by 112% to \$83bn while those in transition

economies contracted by 39% to \$4.3bn. The value of cross-border M&As in South, East & Southeast Asia totaled \$32bn in 2010, followed by Latin America & the Caribbean with \$29.5bn, Oceania with \$9bn, Africa with \$7.6bn, West Asia with \$4.6bn, and Southeast Europe and the CIS with \$4.3bn.

Source: UNCTAD

Maturing corporate debt at \$209bn through 2015

Standard & Poor's projected at \$208.6bn the aggregate amount of emerging markets corporate debt that will mature between June 2011 and the end of 2015, with non-financial institutions accounting for 72% of the total. It estimated that \$33bn in debt will mature in 2011, \$30.4bn in 2012, \$40.2bn in 2013, \$53bn in 2014 and \$52bn in 2015. It added that such debt would account for 2.6% of global corporate debt that will mature during the covered period. It said Eastern Europe, the Middle East & Africa accounts for \$84bn of maturing debt through 2015, followed by Emerging Asia with \$64bn, and Latin America with \$60bn. It noted that \$130bn, or 62.4%, of aggregate maturing debt through 2015 is investment grade level, while \$78.5bn or 37.6% is rated as speculative grade.

Source: Standard & Poor's

MENA

Equity markets down 9% in first 7 months of 2011

Arab stock markets decreased by 9.4% and GCC equity markets declined 6.8% by in the first 7 months of 2011 compared to increases of 1.7% and 1.9%, respectively, in the same period last year. Activity on the Iraqi stock exchange increased by 41.1% during the covered period and posted the best performance among Arab markets. It was distantly followed by the Palestine stock market with a 1.1% rise. In parallel, the Damascus financial market dropped by 41.5% in the first 7 months and posted the worst performance among Arab equity markets. It was followed by the Egyptian equity market with a 29.5% retreat, the Muscat stock exchange with a 14% decline, the Kuwait bourse with a 13.3% fall, the Tunis bourse with a 13.1% decrease, the Amman exchange with an 12.3% drop, the Casablanca equity market with a 11.5% regression, the Beirut Stock Exchange with a 10.3% decrease, the Bahrain bourse with a 9.8% contraction, the Dubai financial market with a 6.9% downturn, the Abu Dhabi market with a 3.7% decline, the Saudi equity market with a 3.5% drop, and the Doha exchange with a 3.2% retreat. In comparison, emerging market equities dropped by 0.5% and global equities rose by 1.8% in the first 7 months of 2011. Arab stock markets regressed by 2.7% in July compared to drops of 0.3% for emerging market equities and 1.7% for global equities.

Source: Local stock markets, Dow Jones, Byblos Research

POLITICAL RISK OVERVIEW - July 2011

ALGERIA

Two suicide bombings killed two people in Bordj Menaïel, part of a series of violent attacks by Al-Qaeda in the Islamic Maghreb (AQIM) in the Kabylie region. Further, security forces killed three AQIM suspects on July 25 in Boumerdes. The military court imprisoned 15 soldiers who were suspected of killing civilians in Kabylie.

EGYPT

During peaceful protests in Cairo, Alexandria and Suez, activists demanded stronger reforms and faster prosecution of former President Hosni Mubarak and various officials. In the face of the protests, Prime Minister Issam Sharaf shuffled the Cabinet on July 21 and replaced 12 members, including the Foreign Minister. Over 100 people were injured in clashes when protesters attempted to march to the Ministry of Defense on July 23rd. The head of the ruling military council Mohammed Tantawi stated that the council will not allow international monitors to observe elections for reasons of national sovereignty. Further, six people were killed and 21 were injured in fighting between security forces and armed gunmen in the Sinai region.

IRAN

The Iranian Military launched on July 16 attacks against the Party of Free Life of Kurdistan (PJAK) militants along the Iraqi border. The first attack came after Tehran accused the Kurdistan regional government of supporting PJAK militants. Also, Foreign Minister Ali Akbar Salehi said that Iran is ready to work with the International Atomic Energy Agency if it ends its investigations into nuclear weapons program allegations, but the agency rejected the condition.

IRAQ

U.S. Secretary of Defense Leon Panetta visited Iraq on July 11 and pressed lawmakers to decide on a scheduled year-end withdrawal of U.S. troops. Al Qaeda claimed responsibility for the killing of at least 37 people on July 5 during twin suicide attacks in Taji, north of Baghdad. Further, suspected members of al-Qaeda were arrested during the month, and were blamed for over 100 killings in Baghdad. Two Iraqi Kurds were killed by Iranian gunfire in the northern Kurdish region.

DEM REP CONGO

The electoral commission claimed that 32 million voters were registered, ahead of the November presidential elections. The Opposition Union for Democracy and Social Progress (UDPS) claimed irregularities in the process, including the registration of minors. One person was killed and several were injured as security forces dispersed a protest by UDPS supporters in Kinshasa. Also, the main parliamentary opposition party, Movement for the Liberation of Congo announced Jean-Pierre Bemba, an International Criminal Court indictee, to be its candidate in the presidential elections.

LIBYA

Clashes between rebels and pro-Qaddafi forces continued around key towns in Libya but little progress was made by either side. The Transitional National Council (TNC) announced that the rebel military leader Abdel Fattah Younes and two people were assassinated by pro-Qaddafi forces. A 32-nation Contact Group on Libya, including the U.S. and UK officially recognized the TNC as government on July 15th.

SUDAN

The United Nations reported that 2,000 people have been displaced from Delami in southern Kordofan. Further, the Parliament amended the nationality law on July 13, stripping the citizenship of around one million southerners residing in north. However, Ministers of the Sudan Peoples' Liberation Movement (SPLM) in the north boycotted the session, stating that the law violates the Comprehensive Peace Agreement between the two countries. The government and the Darfur Liberation and Justice Movement (LJM) signed a peace agreement in Doha on July 14, while the Justice and Equality Movement (JEM) refused to sign.

SOUTH SUDAN

South Sudan declared independence on July 9 amid rapid international recognition, while the UN General Assembly admitted the nation as a member on July 14th. The government raised the possibility of exporting oil through the north. Unity State rebel leader, Gatluak Gai was killed on July 23, days after signing a peace deal with the SPLM.

SYRIA

Syrian Security forces backed by tanks launched attacks on several cities on July 21, killing over 80 people in the city of Hama. The international community condemned the violence. Also, Syrian rights groups said that more than 1,600 people have been killed and at least 12,000 people have been arrested since the unrest began in March 2011. President Bashar Assad promised reforms in a third speech since the uprising began. The Cabinet approved a law allowing the formation of political parties other than the ruling Baath party, and approved a new election law. Two special advisers to UN Secretary General Ban Ki-Moon warned that there is a serious possibility that the regime had committed crimes against humanity and called for independent investigations.

TUNISIA

The slow pace of reforms led to clashes between protesters and security forces on July 16 and 17 in several cities of Tunisia. The Tunisian interim Prime Minister Beji Caid Sebti stated that religious extremists were responsible for these violent clashes. Further, the reform committee banned all foreign funding for political parties ahead of the October elections. Also, former President Zine el-Abidine Ben Ali was sentenced to 16 years of prison on July 28 for corruption and property fraud.

YEMEN

Violent clashes between government forces and tribes loyal to the opposition in the Arab region killed at least 40 people. Further, the capital Sanaa was divided between the troops of the former general Ali Mohsen and the Republican Guard loyal to Ali Abdullah Saleh, where both forces are preparing for a potential confrontation. Violence surged in early July between tribesmen supporting the Islamist Islah Party and Huthi fighters in the northern Jawf governorate, leading to the killing of a hundred people before the establishment of a ceasefire on July 30th. Officials blamed al-Qaeda for a suicide bomb attack that killed 9 soldiers in Aden. Overall, living conditions continue to deteriorate with severe fuel shortages, electrical outages and the increase of food prices.

Source: *International Crisis Group*



OUTLOOK

IRAN

Positive growth outlook, key risks are inflation, sanctions and slowdown of reforms

The International Monetary Fund projected Iran's real GDP growth at 2.5% in the 2011/12 calendar year ending in March, compared to 3.2% in 2010/11 and 3.5% in 2009/10. It also forecast real non-oil growth at 2.6% in 2011/12 relative to 3.6% in 2010/11 and 4.3% in 2009/10. It said economic growth rebounded from the cyclical downturn in 2008/09, driven by a recovery in agriculture production and higher oil prices. It expected that the subsidy reforms, which removed about \$60bn or 15% of GDP in annual product subsidies, to increase the efficiency and competitiveness of the economy, support growth and move towards a market-based economy. The Fund indicated that the medium-term growth outlook is subject to considerable risks. It considered the main risk to be the acceleration of inflation if macroeconomic policies are too accommodative. It added that an increase in unemployment during the restructuring of the corporate sector could pose social tensions and lead to a loosening of macroeconomic policies. In addition, progress with reforms could slow down as a result of reform fatigue. It noted that new international sanctions in 2010 have increased the cost of doing business, limited FDI and technology transfer, and affected international trade transactions, which might affect oil exports.

It expected average inflation to rise from 12.4% in 2010/11 to 22.5% in 2011/12 because of a steep increase in prices, but anticipated it to decline in 2012/13 if authorities implement sufficiently tight credit and fiscal policies. It forecast the fiscal surplus to rise 1.7% of GDP in 2010/11 to 2.8% of GDP in 2011/12 and for the non-oil deficit to stay at about 17% of non-oil GDP. It also estimated the current account surplus at 6% of GDP 2010/11 and to improve to 8.7% of GDP in 2011/12. It estimated gross foreign currency reserves at 9.5 months of import cover in 2010/11 and at 12.5 months in 2011/12. It stressed, however, that continued prudent policies are essential to maintain macroeconomic stability and lay the basis for sustained growth.

Source: International Monetary Fund

CÔTE D'IVOIRE

Economic activity to contract by 6.3% in 2011

The International Monetary Fund projected Côte d'Ivoire's real GDP to contract by 6.3% in 2011 compared to growth of 2.4% in 2010. It said economic activity sharply dropped in the first four months of 2011, followed by a gradual recovery since May that could lead to a possible normalization of activity near 2010 levels in the fourth quarter of the year. It said the authorities face the challenge of consolidating peace, restoring law and order, supporting a recovery in economic activity, as well as fully restoring the operations of the public administration. It added that revenue collections may be very low for several months until economic activity fully recovers, while the new government faces large immediate cash needs that will require a strict prioritization of spending. It noted, however, that if the near-term challenges can be addressed effectively and if the election process is completed, prospects are good for a resumption of strong growth. It considered that real GDP growth in the

range of 8% to 10% should be possible next year once the security situation has improved, parliamentary elections are held, and investor confidence is restored. It noted that, after a decade of eroding per capita income, investment opportunities in the country abound, including in oil exploration, electric power generation, construction, and transport infrastructure.

The Fund forecast the fiscal deficit to widen from 2.3% of GDP in 2010 to 8.5% of GDP this year. It said the budget for the period starting April 26, 2011 envisages a sizeable decline in revenues, a considerable rise in expenditures, and a large deficit that is expected to be covered largely by foreign resources. It considered the budgetary stance to be appropriate and conducive to economic recovery and macroeconomic stability, while avoiding new domestic payments arrears. It said budget support from bilateral and multilateral sources should be sufficient to cover most of the deficit in 2011 without further recourse to non-concessional borrowing. The Fund indicated that import needs as well as declining oil production are expected to return the current account balance to a moderate deficit over the medium term. It projected the current account deficit at 5.2% of GDP in 2011 relative to 1% of GDP in 2010.

Source: International Monetary Fund

ANGOLA

Heavy oil dependency is key vulnerability

Standard & Poor's projected economic growth in Angola at 7.5% in 2011 and 8.5% in 2012 compared to 4% in 2010, and expected growth to average around 7% per year in the 2011-2014 period. It considered that Angola's vast oil endowment and relatively low population bode well for its future economic prospects. It said, however, that the economy's structure is constrained by its heavy reliance on oil, as the latter accounts for 95% of the country exports and more than half of its GDP. It noted that the country's oil dependence has slowed the development of the non-oil economy, but it noted efforts towards diversification, mainly through the agriculture sector and the country's large diamond and copper reserves. It added that the non-oil economy has been growing strongly, though from a low base. Further, it expected annual inflation to remain high at around 13% between 2011 and 2014 due to loose monetary policy and increased public spending. S&P said Angola remains at risk of external shocks given its commodity-dependent economy, adding that the sovereign's capacity to adequately respond to such shocks still needs to be developed. It noted, however, that policy consistency is improving and is supported by a Standby Agreement with the IMF.

S&P expected the public debt and contingent liabilities to remain low, and for Angola to be able to finance its vast infrastructure needs and still post a fiscal surplus. It forecast the fiscal balance to post a surplus of 8% of GDP in 2011 and 7.5% of GDP in 2012 relative to a surplus of 8.7% of GDP in 2010. But it noted that the SBA with the IMF should help tighten fiscal policy and control expenditures. In parallel, S&P estimated that Angola's external finances constitute a key strength, with usable reserves and current account receipts entirely covering gross financing needs. It projected the current account balance at 8% of GDP this year and 7.9% of GDP in 2012.

Source: Standard & Poor's



ECONOMY & TRADE

MENA

M&A activity up 33% to \$21bn in first half of 2011

Figures released by financial information provider Zawya show that a total of 173 merger & acquisition deals were closed in the Middle East & North Africa in the first half of 2011, up 30% from 133 deals in the same period last year. Also, the aggregate value of M&A deals in the region reached \$21.2bn in the first half of this year, up 33% from \$16.3bn in the same period last year. There were 29 deals in January with a value of \$4bn, 30 deals in February (\$5.8bn), 25 deals in March (\$3.8bn), 25 deals in April (\$0.7bn), 32 deals in May (\$2.2bn) and 32 deals in June (\$4.7bn). The UAE led the region with 32 deals, followed by Saudi Arabia with 24 deals, and Tunisia with 4 deals. The aggregate value of deals in Tunisia totaled \$2.1bn, followed by Saudi Arabia with \$1.7bn. Tunisia had the largest average deal value of \$535m in the first half, replacing Qatar that had an average deal value of \$634m in the same period last year. In parallel, the aggregate targeted value of M&A activity reached \$9.3bn in the first half of 2011 compared to \$10.5bn in the same period last year, with the GCC countries accounting for \$5.2bn or 56% of the total relative to \$8.4bn or 79% in the same period last year. The UAE had \$21bn in targeted deals in the first half of 2011, constituting an increase of 226% year-on-year.

Source: Zawya

TUNISIA

Sovereign ratings affirmed, outlook negative

Standard & Poor's affirmed Tunisia's long- and short-term foreign currency ratings at 'BBB-/A-3' and the local currency rating at 'BBB/A-3', but revised the outlook to 'negative' from 'stable'. It attributed its outlook revision to the continuous risks to Tunisia's credit standing at least until the elections take place and the economic recovery firms up. It said the ratings remain supported by the country's track record of modest fiscal and current account deficits as well as past policies that led to sustained economic growth. It noted that a more legitimate political system could strengthen the social contract, improve the business climate and promote more inclusive growth. Further, the agency added that the weaknesses in the banking sectors, mainly in state-owned banks, could hold back the recovery as the public banking sector was weakly capitalized and had high NPLs and low provisioning, even before the onset of the revolution. It expected the economic slowdown to worsen asset quality, which would raise financing costs and hamper investment. It said that recapitalization requirements of public sector banks could reach 5% of GDP. S&P forecast the current account deficit to widen to more than 6% of GDP this year but expected tourism and FDI to improve gradually and to return to the past levels by 2013. It also projected the fiscal deficit at about 5% of GDP in 2011 and 4% in 2012. It said downward risks on the ratings come from uncertainties about medium-term policy formulation and implementation, weaker fiscal policies and the weakened banking system's negative impact on growth.

Source: Standard & Poor's

ARMENIA

Yerevan is 167th most expensive city in the world, fifth in CIS

The annual survey on the cost of living in 214 cities around the world by global consultants Mercer Human Resource Consulting ranked Yerevan as the 167th most expensive city and the fifth most expensive among 10 cities surveyed in the Commonwealth of Independent States (CIS) in 2011. Yerevan was the 170th costliest city worldwide and the fifth costliest in the CIS in 2010. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. On a global basis, Yerevan was considered to be more costly than Guatemala City in Guatemala, Sofia in Bulgaria and Minneapolis in the U.S.; and was less expensive than Rabat in Morocco, San Jose in Costa Rica and Doha in Qatar. Regionally, it was considered more expensive than Tashkent in Uzbekistan, Tbilisi in Georgia and Minsk in Belarus; while it was less expensive than Kiev in Ukraine, Almaty in Kazakhstan and Baku in Azerbaijan. Moscow is the most expensive city and Bishkek in Kyrgyzstan the least costly city in the CIS. Luanda in Angola remained the world's most expensive city globally. The survey is conducted annually to help multinational companies assess international hardship allowances.

Source: Mercer Human Resource Consulting

BELARUS

Sovereign ratings affirmed, outlook negative

Moody's Investors Service downgraded Belarus' foreign- and local-currency government bond ratings to 'B3' from 'B2', as well as the foreign-currency bond ceiling to 'B3' from 'B2', foreign-currency bank deposit ceiling to 'Caa1' from 'B3' and local-currency bond and bank deposit ceilings to 'Ba3' from 'Ba1'. It attributed the downgrade to limited external assistance received to bridge the gap in the balance of payments, the impact of foreign exchange shortages, the significant devaluation of the ruble, and a likely economic downturn; as well as continued concerns about the political and economic fallout of external liquidity concerns. It said that the reduced support from Russia, mainly due to disagreements over energy prices and privatization, will jeopardize the country's external accounts. It noted that Russian external financial assistance and subsidized oil imports helped fund the country's high GDP growth of 7% per year on average over the past decade. It indicated that external financing help from the IMF would be conditional on a reduction in social programs, while financing from Russia would depend on a broad privatization program. Further, it expected banks' asset quality to come under significant pressure in the next two years, which would erode banks' capital buffers. Moody's also expressed concerns towards the recent trend of foreign currency deposit outflow, as retail depositors withdrew around \$560m in foreign currency deposits, equivalent to 16% of the sector's aggregate foreign currency deposits. It said the ratings remain on review for further possible downgrade, pending an assessment of the likelihood of the government securing additional external financing and implementing policies to repair macro-economic distortions.

Source: Moody's Investors Service



BANKING

SYRIA

Private sector accounts for 48% of credits, private banks' lending rises 4.6% year-to-April

Figures released by the Central Bank of Syria indicate that total credits extended by banks operating in Syria reached SYP 1,336bn, or about \$28.2bn, at the end of April 2011, constituting an increase of 1.9% from SYP 1,312bn at end-2010 and a rise of 17.9% from end-April 2010. Credits in Syrian pounds accounted for 96.1% of the total, down from 97.1% year earlier, and foreign currency loans accounted for the remaining 3.9%. Loans to the resident private sector accounted for 48.4% of total lending relative to 45.7% at end-April 2010, followed by credits to non-financial public enterprises with 44.1% down from 46.6% a year earlier, while the central government accounted for the remaining 7.5%. Households accounted for 73.8% of resident private sector lending, followed by businesses with 26.2%. Households and businesses represented 74.1% and 25.8%, respectively, of resident private sector lending at end-April 2010.

Further, the sectoral distribution of credit shows that wholesale & retail trade accounted for 47.2% of the total, excluding credit to the central government, followed by building & construction with 15%; agriculture with 12%; mining, manufacturing & utilities with 9%, while other activities accounted for the remaining 17%. Also, public commercial banks accounted for 77.4% of total lending at end-April 2011, down from 83.1% a year earlier, while private commercial banks accounted for 19% relative to 14.5% at end-April 2010 and private Islamic banks for the remaining 3.7%. Guaranteed loans & advances accounted for 66% of private banks' lending, followed by personally secured credits & overdrafts with 19.6%, and discounts with 10.7%. Private commercial banks' lending rose by 4.6% from end-2010, while credits by state-owned banks increased by 1.3% and Islamic banks' activity grew by 4.5% from end-2010.

Source: Central Bank of Syria, Byblos Research

JORDAN

Private sector lending up 7% in first half of 2011

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD36.6bn at the end of June 2011, constituting a rise of 4.6% from end-2010 and an increase of 11% from JD32.9bn in June 2010. Resident private sector loans rose by 8.2% in the first half of the year to JD14.7bn while credit facilities to the non-resident private sector declined by 3.9% to JD980m, leading to an increase of 7.3% in overall private sector lending during the covered period. Resident private-sector lending accounted for 40.2% of total assets, compared to 40.17% a year earlier. In parallel, resident private sector deposits reached JD18.9bn, up 3% from the end of 2010 and by 11.7% from June 2010, while non-resident deposits improved by 6.9% to JD2.8bn in the first half of the year. Also, deposits of non-bank financial institutions contracted by 9.2% from end-2010 to JD184m. The central government deposits reached JD670m, up 0.6% from end-2010, while those of public non-financial institutions regressed by 3% to JD292.4m. Claims on the public sector increased by 8% to JD6.1bn, with claims on the central government accounting for 91% of lending to the

public sector. Claims on the public sector accounted for 16.8% of total assets at end-June compared to 16.3% a year earlier. Further, reserves at the Central Bank of Jordan totaled JD5.3bn, down 17.9% from JD6.5bn at end-2010; while capital accounts and allowances rose by 4.3% to JD5.2bn. Deposits with foreign banks reached JD4.9bn at end-June 2011, up 25% from end-2010, while the sector's foreign liabilities increased by 11.7% to JD6.8bn.

Source: Central Bank of Jordan, Byblos Research

UKRAINE

Banks' outlook revised to 'positive'

Fitch Ratings affirmed the 'B/B+' long-term foreign and local currency Issuer Default Rating (IDR) of foreign-owned Ukrainian banks UkrSibbank, Ukrsotsbank, Bank Forum, ProCredit Bank, Pravex-Bank and VTB Bank; as well as the 'B' ratings of the state-owned State Export-Import Bank of Ukraine and State Savings Bank of Ukraine. It also revised the outlook on all bank ratings to 'positive' from 'stable' due to its earlier revision of Ukraine's sovereign ratings outlook to 'positive'. It said that the outlook revision on the six private banks reflects the increased likelihood of an upgrade of Ukraine's country ceiling. Fitch noted that the ratings of foreign-owned banks reflect their still weak asset quality, potential need for further capitalization, as well as generally depressed profitability due to continued de-leveraging, falling market rates and high credit risk costs. It said that the banks' NPLs ratio and restructured exposures reached on average 55% at the end of March 2011, with NPLs alone accounting for around 20%. It noted that the loan-loss absorption capacity improved at the end-March, as banks built up reserves and received new capital. But Fitch warned that this may prove insufficient, given the scale of problem loans and that borrowers' financial position has yet to stabilize.

Source: Fitch Ratings

CHINA

Credit risks imply significant contingent liabilities

Figures issued by the International Monetary Fund indicate that the capital adequacy ratio of banks operating in China reached 12.2% at the end of 2010 relative to 11.4% at the end of 2009. Also, the sector's NPLs ratio regressed to 1.1% at end-2010 from 1.6% at end of 2009 and 2.4% at end-2008; while the sector's provisions-to-NPLs ratio increased to 218% from 153% at end-December 2009 and 117% at end-2008. It said key credit risks consist of loans to local government financing vehicles, off-balance sheet lending, and credit to the property sector. It added that such risks imply significant contingent liabilities, despite measures by authorities to raise capital requirements and increase regulatory and supervisory scrutiny. The Fund said that the government should continue to orient the banking system towards commercial operations; bolster its crisis management capabilities that allows for early intervention and an orderly exist for weak or failing financial institutions; and strengthen supervision to identify and manage macro-financial vulnerabilities. It recommended the introduction of a formal deposits insurance scheme to define the limits of state support, and encouraged the setting of clear limits on the People Bank of China's emergency liquidity support.

Source: International Monetary Fund



ENERGY / COMMODITIES

Brent falls to 4-week low as dollar rallies

Prices of Brent crude dropped to a four-week low on August 4, after Japan's intervention to stop the rise if the yen led to the dollar soaring. Brent fell 53 cents to \$112.7 a barrel on August 4, the lowest intraday price since July 6th. Worries about slowing global growth and Europe's worsening debt crisis reduced investor confidence and pulled Asian stock markets lower. Gasoline futures led the oil complex lower on August 3 after U.S. government data showed stockpiles of the fuel rising sharply last week, while demand over the past four weeks fell 3.6% from the same period last year. U.S. gasoline inventories rose by 1.7 million barrels last week, while the four-week average demand reached 9.1 million barrels per day. Further, crude stockpiles at Cushing in Oklahoma dropped to their lowest level since December and Brent's premium to U.S. crude narrowed to \$21.3 a barrel on August 4th. The premium rose to \$23.1 on August 2 a barrel, which was the widest since the \$23.6 a barrel record reached on July 14th.

Source: Thomson Reuters

Korean firms to build \$5bn gas-to-liquid plant in Nigeria

A group of Nigerian and Korean companies signed a deal to build Africa's largest gas-to-liquid plant in Ogoni in Nigeria. The investment is expected to cost \$5bn with a four-year completion date target. The agreement also covers another \$500m for the construction of a Liquefied Natural Gas (LNG) plant in Oguta with a capacity of about 30,000 metric tons per day. The LNG is projected to be built within the next six to nine months.

Source: All Africa

OPEC crude output rises to highest level since November 2008

The volume of oil produced by the Organization of Petroleum Exporting Countries (OPEC) reached its highest level in July since late 2008, compensating for lost Libyan production. Total production from 12 OPEC members rose by 607,000 barrels per day in July to 30.4 million barrels a day. This level was only outpaced by the 31.1 million barrels per day reached in November 2008. The boost in production comes mainly from Saudi Arabia, which increased its output by 350,000 barrels a day to 9.8 million barrels a day in July. However, OPEC production remains below the demand it expects for its crude oil at 31 million barrels a day in the third quarter of 2011.

Source: Thomson Reuters

Jordan to receive Iraqi oil in September

Jordan is expected to import heavy oil from Iraq starting in September 2011 as energy officials search for alternative energy sources amid dislocated natural gas supplies from Egypt. Under an agreement signed between the two countries in June 2011, Jordan will receive 30,000 tons of heavy oil per day at \$88 per ton. The continuous disruptions in gas supplies from Egypt cost the Kingdom a total of JD637m in the first half of 2011.

Source: Jordan Times

Base metals: Aluminum prices rise in China, decline overall

Aluminum prices declined 2.7% week-on-week to \$2,568 per ton, but the Chinese market continues to provide support to prices. Prices of aluminum in China increased 5% since July 21 to reach their highest level since early August 2008. Aluminum prices in Shanghai increased by 14% to reach CNY18,600 per ton on August 2, while the three-month futures price gained 10% to reach CNY18,545 per ton. However, aluminum stocks at Shanghai Futures Exchange warehouses fell 59% year-to-date to reach 182,000 tons, the lowest level since August 2008. In the very near term, the risks for China's domestic prices are still to the upside and the implication for three-month aluminum prices remains positive for now.

Aluminum consumption in China rose 7% year-on-year in the first half of 2011. Output of aluminum products, a proxy of real demand from end consumers, increased 34% year-on-year in the first half of 2011. In contrast, output of primary aluminum in China, the raw material for aluminum products, rose only 6% year-on-year in the same period.

Source: Standard Chartered

Precious metals: Gold prices remain high as worries about debt levels persist

Risk aversion weighed on some precious metals in the past week, such as palladium and silver, but gold prices rose due to fears about the U.S. debt ceiling and a potential downgrade of the country's 'AAA' rating. Gold prices increased 0.5% week-on-week to \$1,626 an ounce on August 4, while silver prices were down 3% week-on-week to \$40 an ounce. Palladium and platinum performed well in recent weeks, but are currently down 0.5% and 0.8% week-on-week, respectively. Gold closed at a record high for the fifth time in the past eight sessions.

Despite high prices, Central Banks continue to buy gold in substantial volumes, where the Bank of Korea announced that it bought 25 tons of gold in the past two months. China currently has 1,054 tons of gold and India 558 tons of gold. Physical gold ETFs reached 69.2 million ounces on August 1, up 4% month-on-month and reached a record high. The recent surge has been driven by worries about the sovereign debt crisis in Europe and by the latest problems in the U.S.

Source: Standard Chartered

Global Commodity Outlook			
(3-months LME, \$/ton)	2010	2011f	2012f
Aluminum	2,201	2,602	2,400
Copper	7,570	9,581	10,000
Lead	2,172	2,602	2,650
Nickel	21,913	25,301	23,000
Tin	20,448	30,168	30,000
Zinc	2,188	2,384	2,400
(Spot price, \$/ounce)			
Gold	1,227	1,518	1,700
Palladium	529	798	900
Platinum	1,613	1,845	2,050
Silver	20	37	40

Source: Standard Chartered



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Africa													
Algeria	-	-	-	-	BB	-9.9	16.1	2.9	7.4	2.0	3.2	3.4	1.8
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	B	2.7	20.6	20.2	35.7	8.2	-	1.6	17.6
	Stable	Stable	Stable	-	Negative								
Egypt	BB	Ba3	BB	BB+	CCC	-8.2	74.2	14.3	66.5	4.6	88.3	-2.0	3.3
	Negative	Negative	Negative	Negative	Stable								
Ethiopia	-	-	-	-	B	-1.5	-	-	257.5	-	-	-3.9	0.3
	-	-	-	-	Stable								
Ghana	B	-	B+	-	BB	-10.8	-	34.9	50.0	-	-	-11.6	10.9
	Stable	-	Negative	-	Positive								
Ivory Coast	-	-	-	-	CC	-0.2	-	50.1	111.2	-	-	6.8	1.8
	-	-	-	-	Stable								
Libya	BB	-	B	-	B	13.3	0	7.2	11.6	3.2	5.1	20.1	2.5
	Negative	-	Stable	-	Stable								
Mauritania	-	-	-	-	-	-4.5	88.5	69.8	128.4	-	1,220	-7.6	-1.3
	-	-	-	-	-								
Morocco	BBB-	Ba1	BBB-	BBB-	BB	-4.5	49.9	24.1	78.4	8.0	110.0	-5.3	0.9
	Stable	-	Stable	Stable	Stable								
Nigeria	B+	-	BB-	-	B	-7.9	14.1	5.0	14.2	0.7	-	13.0	0
	Stable	-	Negative	-	Stable								
Sudan	-	-	-	-	C	-3.7	71.4	57.4	343.6	-	3,780	-8.9	5.5
	-	-	-	-	Stable								
Tunisia	BBB-	Baa3	BBB-	BBB	B	-2.8	43.0	46.3	101.0	11.7	195.2	-4.4	3.7
	Negative	Negative	Negative	Stable	Stable								
Middle East													
Bahrain	BBB	BBa1	A-	BBB+	BBB	-5.4	32.8	139.6	170.2	6.8	946.6	5.2	9.9
	Negative	Negative	Negative	Negative	Stable								
Iran	-	-	B+	BB-	B	0.4	21.7	5.6	19.9	2.7	21.3	4.2	0.8
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CC	-14.2	42.2	41.8	65.4	-	75.3	-14.4	1.4
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	B	-6.3	63.0	19.2	44.8	4.8	48.6	-7.2	9.2
	Negative	Negative	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	17.1	6.5	46.2	72.2	3.7	224.0	30.1	-8.7
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B1	B	B	CCC	-7.2	136.7	160.8	240.3	14.7	212.2	-10.2	10.0
	Positive	-	Stable	Stable	Stable								
Oman	A	A2	-	A	A	5.3	5.7	15.4	22.6	-	63.7	5.8	3.9
	Negative	-	-	Stable	Stable								
Qatar	AA-	Aa2	-	AA-	AA	10.8	27.2	80.6	139.3	10.0	512.3	15.6	5.0
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	1.9	12.9	22.6	40.5	2.4	22.7	6.7	7.7
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	BB-	CCC	-4.3	26.9	14.9	48.0	-	52.9	-3.9	2.7
	-	-	-	Stable	Stable								
UAE	-	Aa2	-	AA-	BB	-2.7	24.7	53.1	57.7	7.3	360.4	5.4	0.6
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	CC	-5.5	45.8	21.4	70.5	-	139.6	-4.9	0.3
	-	-	-	Negative	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	-	Ba2	BB-	-	-	-4.8	44.8	38.4	402.7	-	194.2	-14.6	9.2
Bulgaria	BBB Stable	Baa3 Stable	BBB- Stable	-	BB Stable	-1.8	16.2	109.2	122.3	21.2	393.2	-6.2	9.8
Kazakhstan	BBB Stable	Baa2 -	BBB- Stable	-	BB Stable	-2.8	16.0	86.4	182.9	30.3	350.4	3.2	8.8
Romania	BB+ Stable	Baa3 -	BBB- Stable	BBB- Negative	BB Stable	-6.8	33.9	77.4	197.5	24.6	-	-5.5	3.8
Russia	BBB Stable	Baa1 Positive	BBB Stable	-	BBB Stable	-5.6	9.3	31.9	124.7	13.4	99.2	4.5	-0.6
Turkey	BB Positive	Ba2 Positive	BB+ Stable	BB Stable	B Stable	-4.1	44.4	41.3	187.3	39.7	-	-3.4	1.0
Ukraine	B+ Positive	B1 Positive	B Negative	-	CCC Positive	-5.5	39.2	79.0	164.9	35.9	330.0	-2.0	4.0

Sources: International Monetary Fund; Economist Intelligence Unit - The above figures are estimated for 2010



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	22-Jun-11	No change	09-Aug-11
Eurozone	Refi Rate	1.50	07-Jul-11	Raise 25bps	04-Aug-11
UK	Bank Rate	0.50	07-Jul-11	No change	04-Aug-11
Japan	O/N Call Rate	0-0.10	12-Jul-11	No change	05-Aug-11
Australia	Cash Rate	4.75	02-Aug-11	No change	07-Sep-11
New Zealand	Cash Rate	2.50	28-Jul-11	No change	15-Sep-11
Switzerland	3 month Libor target	0.25	16-Jun-11	No change	Sep-11
Canada	Overnight rate	1.00	19-Jul-11	No change	07-Sep-11
Emerging Markets					
China	One-year lending rate	6.56	06-Jul-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	22-Jun-11	No change	09-Aug-11
Taiwan	Discount Rate	1.88	24-Jun-11	No change	Sep-11
South Korea	Base Rate	3.25	14-Jul-11	No change	11-Aug-11
Malaysia	O/N Policy Rate	3.00	07-Jul-11	No change	08-Sep-11
Thailand	1D Repo	3.25	13-Jul-11	Raise 25bps	24-Aug-11
India	Reverse repo rate	8.00	26-Jul-11	Raise 50bps	16-Sep-11
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	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	6.25	23-Jun-11	No change	23-Aug-11
South Africa	Repo rate	5.50	21-Jul-11	No change	22-Sep-11
Kenya	Central Bank Rate	6.25	27-Jul-11	No change	01-Sep-11
Nigeria	Monetary Policy Rate	8.75	26-Jul-11	Raise 75 bps	N/A
Ghana	Prime Rate	13.00	06-Jul-11	Cut 50 bps	Sep-11
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	08-Jul-11	No change	26-Aug-11
Brazil	Selic Rate	12.50	20-Jul-11	Raise 25bps	Aug-11
Armenia	Refi Rate	8.50	13-Jul-11	No change	N/A
Romania	Policy Rate	6.25	01-Jul-11	Raise 25bps	N/A
Bulgaria	Base Interest	0.18	01-Aug-11	Raise 5bps	N/A
Kazakhstan	Refi Rate	7.50	01-Apr-11	No change	N/A
Ukraine	Discount Rate	7.75	10-Aug-10	Cut 75bps	N/A
Russia	Refi Rate	8.25	03-May-11	Raise 25bps	N/A



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