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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Tourism arrivals up 4.4% to 980 million in 2011

The World Tourism Organization (WTO) indicated that international tourist arrivals reached 980 million in 2011, constituting an increase of 4.4% from 939 million in 2010. It said that tourist arrivals to Europe reached 503 million in 2011 and accounted for 51.3% of global international arrivals, followed by Asia & the Pacific with 216 million (22%), the Americas with 156 million (16%), the Middle East with 55 million (5.6%), and Africa with 50 million (5.1%). Further, tourist arrivals to Europe increased by 28 million in 2011 and posted a growth of 6% year-on-year, followed by Asia & the Pacific with 11 million (+5.6%), and the Americas with 6 million (+4.2%). Tourist arrivals to Africa remained unchanged year-on-year while those to the Middle East dropped by 5 million and posted an annual decrease of 8%. In parallel, the WTO expected international tourist arrivals to increase by 3% to 4% in 2012. It projected tourist arrivals to Asia & the Pacific and Africa to grow by 4% to 6% this year; tourist arrivals to Europe and the Americas to rise by 2% to 4%, and those to the Middle East to range from no growth to an increase of up to 5%.

Source: World Tourism Organization

EMERGING MARKETS

FDI up 15% to $755bn in 2011

Preliminary figures released by the UN Conference on Trade & Development (UNCTAD) show that foreign direct investment to developing and transition economies reached a record high $755.4bn in 2011, constituting an increase of 15.5% from $654.1bn in the preceding year. FDI to these economies was mainly driven by robust Greenfield investments. FDI to developing economies rose by 13.7% year-on-year to $663.7bn in 2011, while inflows to transition economies reached $91.7bn, up 30.6% from end-2010. FDI to developing economies was largely driven by cross-border M&As instead of the much-needed investment in productive assets through Greenfield investment projects. In comparison, FDI to developed countries totaled $753.2bn in 2011 and increased by 18.5% year-on-year; while global FDI reached $1,508.6bn and rose by 17% year-on-year. UNCTAD noted that FDI to developing and transition economies accounted for 50% of global FDI. It said that FDI to South, East & Southeast Asia reached $343.7bn; followed by Latin America & the Caribbean with $216.4bn; Southeast Europe and the Commonwealth of Independent States with $91.7bn, Africa with $54.4bn, and West Asia with $50.4bn. Further, FDI to Latin America rose by 34.6% year-on-year; followed by Southeast Europe and the CIS with a 30.6% increase; South, East & Southeast Asia with an 11.4% increase; while FDI to West Asia dropped by 13.4% and that to Africa by a marginal 0.7%. The UNCTAD projected global FDI to rise moderately to around $1.6 trillion this year. It expected that a fragile world economy, uncertainties surrounding the future of the euro, and rising financial market turbulence to impact FDI flows in 2012.

Source: UNCTAD

MENA

Equity markets up by 2% in January

Arab stock markets increased by 2.1% and GCC markets rose by 1.5% in January 2012 compared to decreases of 3.7% and 2.4%, respectively, in the same month last year. Activity on the Egyptian stock market increased by 26.3% in January and posted the best performance among Arab markets during the month. It was followed by the Dubai financial market with a 6.1% increase, the Saudi Arabia equity market with a 3.3% rise, the Abu Dhabi exchange with a 2.2% improvement, the Casablanca stock market with a 1.7% rise, and the Kuwait bourse with a 0.9% increase. In parallel, the Iraqi stock exchange dropped by 10.6% in January and posted the worst performance among Arab stock markets. It was followed by the Amman and the Doha stock markets with a 2.4% drop, the Beirut and the Damascus stock exchanges with a 0.9% fall, the Tunis equity market with a 0.6% downturn, the Bahrain bourse with a 0.5% contraction and the Palestine market with a 0.2% decrease. In comparison, emerging market equities rose by 11.8% and global equities increased by 6.1% in January.

Source: Local stock markets, Dow Jones Indices, Byblos Research

Investment banking activity retreats in 2011

Figures issued by Thomson Reuters show that equity capital markets issuance in the Middle East reached $10.2bn in 2011 through 69 issuances, constituting an increase of 47% from $6.9bn in 2010 with issuers in the financial sector accounting for $7.1bn, followed by the real estate and the energy & power sectors with $985m each. Also, debt issuance in the region dropped by 20% to $29.5bn last year through 35 deals. Islamic issuance accounted for $23.9bn or 81% of total debt issuance in the region, up 67% from $14.3bn in 2010. Further, the volume of mergers and acquisitions (M&A) decreased by 43% to $10.1bn through 440 deals, from $17.7bn in 2010, with the real estate sector constituting the main target industry in the region with $2.6bn, followed by the energy & power sector with $1.7bn, and healthcare with $1.3bn. Also, the value of syndicated loans stood at $15.3bn in 2011 through 32 loans, down 56.8% from $35.4bn last year. The telecommunications sector accounted for $3.7bn of total loans, followed by the financial sector with $3.6bn and the industrial sector with $2.4bn.

In parallel, investment banking and advisory fees in the Middle East stood at $406.8m in 2011, constituting a decline of 40% from $678.4m in 2010 and posting the lowest level of fees since 2004. Thomson Reuters attributed the decrease in investment banking fees in the Middle East last year to the regional unrest. M&A fees totaled $221.2m in 2011 and accounted for 54.4% of the overall fee pool; followed by fees from equity capital markets deals with $82.1m (20.2%), debt capital markets fees with $55.6m (13.7%) and fees from syndicated lending with $47.8m (11.8%). Debt capital markets fees dropped by 66% year-on-year while M&A fees fell by 37% year-on-year.

Source: Thomson Reuters

POLITICAL RISK OVERVIEW - JANUARY 2012

ALGERIA

The police violently dispersed demonstrators protesting unemployment, where at least 10 were injured and 40 were arrested. Main opposition parties demanded President Abdelaziz Bouteflika to remove Prime Minister Ahmed Ouyahia, and appoint an interim Cabinet of technocrats to ensure credible parliamentary elections. The governor of Illizi region Mohamed Khelfi was released on January 18 by Libyan militia.

EGYPT

Islamist parties secured 73% of assembly seats during the parliamentary elections held on January 21, after which the Presidential election will take place in June 2012. Freedom & Justice Party leader Mohammed Saad al-Katatni was elected as the Speaker of the People's Assembly. The military partially lifted the emergency law and released around 3,000 prisoners. Clashes between authorities and the Bedouin continued throughout the month.

IRAN

The International Atomic Energy Agency (IAEA) and Iranian officials confirmed that Iran is producing 20% of enriched uranium at Fordo plant, prompting new Western sanctions. Iranian nuclear scientist Ahmadi Roshan was killed on January 11 in a car bomb, which Iran blamed it on the U.S. and Israeli intelligence services. Tehran announced its willingness to return to nuclear talks and called on the U.S. to negotiate without conditions. Also, EU foreign ministers agreed on January 23 to impose an embargo on Iranian oil exports starting on July 1, and freeze the Central Bank's assets. Iran threatened to stop oil exports to Europe immediately.

IRAQ

Iraqiya ministers and members of Parliament ended the boycott over the December arrest warrant for Vice President Tariq Al-Hashimi. The UN called for immediate suspension of the death penalty following the execution of 34 people for terrorism-related offences. A bomb attack on Shiite pilgrims in the south killed over 100 people. Further, gunmen attacked a police compound in Ramadi on January 15 and killed 9 people.

DEM REP CONGO

The Independent National Electoral Commission (CENI) published most of the results of the November legislative elections. The ruling People's Party for Reconstruction & Democracy (PPRD) won 57 seats, followed by the opposition Union for Democracy and Social Progress (UDPS) with 34 seats. Majority and opposition parties accused CENI of fixing the results, and the Catholic Church called on CENI to correct the results or resign. The UN's refugee agency stated that violence displaced 100,000 people since November 2011. Over 40 people were killed and thousands were displaced in early January by the FDLR in South Kivu. Also, a Gedeon Mayi-Mayi attack on January 11 displaced over 10,000 people in Katanga. Clashes between Walikale and Masisi militias killed 22 people and displaced another 35,000.

LIBYA

The Benghazi office of the National Transitional Council (NTC) was attacked by armed protesters. Violence continued throughout January, where four people were killed in clashes between rival armed groups in Tripoli. NTC supporters were forced out of Bani Walid on January 23 by local protestors. Also, the NTC published a draft electoral law without regulations for political parties, forcing candidates to run as independents. The draft law was rejected by 12 moderate Islamist parties.

SUDAN

The government stated that South Sudan's oil was confiscated to meet unpaid transit fees. Also, the African Union High Level panel (AUHIP) put forward a two-part proposal, first to arrange a transitional period of 30 days during which South Sudan will continue to transport oil through Sudan until an agreement on transit fees is reached. The second part of the proposal suggests some financial compensation of oil passing through Sudan since the date of South Sudan's independence. Around 20 Justice & Equality Movement (JEM) rebel leaders announced their intention to join the Doha Peace Agreement. President Omar al-Bashir appointed governors to five Darfur states, including two new states, in accordance with the peace agreement. The UNAMID accused Khartoum of restricting the Darfur peacekeepers' movement, after one peacekeeper was killed and two were wounded in an ambush in south Darfur.

SOUTH SUDAN

The Sudanese armed forces raided the Upper Nile State refugee camp on January 23rd. Further, thousands of people were displaced in continuing violence between Murle and Lou Nuer tribes in Akobo, Uror and Duk Padiet counties. Also, at least 70 people were killed in an attack on Tonj East County.

SYRIA

The UN Security Council (UNSC) failed to agree on a resolution calling on President Bashar Assad to step down but talks are set to continue. Russian Foreign Minister Sergei Lavrov stated that Russia will reject sanctions and will use its UNSC veto to block any proposals for military intervention. Britain, France, and the United States condemned Russia's sales of weapons to Syria. The Arab League requested a meeting with UN Secretary-General Ban Ki-moon to discuss the situation in Syria and demanded UNSC's support. Suicide bombs in Damascus on January 6 killed 25 people, while explosions in Idlib province killed at least 14 people. Also, activists claimed that over 100 people were killed, mostly in Homs.

TUNISIA

Economic and security conditions continued to deteriorate with widespread protests in the countryside. The Tunisian General Labor Union staged a nationwide strike on January 25, where protesters blocked the national road to demand higher wages. Over 8,000 protestors marched in Tunis on January 28 against Islamist extremism.

YEMEN

Foreign Minister Abu Bakr al-Kurbi said that security concerns may delay the February presidential election. Clashes between government forces and Islamist group Ansar al-Sharia in Zinjibar left seven people dead. Also, six people were killed and 10 were wounded by security forces in Aden city. The World Bank lifted a funding freeze on projects in Yemen, which was imposed in March 2011 in response to the turmoil.

Source: International Crisis Group

SUDAN

Economy facing major challenges in the wake of the South's independence

Business Monitor International expected Sudan's real GDP growth to remain subdued this year at 2.4%, as the country continues the challenging process of overhauling its economy in the wake of the South's independence and the resulting loss of the vast majority of its export revenues. It expected that high inflation, ongoing security concerns, and major domestic and international political disagreements to hamper a more robust recovery. It added that the ongoing disagreement with South Sudan over sharing oil revenues creates significant downside risks for the country's economic outlook. However, BMI projected growth to slowly accelerate to 4.8% in 2013 and 5.6% in 2014.

In parallel, BMI expected public and private investment, mainly in transport and power infrastructure, to constitute one of the key drivers of growth over the coming years, as policymakers attempt to retool the economy. It anticipated public spending on these sectors to be strong despite a limited national budget; and for private investment to originate from wealthy Middle Eastern countries, China and other countries that do not sanction Sudan.

Further, BMI expected private consumption to be constrained for most of 2012, as inflation remains significantly high, eroding the purchasing power of consumers. It projected inflation to average 19% in 2012 and 20% in 2013. It added that consumption has been constrained by the weak Sudanese pound, which lost over 12% of its value in 2011, with the US dollar trading currently at an official rate of 2.67 Sudanese pounds and posting weaker values on the black market. It attributed the decline in the pound's value to fundamental downward pressures in the wake of the South's secession, as oil constituted Sudan's main source of foreign exchange. BMI expected the depreciation pressure to likely persist through 2012 due to the severe shortage of foreign currency in Sudan. It forecast foreign currency reserves to cover 1.4 months of imports of goods & services in each of 2012 and 2013. BMI forecast the fiscal deficit at 5.8% of GDP in 2012 and 5.6% of GDP in 2013; and for the current account deficit to be equivalent to 8.7% of GDP in 2012 and 7.6% of GDP in 2013.

Source: Business Monitor International

SOUTH SUDAN

Economic outlook to gradually improve

Business Monitor International expected economic activity in South Sudan to post modest growth in 2012 despite staring from a low base. It said that very high inflation levels, security concerns and an increasingly complicated export sector will pose major challenges for South Sudan's economy in 2012. However, it expected the country's economic outlook to gradually improve, mainly in the second half of the year. It noted that the economy relies heavily on oil proceeds, and expected this trend to continue in the coming years, despite ongoing efforts to diversify the country's productive capacity. It said that investments in housing, health care, transportation, power generation and agriculture will gradually transform the economy over the long term. But it noted that the South needs to address its short- to medium-term challenges, mainly high inflation, transporting oil exports to international markets, and security concerns before proceeding with economic diversification.

BMI expected growth in private consumption to remain subdued in the first part of the year as high inflation will weigh on consumers' purchasing power. It attributed the high inflation levels to external factors such as regional drought and rising global commodity prices, as well as to domestic factors such as the lack of infrastructure, ongoing security concerns and the lack of local production capacities. But it noted that inflation levels started to moderate, with prices increasing by 65% year-on-year in December compared to 78.8% in November. Further, BMI expected foreign aid to South Sudan to be substantial during its first full year as an independent country, which would support public consumption.

Source: Business Monitor International

LIBYA

Short term challenges are economic stability, budget discipline and reviving the banking sector

The International Monetary Fund projected Libya's real GDP growth at 69.7% in 2012 and 20.5% in 2013 relative to a contraction of 60% in 2011, with hydrocarbon output increasing by 163.3% in 2012 and 25.3% in 2013 compared to a contraction of 70% last year and non-hydrocarbon sector activity growing by 20% in 2012 and 15% in 2013 relative to a contraction of 50% in 2011. It said that hydrocarbon production is at over half its pre-revolution levels and remains critical to economic recovery. It expected non-hydrocarbon economic activity to recover by 2014, driven mainly by reconstruction. It considered that overall economic activity could recover quickly if the security situation improves, and despite the numerous challenges facing the country. The Fund encouraged the authorities to set out and coordinate fiscal and monetary objectives, and stressed the need to balance short-term spending pressures with fiscal sustainability and prospects for private sector development. The Fund indicated that the public sector's financial situation remains precarious despite the removal of UN sanctions on the Central Bank of Libya.

The IMF said that the loss of hydrocarbon income reduced the current account surplus to 4.4% of GDP last year but expected the recovery to increase the surplus to 11.2% of GDP in 2012. It said that risks to Libya's economic outlook include delays in normalizing the security situation and lower international prices for oil and gas. It noted that uncertainties in the security environment would constrain the private sector's economic recovery and could delay the return of foreign workers. It added that the risk of a widespread global economic slowdown would lower oil prices and present additional challenges to Libya's hydrocarbon-dependent economy. It said that exercising budget discipline, reviving the banking system and maintaining macroeconomic stability constitute Libya's main short-term challenges. It noted that medium-term issues include rebuilding infrastructure, diversifying the economy away from hydrocarbon dependence, and setting up a governance framework that promotes private sector development, job creation and inclusive growth.

Source: International Monetary Fund

ECONOMY & TRADE

JORDAN

Balance of payments to remain vulnerable without a rise in FDI

Business Monitor International expected Jordan's balance of payments position to remain vulnerable in the near term due to an unlikely significant pick up in FDI in the coming months, a weak global growth outlook, and persistent regional political instabilities. It said that Jordan's current account stability remains heavily dependent on foreign grants and that FDI inflows have yet to recover since their decline in early 2011. BMI expected external support in the form of aid to continue, which would mitigate the risk of a marked deterioration in the balance of payments position. But it pointed out that longer-term stability requires a sustained pick up in FDI. As such, it expected Jordan's growing dependence on foreign assistance to leave the country heavily exposed in case of a drop in future grants. It said that FDI inflows constituted the primary source of financing the country's wide current account deficit. But it noted that political risks associated with the Arab Spring as well as deteriorating global economic conditions led to a marked slowdown in FDI flows to Jordan in 2011. As such, BMI indicated that the narrowing of Jordan's current account deficit is almost entirely the result of a pick in foreign aid from the GCC and international institutions. It noted that excluding such grants, the deficit would have receded only slightly last year. It added that the shortfall in Jordan's financial account, along with the widening of the current account deficit, forced the Central Bank of Jordan to draw down its foreign currency reserves in 2011.

Source: Business Monitor International

NIGERIA

Partial subsidy lifting to generate savings of 1% of GDP, inflation to average 13% in 2012

The Institute of International Finance indicated that the compromise reached between the Nigerian government and labor unions to partially remove petroleum subsidies will produce annual savings of N478bn, equivalent to 1% of GDP, relative to N1 trillion in savings if the subsidies were completely eliminated. It said that the Nigerian government scaled back the price increase in petroleum products to about 50% after the lifting of fuel subsidies at the start of this year doubled the price of gasoline from N65 ($0.41) per liter to N141 ($0.90) and led to nationwide protests. It said that the government will use the realized savings to finance infrastructure and power projects, and improve social services to help alleviate the impact of higher fuel costs on poorer people. In parallel, the IIF expected inflation to average around 13% in 2012 and to peak at over 14% in the middle of the year, relative to a government-targeted inflation rate of 9.5% in 2012. It attributed the substantial increase in inflation to the impact of the hike in petroleum prices on transportation and energy costs, as well as to food prices. It expected Nigeria to meet the single-digit inflation target in the first half of 2013, suggesting further monetary tightening this year. Further, the IIF said that the lower cost of subsidies will not alter the government's federal deficit projections, as savings will be used to boost capital expenditures.

Source: Institute of International Finance

TURKEY

External financing needs to reach $270bn in 2016

The International Monetary Fund projected Turkey's gross external financing requirements at $188bn in 2012, equivalent to 23.4% of GDP, relative to $172.3bn (22.6% of GDP) in 2011; and to post a compound annual growth rate (CAGR) of 9.2% during the 2011-16 period. It forecast Turkey's gross external financing requirements to rise to $189.3bn (21.7% of GDP) in 2013, $207.7bn (22% of GDP) in 2014, $236.4bn (22.8% of GDP) in 2015, and $267.5bn in 2016 (23.6% of GDP). It defined external financing needs as the sum of the current account deficit, amortization on debt securities, medium-, short- and long-term debt amortization, and the increase in portfolio and other investment assets. It projected Turkey's current account deficit to drop to $63.6bn in 2012 and $53.9bn in 2013 from $79.5bn in 2011, but to resume its upward trend at $56.9bn in 2014, $66bn in 2015 and $78.2bn in 2016. It also forecast Turkey's amortization on debt securities to increase to $2.4bn in 2012 from $1.8bn in 2011, but to drop to $1.5bn in 2013 and to stabilize at $1.2bn annually during the 2014-16 period.

In parallel, the IMF forecast Turkey's medium- and long-term debt amortization to marginally increase to $33bn in 2012 from $32.3bn in 2011 and to reach 35.2bn in 2013, $38bn in 2014, 41.3$ in 2015 and $45.6bn in 2016. It also projected Turkey's short-term debt amortization at $94.1bn in 2012 compared to $78.6bn in 2011, and to further increase to $101.7bn in 2013, $114.2bn in 2014, $130.4bn in 2015 and $145bn in 2016. The IMF anticipated the rise in portfolio and other investment assets to reach -$5.1bn in 2012 relative to -$20bn in 2011 and to total -$2.9bn in 2013, -$2.6bn in 2014, -$2.5bn in 2015 and -$2.4bn in 2016.

International Monetary Fund

ARMENIA

Economy is "moderately free", ranks 39th globally on Economic Freedom Index

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2012, a broad indicator of economic freedom in 179 countries, ranked Armenia in 39th place globally, ahead of Norway and El Salvador; and behind Belgium and Barbados. Armenia also ranked second among the Commonwealth of Independent States, behind only Georgia. The index evaluates individual economies on the basis of 10 broad factors of economic freedom. Armenia ranked in 17th place globally in Financial Freedom, in 21st place in Business Freedom, in 24th place in Investment Freedom, in 28th place in Fiscal Freedom, in 40th place in Trade Freedom, in 43rd place in Labor Freedom, in 61st place in Government Spending, in 97th place in Property Rights, in 121st place in Monetary Freedom, and in 125th place in Freedom from Corruption. Armenia came in the "moderately free" category with a 68.8% level of economic freedom, down from 69.7% in 2011, but above the global average of 59.5% and the CIS average of 55%. volatility given the uncertain global environment.

Source: Heritage Foundation/Wall Street Journal

JORDAN

Private sector lending up 9% in 2011

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD37.7bn at the end of 2011, constituting a rise of 7.8% from end-2010. Resident private sector loans rose by 9.6% in the first half of the year to JD14.9bn, while credit facilities to the non-resident private sector declined by 4.5% to JD974m, leading to an increase of 8.7% in overall private sector lending last year. Resident private-sector lending accounted for 39.6% of total assets, compared to 39% a year earlier. In parallel, resident private sector deposits reached JD19.9bn, up 8.5% from the end of 2010. Also, deposits of non-bank financial institutions increased by 36.7% from end-2010 to JD277m. The central government's deposits reached JD637.4m, down 4.3% from end-2010; while those of public non-financial institutions increased by 8.9% to JD328.7m year-on-year. Further, claims on the public sector increased by 30.2% to JD7.4bn last year, with claims on the central government accounting for 93% of lending to the public sector. Claims on the public sector accounted for 19.6% of total assets at end-2011 compared to 16.3% a year earlier. Further, reserves at the Central Bank of Jordan totaled JD5.6bn, down 12.9% from JD6.5bn at end-2010; while capital accounts and allowances rose by 9% to JD5.4bn. Deposits with foreign banks reached JD4.3bn at end-2011, up 10.3% from end-2010, while the sector's foreign liabilities increased by 2.9% to JD6.2bn.

Source: Central Bank of Jordan, Byblos Research

KUWAIT

Sluggish loan growth in 2011

Figures issued by the Central Bank of Kuwait show that total assets of commercial banks reached KD 44bn at the end of 2011, constituting a rise of 6.5% from end-2010 and an increase of 1.4% from end-November 2011. Lending to the private sector reached KD 25.6bn and increased by 1.6% year-on-year but remained flat month-on-month. The sector's loan growth failed to pick up in 2011, as banks remained cautious and weak government capital expenditures led to scarce lending opportunities. Lending to the retail sector grew by 6% last year, driven by salary increases in several economic sectors last year. Corporate lending grew by just 3% year-on-year and was driven by a similar expansion in the real estate and construction sector, with the latter accounting for 67% of total corporate lending. Lending to financial institutions fell by 16% year-on-year as banks reduced their exposure to the troubled investment companies segment. Also, customer deposits totaled KD 30.5bn at end-2011, and rose by 7% from end-2010 and by 1.5% from the previous month. The growth in deposits came entirely from the private sector, as the government did not inject funds in banks given the banking sector's comfortable liquidity levels. The loans-to-deposits ratio was 83.7% at end-2011, compared to 88.1% a year earlier.

Source: Central Bank of Kuwait, EFG Hermes

TUNISIA

Rating agency takes actions on Tunisian banks

Capital Intelligence upgraded the long-term foreign currency (FC) rating of Attijari Bank (AB) to 'B+' from 'B'; affirmed the long-term FC ratings of Amen Bank at 'BB-', Union Bancaire pour le Commerce et l'Industrie (UBCI) at 'bbb-', Arab Tunisian Bank (ATB) and Banque Internationale Arabe de Tunisie (BIAT) at 'BB+'; and downgraded those of Banque Nationale Agricole (BNA) to 'BB' and Banque de Tunisie (BT) to 'BBB-'. It revised outlook on AB's rating to 'positive' from 'stable', while it had a 'negative' outlook on the remaining banks' ratings. It also upgraded the Financial Strength (FS) rating of AB to 'B+' from 'B'; affirmed the FS ratings of Amen Bank at 'BB-', UBCI at 'bb+', ATB and BIAT at 'BB+' and BNA at 'B+'; and downgraded BT's FS rating to 'BBB'. It had a 'negative' outlook on all the banks' FS ratings, with the exception of ATB that has a 'stable' outlook and AB that has a 'positive' outlook. The agency said that the revolution in the first half of 2011 had a negative impact on the economy. It noted that key sectors such as tourism, construction, corporate and retail were mainly affected by the unrest. It expected these sectors to be a source of new non-performing loans for the banking industry in the future.

Source: Capital Intelligence

CHINA

Regulatory forbearance to undermine investor confidence

Standard & Poor's expected the China Banking Regulatory Commission (CBRC) to exercise "regulatory forbearance" by allowing banks to effectively postpone the recognition of losses for some local government financing platforms (LGFPs). As such, it said the CBRC would allow banks to reschedule eligible loans so that LGFPs can match their expected operating cash flows with their loan repayment schedule. It noted that extending the debt maturities to facilitate payments would benefit the banking sector in the short term, as it would reduce investment volatility and avoid a surge in non-performing loans. But it pointed out that such decision would also undermine investors' confidence, underscore the developing nature of the regulatory framework, and highlight the CBRC's lack of independence from the government. Further, it indicated that regulatory forbearance would increase information risks and reduce the transparency of the banking sector. It added that moral hazard would also increase as some banks may feel encouraged to continue aggressive lending to unprofitable but politically important projects, while more cautious banks would still be effectively penalized through higher funding costs. Further, it noted that refinancing risks are rising for heavily leveraged LGFPs because of their generally weak stand-alone credit profiles; local governments' weakened fiscal flexibility; and CBRC's strategy to make local governments provide higher collateral for their credit exposure. In parallel, it noted that regulatory forbearance is unlikely to reduce the final credit losses and that costs could increase over time, as the government would be less disciplined to find feasible solutions to the LGFP debt issues and borrowers would lose incentives to improve their performance.

Source: Standard & Poor's

ENERGY / COMMODITIES

Prices of Brent crude rise despite higher U.S. inventories

Brent crude prices increased on positive Chinese manufacturing data and concerns about Iran, outweighing data showing a large increase in U.S. oil inventories. The U.S. Energy Information Administration showed that inventories increased by 4 million barrels last week, including a 1.5-million-barrel increase at Cushing in Oklahoma. Brent crude for March increased 58 cents to $111.6 a barrel on February 2, while U.S. crude fell 87 cents to $97.6 a barrel, the fourth straight daily decline and the lowest level in six weeks. Brent's premium against U.S. crude rose to $14, the second highest spread since November 15th. Overall, Brent ICE futures increased by 3.7% in January to $111.4 a barrel on January 31st.

Source: Thomson Reuters

EU embargo on Iranian oil imports to support oil prices

Fitch Ratings expected the European Union’s embargo on Iranian oil imports agreed by EU foreign ministers on January 23 and effective from July 1 to increase geopolitical risks in the Middle East . It projected that the EU embargo will result in higher oil prices, to levels not significantly higher from current prices. It noted that the ban will likely have a moderately negative impact on EU refiners as high oil prices may reduce demand for refined products in Europe. It added that there are alternative oil suppliers to EU refiners, such as Saudi Arabia, Russia and Iraq. The EU imported around 5.8% of its total oil imports from Iran in 2010.

Source: Fitch Ratings

Qatar to spend $25bn on petrochemical industry by 2020

Qatar is planning to spend $25bn in the next eight years to expand its domestic petrochemical industry. The country is aiming to increase its petrochemical production capacity from 9.2 million tons to 23 million tons by 2020. Qatar signed a deal with Royal Dutch Shell in December to develop a $6.4bn petrochemicals complex in the Ras Laffan industrial city. The plant is expected to produce 1.5 million tons of mono-ethylene glycol per year and 300,000 tons of linear alpha olefin, mostly for export to Asian markets.

Source: Thomson Reuters

Jordan raises power prices due to disruptions in Egyptian gas

Jordan raised electricity prices starting February to cover the high cost of imported fuel due to disruptions in Egyptian gas supplies. Jordan's Electricity Regulatory Authority, which sets tariffs to local generating companies, stated that the price increase will range between 9% and 17% and will affect household consumers whose monthly consumption exceeds 600 kilowatt hours per month. It added that corporate electricity rates will increase between 8% and 15%, where consumers with less than 1,200 kilowatt hours per month will be exempted.

Source: Thomson Reuters

Base metals: Copper prices reach a four-month high

Prices of base metals rallied further in the past week, with copper prices reaching a four-month high at $8,630 per ton on January 27, after the U.S. Federal Reserve decided to keep interest rates exceptionally low until late 2014. Tin was the best performer rising by 9.5% week-on-week on January 29 due to bullish news that the weather is affecting tin production in Indonesia. Also, nickel and zinc prices rose by 3.9% and 0.7% week-on-week, respectively. Copper prices increased only 1.7% week-on-week. Hedge fund players turned more positive on copper despite the cautious mood among Chinese buyers. Hedge funds increased their net long positions in U.S. copper futures by 53% week-on-week to reach a 24-week high on January 24th. China is expected to buy substantial volumes of copper in the near term, with the supply outlook remaining challenging.

Source: Standard Chartered

Precious metals: Platinum prices increase on supply shortage

The prices of precious metals increased in the past week with fading fears about a Greek default. Gold, silver and platinum prices increased 5% week-on-week, while palladium prices rose by only 2%. Platinum was supported by ongoing supply problems in South Africa. Anglo Platinum, the world's largest platinum producer, reported that refined production fell by 19% in the fourth quarter of 2011 due to lower mine output. Other platinum producers complained about government safety inspections, which are having a significant impact on output.

In parallel, major physical ETFs for platinum rose by 2.9% in January, while major physical ETFs for palladium increased by 2%. The U.S. net speculative positions in other precious metals continued to rise, where physical ETFs for gold increased by 0.6% in January. Overall, the price of gold increased by 11.1% month-on-month to $1,739 per ounce on January 31st, while that of silver rose by 20.5% month-on-month to $33.7 an ounce. Palladium prices increased by 5.5% month-on-month to $656 per ounce on January 31 and platinum prices rose by 9.4% to $1,405 per ounce.

Source: Standard Chartered

Global Commodity Outlook

(3-months LME, $/ton)	2011	2012f	2013f
Aluminum	2,434	2,225	2,500
Copper	8,814	8,750	10,750
Lead	2,377	2,250	2,600
Nickel	22,940	21,375	24,000
Tin	26,347	26,000	25,500
Zinc	2,209	2,200	2,
(Spot price, $/ounce)			
Gold	1,588	1,863	2,000
Palladium	732	700	850
Platinum	1,725	1,750	2,050
Silver	36	34	37

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 Stable	-9.9	16.1	2.9	7.4	2.0	3.2	3.4	1.8
Angola	BB- Stable	Ba3 Stable	BB- Stable	- -	B Negative	2.7	20.6	20.2	35.7	8.2	-	1.6	17.6
Egypt	B+ Negative	B1 Negative	BB- Negative	BB+ Negative	CCC Stable	-8.2	74.2	14.3	66.5	4.6	88.3	-2.0	3.3
Ethiopia	-	-	-	-	B Stable	-1.5	-	-	257.5	-	-	-3.9	0.3
Ghana	B Stable	- -	B+ Stable	- -	BB Positive	-10.8	-	34.9	50.0	-	-	-11.6	10.9
Ivory Coast	- -	- -	- -	- -	CCC Stable	-0.2	-	50.1	111.2	-	-	6.8	1.8
Libya	BB Negative	- -	B Stable	- -	B Stable	13.3	0	7.2	11.6	3.2	5.1	20.1	2.5
Mauritania	- -	- -	- -	- -	- -	-4.5	88.5	69.8	128.4	-	1,220	-7.6	-1.3
Morocco	BBB- Stable	Ba1 -	BBB- Stable	BBB- Stable	BB Stable	-4.5	49.9	24.1	78.4	8.0	110.0	-5.3	0.9
Nigeria	B+ Stable	- -	BB- Stable	- -	B Stable	-7.9	14.1	5.0	14.2	0.7	-	13.0	0
Sudan	- -	- -	- -	- -	C Stable	-3.7	71.4	57.4	343.6	-	3,780	-8.9	5.5
Tunisia	BBB- Negative	Baa3 Negative	BBB- Negative	BBB Stable	B Stable	-2.8	43.0	46.3	101.0	11.7	195.2	-4.4	3.7
Middle East													
Bahrain	BBB Negative	Baa1 Negative	BBB Negative	BBB+ Negative	BBB Stable	-5.4	32.8	139.6	170.2	6.8	946.6	5.2	9.9
Iran	- -	- -	B+ Stable	BB- Stable	B Stable	0.4	21.7	5.6	19.9	2.7	21.3	4.2	0.8
Iraq	- -	- -	- -	- -	CCC Stable	-14.2	42.2	41.8	65.4	-	75.3	-14.4	1.4
Jordan	BB Negative	Ba2 Negative	- -	BB Stable	B Stable	-6.3	63.0	19.2	44.8	4.8	48.6	-7.2	9.2
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	17.1	6.5	46.2	72.2	3.7	224.0	30.1	-8.7
Lebanon	B Positive	B1	B Stable	B Stable	CCC Stable	-7.2	136.7	160.8	240.3	14.7	212.2	-10.2	10.0
Oman	A Negative	A2 -	- -	A Stable	A Stable	5.3	5.7	15.4	22.6	-	63.7	5.8	3.9
Qatar	AA- Stable	Aa2 Stable	- -	AA- Stable	AA Stable	10.8	27.2	80.6	139.3	10.0	512.3	15.6	5.0
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	BBB Stable	1.9	12.9	22.6	40.5	2.4	22.7	6.7	7.7
Syria	- -	- -	- -	BB- Stable	CCC Stable	-4.3	26.9	14.9	48.0	-	52.9	-3.9	2.7
UAE	- -	Aa2 -	- -	AA- Stable	BB Stable	-2.7	24.7	53.1	57.7	7.3	360.4	5.4	0.6
Yemen	- -	- -	- -	B- Negative	CC Stable	-5.5	45.8	21.4	70.5	-	139.6	-4.9	0.3

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 Negative	BB- Stable	- -	- -	-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 Negative	B Stable	- -	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	25-Jan-12	No change	13-Mar-12
Eurozone	Refi Rate	1.00	12-Jan-12	No change	09-Feb-12
UK	Bank Rate	0.50	12-Jan-12	No change	09-Feb-12
Japan	O/N Call Rate	0-0.10	24-Jan-12	No change	14-Feb-12
Australia	Cash Rate	4.25	06-Dec-11	Cut 25bps	06-Feb-12
New Zealand	Cash Rate	2.50	26-Jan-12	No change	08-Mar-12
Switzerland	3 month Libor target	0.00	15-Dec-11	No change	15-Mar-12
Canada	Overnight rate	1.00	17-Jan-12	No change	08-Mar-12
Emerging Markets					
China	One-year lending rate	6.56	06-Jul-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	Jan-12	No change	Mar-12
Taiwan	Discount Rate	1.88	13-Jan-12	No change	29-Mar-12
South Korea	Base Rate	3.25	13-Jan-12	No change	09-Feb-12
Malaysia	O/N Policy Rate	3.00	11-Nov-11	No change	31-Jan-12
Thailand	1D Repo	3.00	25-Jan-12	Cut 25bps	21-Mar-12
India	Reverse repo rate	8.50	24-Jan-12	No change	24-Mar-12
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	9.25	24-Nov-11	Raise 100 bps	N/A
Turkey	Base Rate	5.75	24-Jan-12	No change	21-Feb-12
South Africa	Repo rate	5.50	Jan-12	No change	29-Mar-12
Kenya	Central Bank Rate	18.00	1-Dec-11	Raise 150 bps	1-Feb-12
Nigeria	Monetary Policy Rate	12.00	22-Nov-11	No change	30-Jan-12
Ghana	Prime Rate	12.50	Dec-11	No change	Feb-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	20-Jan-12	No change	16-Mar-12
Brazil	Selic Rate	10.50	18-Jan-12	Cut 50bps	07-Mar-12
Armenia	Refi Rate	8.00	10-Jan-12	No change	N/A
Romania	Policy Rate	5.50	02-Feb-12	Cut 25bps	N/A
Bulgaria	Base Interest	0.18	01-Feb-12	Cut 4bps	N/A
Kazakhstan	Refi Rate	7.50	01-Jan-12	No change	N/A
Ukraine	Discount Rate	7.75	10-Aug-10	Cut 75bps	N/A
Russia	Refi Rate	8.00	26-Dec-11	Cut 25bps	N/A

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