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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Fixed income trading volume down 4% to $6,506bn in 2011

Trading in emerging markets debt instruments totaled $6,506bn in 2011, constituting a decrease of 4% from the record high of $6,765bn in 2010. The volume of traded debt instruments reached $1,302bn in the fourth quarter of 2011, down 30% from $1,861bn in the same quarter of the previous year and by 26% from $1,760bn in the third quarter of 2011. Further, local instruments turnover accounted for 71% of total emerging markets debt trades in 2011. Local instruments turnover totaled $965bn, or 74% of overall trading volumes in the fourth quarter of 2011, constituting a 26% decrease from $1,302bn in the fourth quarter of 2010 and a 28% drop from $1,337bn in the third quarter of 2011. The fourth quarter of 2011 was characterized by ongoing concerns over Europe, potential contagion to emerging markets, and high volatility in foreign exchange and other global markets. In parallel, sovereign and corporate Eurobonds' trading volume stood at $1,788bn, decreasing by 9% from $1,967bn in 2010 and growing by 18.2% from $1,513bn in 2009. Sovereign Eurobond volumes dropped by 13.6% year-on-year to $941bn, while the volume of traded corporate Eurobonds regressed by 5% to $763bn year-on-year. Sovereign Eurobonds accounted for 53% of total debt trading, relative to 55% in 2010, while corporate debt represented 15% of the survey's volume compared to 12% 2010. The most frequently traded instruments were Hong Kong instruments with 14% of the total, followed by Mexican assets with 13%, Brazilian debt securities with 11%, Russian instruments with 6.5% and South African assets with 6.4%. Trading in Hong Kong debt rose by 35% and in Mexican assets by 26% year-on-year, while trading in Brazilian instruments dropped by 25% in 2011.
Source: EMTA

Bond and equity inflows at $27bn in the first two months of 2012, AUM at $986bn

Capital flows to emerging market equity and bond funds posted net inflows of $26.9bn in the first two months of 2012, with bond inflows at $6.9bn and equity inflows at $19.9bn. Latin America accounted for $2.9bn or 41.4% of bond inflows; Emerging Europe, the Middle East & Africa (EMEA) for $2.3bn, or 34%; and Emerging Asia with $1.7bn or 24.6% of the total. Further, Emerging Asia posted $12.2bn in inflows from equity funds in the first two months and accounted for 61.3% of equity inflows to emerging markets, followed by Latin America with $4.2bn (21.3%), and the EMEA region with $3.5bn (17.4%). Brazil was the biggest recipient of bond inflows with $710m, or 10.3% of total inflows into emerging market bond funds in the first two months of the year; while China was the largest recipient of equity inflows with $4.8bn or 24.1% total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled $986bn at the end of February 2012, with bonds accounting for $178.6bn and equities for $807.5bn. The EMEA region had $65.8bn in AUM in bonds, followed by Latin America with $64.7bn and Emerging Asia with $48.2bn. Further, Emerging Asia had $512.6bn in equity-related AUM, followed by Latin America with $157.9bn and EMEA with $137bn. Mexico had $19.7bn in bonds-related AUM, or 11% of the total; and China had $169bn in equity-related AUM, or 21% of the total.
Source: Barclays Capital, Byblos Research

MENA

Tourism to account for 8% of GDP by 2022

The World Travel & Tourism Council expected the tourism sector to account for 8.1% of the Middle East's GDP in 2012 and to maintain a similar level in 2022. It forecast the broad tourism and travel economy to generate demand of $186.3bn in 2012, and to grow to $280.6bn in constant 2011 prices by 2022. It projected the sector's real growth rate at 3.1% in 2012 and to average a real expansion rate 4.2% during the 2012-22 period. The WTTC projected business travel spending at $30bn this year, growing by real rate of 4.1% annually to $44.8bn in constant 2011 prices in 2022, and forecast leisure travel and tourism spending at $103.2bn in 2012, growing by a real yearly average rate of 3.9% to $150.6bn in constant 2011 prices in 2022. It estimated capital investment in the travel and tourism economy at $41.1bn in 2012 and at $65.8bn in constant 2011 prices within 10 years. Further, it forecast the export of tourism services at $70.2bn this year and at $101.3bn in constant 2011 prices by 2022, which would account for about 5.6% of the region's total exports this year and for 5.3% of exports in 2022. It said the travel and tourism economy is providing jobs to 4.5 million people, or 7.5% of the region's total employment currently, with the figure rising to 5.7 million jobs or 7.6% of employment by 2022.
Source: World Travel & Tourism Council

SYRIA

Canada imposes new sanctions on Damascus

The Canadian government imposed new sanctions on the Central Bank of Syria (CBS) and the Syrian government, constituting the sixth round of sanctions by Canadian authorities on Syrian entities and individuals. The sanctions added the CBS as well as seven high-ranking Syrian officials to the list of individuals and entities subject to an assets freeze and to a prohibition on economic dealings. The sanctions also included a complete ban on the provision or acquisition of financial or other related services to, from, or for the benefit of Syria or any person in Syria. Last December, the Canadian government imposed additional sanctions on Syria under the Special Economic Measures Act. The sanctions prohibited the importing, purchasing, acquiring, carrying or shipping of any goods from Syria, with the exception of food for human consumption. They also banned new investments in Syria and prohibited the export of any equipment to Syria, including software used for monitoring telecommunications. Last October, Canada banned the import of petroleum products from Syria and new investments in the Syrian oil industry.
Source: Foreign Affairs & International Trade Canada

POLITICAL RISK OVERVIEW - FEBRUARY 2012

EGYPT

At least 74 people were killed on February 1 in clashes between rival fans following a football match in Port Said. Authorities were blamed for the failure to prevent riots, prompting violent clashes between anti-military protesters and police at the Interior Ministry, where at least 12 people were killed. The Freedom & Justice Party (FJP) of the Muslim Brotherhood criticized the army-appointed government and reiterated the call for a new national unity Cabinet. Ahmed Fahmi of the FJP was elected as Speaker of Parliament. The Elections Commission announced that presidential elections will take place on May 23rd and 24th. Further, Egypt engaged in intensive discussions with the United States to resolve the dispute over foreign funding of NGOs. The Egyptian court had suspended the trial of 43 NGO workers until April 26, and lifted a travel ban on seven U.S. employees.

IRAN

Israel accused Iran of organizing a terrorist campaign against Israeli targets in India, Georgia and Thailand. The U.S. stated that it will focus on a diplomatic solution with Iran after it froze the assets of the Iranian government and Central Bank. Further, UK Foreign Minister William Hague warned that the nuclear program in Iran could lead to a new cold war and a nuclear arms race in the region. Iranian authorities suspended oil exports to France and Britain. The International Atomic Energy Agency reported that Iran increased uranium enrichment in recent months.

IRAQ

A series of bombings and shootings across the country on February 23rd left at least 50 people dead and hundreds injured, where a group linked to al-Qaeda claimed responsibility. Also, a suicide car bombing killed 19 police officers outside the Baghdad police academy. Activists announced the creation of a new opposition party, the Union of Patriotic Figures.

DEM REP CONGO

The Independent National Electoral Commission (CENI) released the official legislative election results, with the ruling People's Party for Reconstruction & Democracy winning 260 of 500 seats; while its ally, the Disarmament, Demobilization & Reintegration Process (DDRP) party won 63 seats. Also, the opposition Union for Democracy and Social Progress (UDPS) won 110, while 17 seats will remain unfilled pending a Supreme Court ruling after allegations of fraud. The police fired tear gas to disperse Christian groups in Kinshasa protesting the November election results.

LIBYA

Deadly clashes continued throughout February between rival tribes in al-Kufra. Representatives of around 100 militias from western Libya announced the formation of a federation to prevent internal strife and pressed the new government for further reform. Also, a new electoral law was published on February 8, setting a 40-seat quota for women and 80 seats for previously barred political parties in a 200-seat national congress. President Mustafa Abdul Jalil said that Saif Al-Islam Qadhafi will be moved to a Tripoli prison within two months to face trial.

SUDAN

President Omar al-Bashir stated that tensions with South Sudan over the oil dispute could lead to war. The UN, the Arab League and the African Union submitted a joint proposal to Khartoum for humanitarian access to the South Kordofan and Blue Nile states. Also, the UN Security Council (UNSC) called upon the government to allow immediate humanitarian access and urged it to renew talks with the Sudan People's Liberation Movement in the North (SPLM-N). The SPLM-N announced its control of the disputed state of Jau from the Sudan Armed Forces (SAF) on February 26, during which 150 SAF soldiers were killed. SPLM-N rebels released 29 Chinese workers kidnapped in South Kordofan. The UNSC extended the mandate of the Panel of Experts tasked with monitoring sanctions for another year citing, continued violence. Also, President Bashir formally launched the Darfur Regional Authority on February 8th.

SOUTH SUDAN

South Sudan warned Chinese companies of expulsion if they were found collaborating with Khartoum to steal oil from the South. The head of Chinese Petrodar Oil Company was expelled on February 21 for alleged non cooperation. Further, the country introduced a set of austerity measures to counteract the loss of revenues due to the halt in oil production. The government announced a ceasefire and a peace agreement on February 28 with former George Athor rebels.

SYRIA

Clashes continued between security forces and the Free Syrian Army across the country. Also, fears of a civil war grew with the regime targeting protesters and civilians on an unprecedented scale. The UN announced that over 7,500 people were killed so far. Further, al-Qaida leader Ayman al-Zawahiri vowed support for the uprising. Russia and China vetoed the UNSC draft resolution backed by the Arab League which condemned the violent crackdown by the Syrian regime.

TUNISIA

Clashes between salafists and security forces erupted on February 21 in Sfax and Jendouba. Also, 13 parties joined to form the Tunisian National Party on February 11, in order to oppose Ennahda Party. The police clashed with protesters in the north of the country following the arrest of Monaem Darragi, Secretary General of the Tunisian Workers' Union. Defense Minister Abdelkarim Zbidi called for further U.S. assistance in guarding borders following a meeting on February 15 to discuss increased training and logistical support.

YEMEN

Former Vice President Abed-Rabbu Mansour Hadi was elected as President on February 25, amidst the boycott of polls by southern separatists and Huthi rebels. Violence erupted in the south on election day, where at least 55 people were killed in clashes between Shiite Huthi rebels and Salafists in the northern Hajjah governorate. Thousands of demonstrators gathered in Change Square in Sanaa on February 10 in support of the election. Islamist group Ansar al-Sharia allegedly executed three men in Azan and Jaar for collaborating with the United States. At least 16 people were killed in clashes in al-Masaneh following the killing of a local al-Qaeda leader.

Source: International Crisis Group

JORDAN

Economic outlook to remain challenging over the medium term

Citigroup projected Jordan's real GDP growth at 2.5% in 2012 relative to growth of 2.3% in each of 2011 and 2010. It expected the country's economic outlook to remain challenging over the medium term due to fiscal weakness, a tourism industry that has been severely disrupted by regional unrest, limited capital inflows, disrupted gas supply from Egypt, the decline in the euro's value, and a slowdown in European growth. It also anticipated that the decline in external demand growth, mainly from the Eurozone, to affect Jordan's trade outlook.

It added that the disruption of energy supplies from the sabotage of the Egypt-Jordan gas pipeline has been very costly to the government, which has had to switch to heavy fuel oil. It noted that Jordan's expenditures on fuel imports rose by 50% to JD3.7bn last year, which had a significant impact on the country's current account and fiscal balances. As such, it said that diversifying Jordan's energy sources constitute a priority for the government as it is pushing ahead with a nuclear program, is seeking a deal to import Iraqi natural gas, and will tender the building of LNG import facilities in Aqaba. It projected the fiscal deficit to widen to 8% of GDP this year and forecast the current account deficit at 6% of GDP in 2012.

In parallel, Citigroup expected Jordan's financing options to remain limited in the current environment. It said that Jordan plans to issue up to $1bn in Eurobonds or Sukuk this year, but noted that the $750m Eurobond issued in 2010 has underperformed since its issuance. It attributed the underperformance to the underlying fiscal weakness that will also affect future issues unless the fiscal trajectory is reversed. As such, it said that financing is increasingly likely to come from the local banking system and from continued donor support.
Source: Citigroup

TURKEY

Banking sector to remain under pressure

Standard Chartered expected lending growth in Turkey's banking sector to decelerate, asset quality to deteriorate moderately, and for pressure on banks' profitability and their capital levels to continue in 2012. It attributed the slowdown in lending to Turkey's structurally low savings rate, the sector's high loans-to-deposits ratio of around 100% at end-2011, and to the authorities' introduction of capital charges for large maturity mismatches. It added that banks' scope to free up funds from securities and deploy them into higher-margin loans is also narrowing, as their holdings of securities have declined over the last two years. It noted that banks' capital adequacy is strong but is also affected by sharp currency moves, while the impact of new regulations may constrain asset growth in the medium term.

Further, it said that the seasoning of loans extended in the last two years, along with slowing loan growth, is likely to negatively impact asset quality. It noted that loan growth has been stronger in the small- and medium-sized enterprises (SMEs) segment and in the unsecured retail lending sector, where non-performing loans (NPLs) surged during the 2008-09 crisis. It attributed the shift in lending to greater competition for market share and to the squeeze in profit margins. But it expected the increase in NPLs to be manageable given that the sector's current NPL ratio of 3% is at its lowest level in a decade; the authorities' new regulations to protect banks from big systemic shocks; and the banks' ability to quickly adjust their loan books away from the stressed SME sector during the 2008-09 crisis.

In parallel, Standard Chartered expected the sector's loan-to-deposit ratio to remain elevated, as it forecast loan growth to exceed deposit growth. It noted that the high loans-to-deposits ratio, the inclusion of bank bonds in liquidity ratios, and the rising proportion of high-volume deposits have worsened banks' liquidity profiles. It added that high loans-to-deposits ratios are leading banks to the wholesale market, and pointed out that the sector's options to raise longer-term funding have increased.
Source: Standard Chartered

DEM REP CONGO

Operating environment to become more challenging

Business Monitor International expected the Democratic Republic of the Congo's (DRC) vast mineral resources to continue to attract investors, but added that a variety of Congolese and foreign laws and regulations will make the operating environment more difficult for businesses operating in the country. It said that the DRC will become a more difficult place to invest in, as conflicts between armed groups in the mineral-rich Northeast will continue and as new laws affecting the mineral and agricultural sectors are ambiguous. It noted that the country's complex and unpredictable legal system will exacerbate the risks to foreign investors.

It pointed out that the Dodd-Frank Act, which requires U.S.-based companies to assess whether materials originating in or near the DRC are benefiting armed groups in the area, came into effect in January 2012 and has had a significant impact on the DRC's mining sector. It said the law resulted in a 90% drop in exports from the east of the country and encouraged a production increase in conflict-free provinces. But it noted that proving that minerals are extracted from conflict-free provinces is very difficult in the short-term. BMI indicated that the government is also planning its own prohibition on conflict minerals, and that the opacity of this plan will discourage investment in the short term as investors are uncertain about the requirements imposed by these measures. Further, it noted that the government passed an ambiguous legislation on the agricultural sector that prevents foreigners from owning land in the DRC, and anticipated the law to discourage investments in the country's underdeveloped agricultural sector.

In parallel, BMI expected the uncertainty caused by the two laws to harm the ability of businesses to formulate long-term plans. But it expected investments in the country to continue despite these challenges and regardless of the risks involved, given the country's vast mineral potential. It also anticipated China's influence in the DRC to increase, as Chinese firms are not bound by the terms of the Dodd-Frank Act.
Source: Business Monitor International

MENA

Broadband initiative to help raise competitiveness

The World Bank announced a broadband initiative for the Middle East and North Africa (MENA) region to improve the region's broadband connectivity by bringing utilities' fiber optic networks into broadband use. It said the initiative will evaluate the potential to develop regional broadband backbone networks in MENA countries and prepare the ground for new investments. It added that the project will use a new approach that leverages the already-deployed infrastructure from other utilities, such as electricity, transport and oil & gas. It expected the study to address the main bottlenecks to broadband connectivity in the region, such as providing extra capacity to existing international connectivity and opening alternative backbone networks in domestic markets. The World Bank expected the initiative to increase MENA countries' capacity to cope with the anticipated increase in broadband traffic and to raise the region's competitiveness in the global market. It added that broadband traffic in the region is forecast to grow by over 100% in the coming five years, which would make the MENA region the fastest growing region in the world along with Sub-Saharan Africa. It added that the study will cover the region's international and domestic connectivity and will produce four country case studies focused on the use of utility infrastructure in Egypt, Jordan, Morocco, and Tunisia. The World Bank noted that it will look at broadband-based applications to increase operational efficiency and competitiveness of utilities, starting with a smart-grid pilot project in Jordan.

Source: World Bank

SYRIA

Annual inflation at 16% in January

The Central Bureau of Statistics' Consumer Price Index indicated that inflation in Syria increased by 15.7% in January 2012 from January 2011. Syria's inflation accelerated in December and January as it doubled in December 2011 to 11% from 5.8% in November, and increased by 4 percentage points in January from December. The prices of food and beverages, which account for around 42% of the consumer price basket, rose by 15.8% year-on-year in January; while the prices of rents and home bills such as water, electricity and phone, which represent 22% of the consumer price basket, increased by 18.1% annually. Also, prices of various goods & services increased by 27.2% annually in January, followed by alcoholic beverages & tobacco with a 22.7% rise, household equipments & supplies and ordinary maintenance works (+17.8%), restaurants & hotels (+17.7%), clothes & shoes (+17.2%), transportation (+17%), education (+9.7%), health care (+5.3%), entertainment & culture (+3%), and communications (+1%). The purchasing power of Syrians declined significantly last year because of the rapid decline in the value of the Syrian pound compared to the dollar and other currencies; higher import tariffs; rising domestic transport costs; and supply bottlenecks for many items because of the turmoil around the country. The exchange rate of the US dollar has reportedly crossed the SYP90 level in the black market this week compared to SYP47 to the dollar a year ago.

Source: Central Bureau of Statistics, Syria Report

ARMENIA

Tourism to account for 8% of GDP in 2012 and to support 75,500 jobs

The World Travel & Tourism Council expected the direct contribution of the travel and tourism (T&T) sector to generate demand of AMD79.8b or $214m, equivalent to 2.1% of GDP in 2012 and to reach AMD87.7bn in constant 2011 prices, or 1.3% of GDP, in 2022. It added that the broad T&T economy would generate demand of $832.6m in 2012, equivalent to 7.6% of GDP, and to reach and to reach AMD363.5bn in 2011 constant prices by 2022, or 5.5% of GDP. It estimated investment in the T&T economy at $90.7m in 2012 and to grow by 2.1% in real terms over the 2012-22 period to AMD41.1bn in 2011 constant prices by 2022. It forecast investment in the T&T economy to account for 2.7% of total investment in Armenia this year, but to decline to 2% in 2022. Further, it forecast the T&T visitor exports to generate $418.6m this year and to fall by 1.9% annually in real terms over the 2012-22 period. It expected T&T exports to drop to 10.5% in 2022 from around 18% in 2012. It estimated the total contribution of travel and tourism to employment, including jobs indirectly supported by the industry, at 75,500 jobs, or 6.8% of employment this year; with the figure declining to 54,000 jobs or 5% of total employment by 2022. Armenia ranked in 146th place globally in terms of the expected growth of the sector's contribution to GDP in 2012, in 174th place in terms of the expected growth of the sector's contribution to employment, and in 84th place in terms of the expected growth in investments in the T&T economy this year.

Source: World Travel & Tourism Council

GHANA

Key challenges are maintaining strong growth, fiscal consolidation and containing inflation

The International Monetary Fund expected Ghana's economy to continue to grow at a robust rate of 8% to 9% in 2012. It considered that the government's main challenges for 2012 in the face of resurgent global risks are maintaining strong broad-based growth, single-digit inflation, and fiscal consolidation. It noted that Ghana's economy is exposed to upside inflationary risks from currency depreciation and high domestic demand, as well as to a possible deterioration in the external position if a deeper global slowdown weakens foreign inflows. The Fund considered that authorities may have to take further policy actions this year in case upside risks to inflation become pronounced. It encouraged the Bank of Ghana to continue building its foreign reserves and to take measures to increase liquidity in the foreign exchange market as a way to reduce excessive exchange rate volatility. But it expected adequate tight macroeconomic policies to keep inflation within the inner target band of 6.7% to 10.7%. Further, the IMF cautioned against any actions that would jeopardize the government's 2012 fiscal deficit target of 5.2% of non-oil GDP. It said that last year's wage bill exceeded earlier projections and resulted in about 1% of non-oil GDP in spending obligations to be carried over into 2012. As such, it considered that achieving the 2012 target deficit will require additional efforts.

Source: International Monetary Fund

KUWAIT

Loan growth still sluggish

Figures issued by the Central Bank of Kuwait show that total assets of commercial banks reached KD44bn at the end of 2011, unchanged from end-2011 and rising by 6.3% from end-January 2011. Lending to the private sector reached KD25.6bn, as it increased by 1.3% year-on-year and was stagnant month-on-month. Loans to investment companies contracted by 18% year-on-year, offsetting a slight pick-up in lending to the industry, trade and retail sectors. Retail lending remained the best performing segment and grew by 7% year-on-year, as the effect of public and private sector salary increases over the past year increased retail customers' borrowing capacity. Also, the sector's aggregate deposits totaled KD30.9bn at end-January 2012, rising by 8.7% from end-2011 and by 1% from end-January 2011. Deposit growth was primarily driven by private sector deposits that accounted for 87% of total deposits and grew by 9.4% year-on-year; while government deposits represented 13% of the total and increased by 4.4% year-on-year. The loans-to-deposits ratio continued to fall to 83% at end-January 2011, posting its lowest level in the past three years, compared to 83.7% at end-2011 and 89% a year earlier. The sector's deposits at the Central Bank of Kuwait continued to increase, as they grew by 36.5% year-on-year in January, along with a 22.5% year-on-year increase in banks' purchases of CBK bonds.

Source: Central Bank of Kuwait, EFG Hermes

LIBYA

Central Bank to revise banking laws

The Central Bank of Libya (CBL) announced that it is amending existing banking laws to attract foreign investment and stimulate the country's private sector, as it seeks to create an investor-friendly environment following last year's war that ousted the previous regime. It said that the CBL is working on creating the legal framework and necessary infrastructure for the banking sector, including an update of the 2005 banking law that allowed foreign banks in the country. It noted that it is still early to formulate a policy to award new licenses to foreign banks, as the CBL will need a detailed study to determine the required number of banks in regions and cities. Further, it added that it will soon submit a proposal about Islamic banking to the National Transitional Council for approval. In parallel, the International Monetary Fund encouraged the CBL to provide commercial banks operating in the country with a clear a picture of the impact on their balance sheets of the recent conflict, and to ensure that they have sufficient capital to cover losses and to support credit creation during the reconstruction period. According to the latest available figures, the banking sector's total assets reached LD64.2bn, or $52.7bn, at end-January 2011.

Source: Thomson Reuters, International Monetary Fund, Byblos Research

RUSSIA

Capitalization of banks to erode this year

Standard & Poor's expected the capitalization of Russian banks to erode in 2012, and considered that they will be unable to generate enough internal capital to support asset growth this year due to heightened market competition and the recent financial turmoil. It said that Russian banks' lack of geographic, business and revenue diversification, as well as high single-name exposure in their corporate loan books, constitute the main barriers to adequate capitalization. It added that banks' capacity to generate capital is still constrained by recently squeezed interest rate margins and by uncertainty about when business volumes will return to more sustainable levels. It estimated the current return on equity of Russia's top 30 banks, which account for about 80% of the sector's assets, at between 10% and 20% on an annualized basis. It warned that, without significant improvement in profitability, full earnings retention would still prevent the banks from sustaining their capital positions in 2012. It said the banks' current capitalization would provide a limited buffer against potential system-wide turbulence and against risks that would restrain business growth in 2012 and 2013. It added that the lack of self-sustaining capital generation capacity is even more acute for many small Russian banks, which have only a single-digit return on equity because of their high funding costs and very limited access to wholesale borrowings. It warned that Russian banks are likely to see their capitalization erode year after year without regular capital injections from shareholders.

Source: Standard & Poor's

AFRICA

Positive outlook for banking sectors in Nigeria and Ghana

Business Monitor International indicated that the outlook for Nigeria's stressed banking sector is positive this year, as the strict reforms implemented last year provide a solid background and as the fast-growing economy demands increasing financial services. It expected credit growth, which rose significantly by the end of 2011, to continue its upward trend despite that a substantial part of the rise was due to the low base at the end of 2010 when credit was contracting. It said that banks will need to keep up with the demand for credit from fast-growing industries like construction, retail and power, which would provide the potential for a significant increase in banks' assets. As such, it expected the sector's aggregate assets to grow by 22% this year compared to 10% last year, and to reach about $112.7bn and represent 40% of GDP. In parallel, BMI expected Ghana's banking sector to continue its rapid expansion as it projected the sector's aggregate assets growth at 30% in 2012. It said that the sector's total assets grew by 29% at end-August 2011, the latest month for which data are available, reaching $12.8bn and representing 36.5% of GDP, similar to the growth rate posted in the same period of 2010. It noted that the banking sector remains relatively stable despite the high level of non-performing loans, and is benefiting from healthy capitalization rates, and sound liquidity and profitability. It said that banks are showing healthy risk appetite, which would support lending to the real economy.

Source: Business Monitor International

ENERGY / COMMODITIES

Oil prices above $125 due to Middle East tensions

Oil prices have been trading above $125 per barrel so far in 2012 due to geopolitical tensions in the Middle East, and high prices are likely to be sustained in the near term. Brent crude futures increased by 76 cents to $124.9 per barrel on March 8, while U.S. crude futures rose by 56 cents to $106.72 per barrel. Further, oil prices are expected to average $121 per barrel in 2012 and $127 per barrel in the second half of 2012. Prices will be supported primarily by the loss of Iranian production due to sanctions, increasing world demand due to stronger GDP growth, and by risks to supply from oil-producing countries. High oil prices are expected to weaken the U.S. recovery through higher gasoline prices, and to intensify Europe's recession. Also, if oil prices were sustained at $120 per barrel in Asia, the pace of interest rate cuts in Asian countries would slow. However, if oil prices reach $150 per barrel, the inflationary impact of energy and food could force some central banks, notably in India, the Philippines and Vietnam to raise rates. Further, the Dow-Jones UBS Brent Crude Sub-index increased by 10.1% in February, while the WTI Crude Oil Sub-index rose by 8.1% during the month.

Source: Standard Chartered, Thomson Reuters

South Sudan, Ethiopia and Kenya launch Lamu Project

The Lamu-Southern Sudan-Ethiopia Transport project was launched on March 2, after South Sudan, Ethiopia and Kenya signed an agreement to build the oil pipeline from South Sudan to the port of Lamu in Kenya through Ethiopia. The $24.5bn project in Lamu on the Ocean Indian includes a pipeline, oil refinery and road network as well as a railway line to Juba. Further, the World Bank and the African Development Bank said that they would participate in the funding of the project.

Source: Sudan Tribune

OPEC oil production rises to 31.3 million barrels per day in February

Crude oil output from the economies of the Organization of the Petroleum Exporting Countries (OPEC) increased by 400,000 barrels per day to 31.27 million barrels per day in February from the previous month, the highest volume from the 12 producing countries since the autumn of 2008. Continuing recovery in Libyan production accounted for 250,000 barrels per day, with smaller increases from Angola, Kuwait, Saudi Arabia and Venezuela. Also, a European Union embargo on Iranian oil is expected to come into force on July 1, which would help raise OPEC production.

Source: Platts Survey

Iraq to increase gas production by 2014

The Iraqi Oil and Planning ministries unveiled a plan to increase the production of dry gas from its current level of 800 million cubic meters per day to 2,750 million cubic meters per day by 2014. The ministries plan to increase the production levels of Okaz and Mansuriya fields and to reduce the amounts of burned gas to 150 million cubic meters per day. The produced gas is intended to be used in the local market.

Source: AK News

Base metals: Prices decline on slower growth in China

In general, base metal prices weakened during the past week as the general retreat from commodities weighed on sentiment and due to worries about slower growth in China. Aluminum prices held up relatively well in recent weeks, mainly because buoyant oil prices have boosted production costs. Around 40% of operating costs for Aluminum are energy related, much higher than for other base metals. On the Shanghai exchange, copper stocks increased by 23% month-on-moth on March 6 and premiums fell in the second half of February, reflecting local oversupply. Copper prices are supported by the continued weakness in Chile's mine production, which declined by 12% annually in January.

Further, the Dow-Jones UBS Aluminum Sub-index increased by 3.4% in February, while the Copper Sub-index rose by 2.2%. However, the Dow-Jones Nickel Sub-index declined by 7.9% and the Lead Sub-index decreased by 2.8% in February. Overall, the Dow-Jones Industrial Metals Sub-index increased by 0.8% in February.

Source: Standard Chartered

Precious metals: Prices decline on stronger U.S. dollar

Precious metal prices dropped in the past week mainly due to a stronger U.S. dollar. Silver led the way, declining by 10% week-on-week on March 6, while gold and platinum both dropped by 5%. Further, gold prices declined after the release of trade figures from Hong Kong, which showed a 15% month-on-month drop in imports from China. Net long positions in U.S. gold futures held by hedge funds rose by 10% week-on-week on March 6 to a 25-week high of 197,552 contracts. Gold prices are expected to increase to above $2,000 per ounce in the near term, while they are projected to average $1,606 per ounce in 2012-20, reflecting a higher cost base. Further, the Dow-Jones UBS Silver Sub-index rose by 4% in February, while the Gold Sub-index declined by 1.7% during the month. Also, the Dow-Jones Platinum Sub-index increased by 6.6% during the month. Overall, the Dow-Jones Precious Metals Sub-index decreased by 0.4% in February.

Source: Standard Chartered

Global Commodity Outlook

($/ton)	Spot Price	2012f	2013f
Aluminum	2,164	2,275	2,525
Copper	8,176	7,825	8,525
Lead	2,045	2,150	2,400
Nickel	19,625	19,500	22,820
Tin	23,465	22,125	25,700
Zinc	1,945	2,050	2,295
($/ounce)			
Gold	1,725	1,710	1,910
Palladium	688	775	925
Platinum	1,634	1,610	1,675
Silver	33	30	27

Source: Citigroup

COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	EIU	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 (%)
Africa													
Algeria	-	-	-	-	BB								
	-	-	-	-	Stable	-9.9	16.1	2.9	7.4	2.0	3.2	3.4	1.8
Angola	BB-	Ba3	BB-	-	B								
	Stable	Stable	Stable	-	Negative	2.7	20.6	20.2	35.7	8.2	-	1.6	17.6
Egypt	B	B1	BB-	BB+	CCC								
	Negative	Negative	Negative	Negative	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	-	B+	-	BB								
	Stable	-	Stable	-	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	-	B	-	B								
	Negative	-	Stable	-	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-	Ba1	BBB-	BBB-	BB								
	Stable	-	Stable	Stable	Stable	-4.5	49.9	24.1	78.4	8.0	110.0	-5.3	0.9
Nigeria	B+	-	BB-	-	B								
	Stable	-	Stable	-	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-	Baa3	BBB-	BBB	B								
	Negative	Negative	Negative	Stable	Stable	-2.8	43.0	46.3	101.0	11.7	195.2	-4.4	3.7
Middle East													
Bahrain	BBB	Baa1	BBB	BBB+	BBB								
	Negative	Negative	Negative	Negative	Stable	-5.4	32.8	139.6	170.2	6.8	946.6	5.2	9.9
Iran	-	-	B+	BB-	B								
	-	-	Stable	Stable	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	Ba2	-	BB	B								
	Negative	Negative	-	Stable	Stable	-6.3	63.0	19.2	44.8	4.8	48.6	-7.2	9.2
Kuwait	AA	Aa2	AA	AA-	A								
	Stable	Negative	Stable	Stable	Stable	17.1	6.5	46.2	72.2	3.7	224.0	30.1	-8.7
Lebanon	B	B1	B	B	CCC								
	Positive		Stable	Stable	Stable	-7.2	136.7	160.8	240.3	14.7	212.2	-10.2	10.0
Oman	A	A2	-	A	A								
	Negative	-	-	Stable	Stable	5.3	5.7	15.4	22.6	-	63.7	5.8	3.9
Qatar	AA-	Aa2	-	AA-	AA								
	Stable	Stable	-	Stable	Stable	10.8	27.2	80.6	139.3	10.0	512.3	15.6	5.0
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB								
	Stable	Stable	Stable	Stable	Stable	1.9	12.9	22.6	40.5	2.4	22.7	6.7	7.7
Syria	-	-	-	BB-	CCC								
	-	-	-	Stable	Stable	-4.3	26.9	14.9	48.0	-	52.9	-3.9	2.7
UAE	-	Aa2	-	AA-	BB								
	-	-	-	Stable	Stable	-2.7	24.7	53.1	57.7	7.3	360.4	5.4	0.6
Yemen	-	-	-	B-	CC								
	-	-	-	Negative	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	BB-	-	-								
	-	Negative	Stable	-	-	-4.8	44.8	38.4	402.7	-	194.2	-14.6	9.2
Bulgaria	BBB	Baa3	BBB-	-	BB								
	Stable	Stable	Stable	-	Stable	-1.8	16.2	109.2	122.3	21.2	393.2	-6.2	9.8
Kazakhstan	BBB	Baa2	BBB-	-	BB								
	Stable	-	Stable	-	Stable	-2.8	16.0	86.4	182.9	30.3	350.4	3.2	8.8
Romania	BB+	Baa3	BBB-	BBB-	BB								
	Stable	-	Stable	Negative	Stable	-6.8	33.9	77.4	197.5	24.6	-	-5.5	3.8
Russia	BBB	Baa1	BBB	-	BBB								
	Stable	Positive	Stable	-	Stable	-5.6	9.3	31.9	124.7	13.4	99.2	4.5	-0.6
Turkey	BB	Ba2	BB+	BB	B								
	Positive	Positive	Stable	Stable	Stable	-4.1	44.4	41.3	187.3	39.7	-	-3.4	1.0
Ukraine	B+	B1	B	-	CCC								
	Positive	Negative	Stable	-	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	09-Feb-12	No change	08-Mar-12
UK	Bank Rate	0.50	09-Feb-12	No change	08-Mar-12
Japan	O/N Call Rate	0-0.10	14-Feb-12	No change	13-Mar-12
Australia	Cash Rate	4.25	06-Feb-12	Cut 25bps	06-Mar-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	09-Feb-12	No change	08-Mar-12
Malaysia	O/N Policy Rate	3.00	31-Jan-12	No change	09-Mar-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	15-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	21-Feb-12	No change	27-Mar-12
South Africa	Repo rate	5.50	Jan-12	No change	29-Mar-12
Kenya	Central Bank Rate	18.00	01-Feb-12	No change	06-Mar-12
Nigeria	Monetary Policy Rate	12.00	30-Jan-12	No change	20-Mar-12
Ghana	Prime Rate	13.50	Feb-12	Raise 100 bps	Apr-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	07-Feb-12	No change	N/A
Romania	Policy Rate	5.50	03-Feb-12	Cut 25bps	N/A
Bulgaria	Base Interest	0.18	01-Feb-12	Cut 4bps	N/A
Kazakhstan	Refi Rate	7.00	14-Feb-12	Cut 50bps	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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