

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Cross-border M&As up 13% to \$117bn in 2011

Cross-border mergers and acquisitions by companies in developing and transition economies totaled \$117.1bn in 2011, constituting an increase of 12.8% from \$103.8bn in 2010. Cross-border M&As purchases by developing economies increased by 5.6% year-on-year to \$103.6bn, while those by transition economies surged by 137.3% to \$13.5bn in 2011. Cross-border M&As purchases by East Asia reached \$50.4bn and accounted for 43% of the total; followed by Latin America & the Caribbean with \$18.7bn (16%), South-East Asia with \$17.6bn (15%), transition economies with \$13.5bn (11.5%), South Asia & West Asia with \$6.1bn each (5.2%, each), and Africa with \$4.8bn (4%). Also, cross-border M&As purchases by transition economies increased by 137.3% year-on-year, followed by Africa with 45.4%, South-East Asia with 27.9%, and Latin America & the Caribbean with 17.9%; while those by South Asia dropped by 77.2%, and by East Asia fell by 6.5%. Further, cross-border M&As purchases by West Asia shifted from -\$15.3bn in 2010 to \$6.1bn last year. Cross-border M&As by developing and transition economies accounted for just 20% of global M&As. In parallel, Greenfield projects by developing and transition economies reached \$260.7bn in 2011, similar to the 2010 level, and accounted for 30% of global Greenfield projects. Greenfield projects by developing economies increased by 1.4% year-on-year to \$242.7bn and those by transition economies dropped by 16.7% to \$18bn in 2011.

Source: UNCTAD

GCC

Cash holdings of listed non-financial firms at \$66bn at end-2011

The cash and short-term investments of publicly traded non-financial firms in the Gulf Cooperation Council (GCC) states stood at \$66bn at end-2011, constituting an increase of 4.4% from \$63.3bn at end-2011 and compared to \$57.44bn at end-2010, \$53.32bn at end-2009 and \$51.5bn at end-2007. The cash and short-term investments of the firms posted a compound annual growth rate (CAGR) of 6.4% during the 2007-11 period. The GCC materials sector was the largest contributor with \$27.1bn, or 41% of total, followed by the telecommunications sector with \$15bn (23%), the industrial sector with \$12bn (18%), the energy sector with \$5.5bn (8.4%) and utilities with \$4bn (6%); while consumer discounts, consumer staples and healthcare accounted for the remaining 3.6%. Consumer staples posted the largest annual increase of 47.2% in 2011, followed by the industrial sector with 14%, the materials sector with 10.5%, the energy sector with 8.6% and consumer discounts with 4.7%. In contrast, the telecom sector posted the steepest decline at 10.8%, followed by utilities at -5.8%, and healthcare at -4.1%. Also, cash and short-term investments of firms in the information technology sector remained unchanged year-on-year. The top 10 cash-holding GCC firms represented 65% of the total at end-2011 relative to 51% in 2007.

Source: Standard & Poor's

MENA

Equity markets up by 12% in first four months of 2012

Arab stock markets increased by 10% and GCC equity markets rose by 11.7% in the first four months of 2012 compared to drops of 3.4% and 0.2%, respectively, in the same period last year. Activity on the Egyptian stock market increased by 34.4% in the first four months of 2012 and posted the best performance among Arab markets in the covered period. It was followed by the Dubai financial market with a 20.5% increase, Saudi Arabia's stock exchange with a 17.8% rise, the Kuwait bourse with a 9.5% improvement, the Tunis equity market with a 7.8% rise, the Abu Dhabi exchange with a 4.2% appreciation, the Muscat equity market with a 3.1% growth, the Damascus financial market with a 1% increase, the Beirut stock exchange with a 0.9% growth, and the Bahrain bourse with a 0.7% rise. In parallel, the Iraqi stock exchange dropped by 13.2% in the first four months of 2012 and posted the worst performance among Arab stock markets during the covered quarter. It was followed by the Casablanca stock exchange with a 6.7% drop, the Palestine equity market with a 2% decline, the Doha bourse with a 0.9% retreat, and the Amman stock market with a 0.7% contraction. In comparison, emerging market equities rose by 12% and global equities increased by 10% in the first four months of the year. Arab stock markets dropped by 2.6% in April compared to declines of 2% for emerging market equities and 1.4% for global equities.

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

M&A activity down 40% to \$8.5bn in first quarter of 2012

Figures released by Ernst & Young show that a total of 105 merger & acquisition deals were announced in the Middle East & North Africa in the first quarter of 2012, up 7% from 98 deals in the same quarter last year. The aggregate value of M&A deals in the region fell by 40% to \$8.5bn in the first quarter of 2012 from \$14.1bn in the same quarter of 2011. The average size of announced deals dropped from \$372.1m in the first quarter of 2011 to \$242.9m in the first quarter this year, constituting a decline of 34.7%. The value of outbound deals in the region reached \$5.5bn in the first quarter the year and accounted for 64.7% of the region's total M&A deals, followed by domestic and inbound deals with \$1.5bn or 17.6% each. The average size of inbound deals increased by 69% year-on-year to \$191m; the domestic deal size fell by 65.4% to \$101.1m and the average announced deal size in the outbound category dropped by 34.2% year-on-year to \$454.8m. E&Y said that the UAE had the largest aggregate value of domestic transactions with \$445m, and accounted for 29% of total domestic disclosed deal value in the first quarter. It was followed by Qatar with \$439.6m (29%), and Saudi Arabia with \$304m (20%).

Source: Ernst & Young

POLITICAL RISK OVERVIEW - APRIL 2012

EGYPT

Constitutional and electoral turmoil increased ahead of the 23-24 May presidential elections, with mass demonstrations against the Supreme Council of the Armed Forces (SCAF). Former spy chief and Vice President Omar Suleiman announced his presidential candidacy, sparking mass demonstrations primarily by the Muslim Brotherhood. The Higher Presidential Election Commission (HPEC) disqualified 10 of 23 candidates on April 15th. Also, tens of thousands of protesters from a wide range of groups returned to Tahrir Square on April 20 demanding the handover of power to civilian rule. Protests erupted on April 17 at the start of the trial of suspects in the February Port Said football violence. Also, Egypt's state-owned gas company EGAS announced that it stopped gas exports to Israel over unpaid fees.

IRAN

P5+1 negotiations resumed on April 14 in Istanbul after a 15-month freeze, where the U.S. stated that talks were positive. Ayatollah Khamenei reiterated a legal pronouncement against the production and the use of nuclear weapons, and U.S. Secretary of State Hillary Clinton requested Iran to take practical steps as proof. Tensions with the UAE increased following the visit by President Mahmoud Ahmadinejad to the disputed islands of Abu Musa. The GCC described the move as provocative and a violation of UAE sovereignty.

IRAQ

Country-wide bombings killed 35 people on April 19, while bombings in Baghdad killed three people on April 21st. The head of the electoral commission Faraj al-Haidari was briefly detained on suspicion of corruption. Qatar refused the Iraqi request to hand over Iraqi Vice President Tarek al-Hashemi. Kurdistan's President Massoud Barzani declared the suspension of oil exports to Baghdad on April 1st. Turkish Prime Minister Recep Tayyip Erdogan criticized Nour al-Maliki's treatment of minority coalition partners.

DEM REP CONGO

The security situation further deteriorated in April in the east of the country. President Joseph Kabila reportedly called for the arrest of the former leader of the National Congress for the Defence of the People (CNDP), Bosco Ntaganda. Clashes throughout April between the army and rebels in Kivus displaced thousands of people. The new electoral commission announced provincial elections for January 2013 and released a report blaming international assistance for problems in the presidential elections.

LIBYA

Communal clashes continued in the south of the country, where Prime Minister Abdurrahim el-Keib attempted to resolve the protracted fighting in Sebha that has killed at least 150 people. A bomb targeted the convoy of the UN head of mission Ian Martin on April 10 in Benghazi. The government took over the Tripoli International Airport from the militia on April 20th. Further, the Cabinet halted the cash payout program to former rebels over corruption accusations. The International Criminal Court requested the authorities to hand over Saif al-Islam Qadhafi, while Justice Minister Ali Humaida Ashour declined. The National Transitional Council issued a new law on April 25 banning parties based on religious principles.

SUDAN

Tensions with South Sudan continued, as the Sudan People's Liberation Army (SPLA) of South Sudan took over the Helgig oil fields on April 10 and halted production. The SPLA denied damaging the Helgig oil infrastructure. Also, Khartoum declared a state of emergency in border regions on April 30th. The African Union gave Sudan and South Sudan three months to reach a deal to end the fightings. Khartoum reopened negotiations with Juba in Addis Ababa, but failed to sign a security deal despite reaching understandings on the cessation of hostilities and campaigns. Military operations in South Kordofan and the Blue Nile escalated throughout the month of April, prompting Khartoum to accuse Juba of providing support to rebels. Four UN peacekeepers were injured in an ambush in Darfur.

SOUTH SUDAN

President Salva Kiir said that Sudan had declared war following continued airstrikes. South Sudan claimed that its forces shot down a Sudanese jet over its lands. The government released 14 Sudanese soldiers on April 25 in a move hoped to ease tensions. The government said that an attack by Khartoum-backed rebels in the Upper Nile state killed 21 people.

SYRIA

The month saw an upsurge in violence despite the acceptance of Kofi Annan's peace plan by the Syrian regime and the opposition parties. Security forces opened fire on a Turkish refugee camp in Kilis and killed two people. Following UN pressure, the regime agreed to a ceasefire with the opposition. Renewed anti-regime demonstrations took place in mid-April despite continued regime targeting. Further, the UN Security Council (UNSC) unanimously approved the deployment of 30 UN observers and voted to increase the number to 300 ones. In parallel, activists claimed that Hama was shelled by the regime as a punishment for the UNSC's deployment of UN observers, where 70 people were killed in an explosion on April 26th. Opposition fighters reportedly launched a sea raid in Latakia province. Also, the EU approved to a new round of sanctions against Syria.

TUNISIA

Polarization between pro- and anti-Ennahda forces continued with violent repression by security forces in a demonstration on April 9th. Also, security forces violently dispersed a protest by unemployed youths in Rades. Left-wing student organizations clashed with Islamists at the Manar University. A new Republican Party was created on April 7 following the fusion of seven parties, including the Progressive Democratic Party.

YEMEN

President Abd-Rabbuh Mansour Hadi announced the dismissal of four governors and the reassignment of 20 military officers, while former President Ali Abdullah Saleh's loyalists closed the Sanaa International Airport in response. The government announced the formation of a preparatory committee for national dialogue. Clashes intensified in the south between the army and al-Qaeda militants. Also, the army stated that airstrikes against al-Qaeda in al-Rahha Mountains killed 43 people. Gunmen kidnapped an official from the International Committee of the Red Cross near Hudaida.

Source: International Crisis Group



OUTLOOK

IRAQ

Non-oil growth to average 5.5% in 2012-13

The International Monetary Fund projected economic growth in Iraq at 11.1% in 2012 and 13.5% in 2013 compared to growth in Middle Eastern oil exporting countries of 4.8% in 2012 and 3.7% in 2013. It forecast the country's real non-oil GDP to grow by 5.5% in each of 2012 and 2013, up from 5% in 2011. It expected Iraq's annual average inflation rate at 7% in 2012 and 6% in 2013, compared to inflation of 10.6% and 9.1% in oil-exporting countries for 2012 and 2013, respectively. Also, it expected broad money to grow by 22.8% this year and 23.1% next year, down from 33% in 2011. The Fund projected the government's fiscal balance to post surpluses of 0.2% of GDP in 2012 and 6.8% of GDP in 2013, compared to a surplus of 7.4% of GDP in 2011. It also forecast the government's non-oil fiscal deficit at 240.8% of non-oil GDP this year and 203% of non-oil GDP next year, up from 200.4% of non-oil GDP last year. It estimated overall government revenues at 73.2% of GDP in 2012 and non-oil revenues at 11.7% of non-oil GDP in 2012 compared to 75.6% of GDP and 12.5% of non-oil GDP, respectively, in 2011; and total expenditures at 73.6% of GDP this year relative to 69.8% of GDP last year.

The IMF projected Iraq's public debt to reach 31.3% of GDP at end-2012 and 25.6% of GDP at end-2013, significantly down from 87% of GDP at end-2011. It also forecast total gross external debt at 21.4% of GDP this year and 17.3% of GDP next year relative to 76.8% of GDP last year. Further, the Fund estimated Iraq's exports of goods & services at \$103.6bn in 2012 and \$121bn in 2013, and imports of goods & services at \$85.1bn in 2012 and \$97bn in 2013. It forecast the country's current account to post surpluses of \$13.1bn, or 9.1% of GDP, in 2012 and \$17.7bn or 10.8% of GDP in 2013. It expected the country's gross official reserves to grow from \$61.1bn at end-2011 to \$71.7bn at end-2012 and \$79.7bn by end-2013. The Fund anticipated Iraq's oil production to increase from 2.7 million barrels per day in 2011 to 3.1 million b/d this year, and for oil exports to rise from 2 million b/d last year to 2.4 million b/d in 2012.

Source: *International Monetary Fund*

LIBYA

Real GDP to increase by 76% in 2012, non-oil activity to grow by 20%

The International Monetary Fund projected real GDP in Libya to grow by 76.3% in 2012 and 21% in 2013 compared to a contraction of 61% in 2011, and relative to growth in oil exporting countries in the Middle East and North Africa (MENA) of 4.8% in 2012 and 3.7% in 2013. It expected Libya's nominal GDP to reach \$79.7bn in 2012 and \$96bn in 2013 relative to \$37bn in 2011. It forecast the country's non-oil real GDP to increase by 20% in 2012 and 15% in 2013, relative to a contraction of 50% in 2011, and compared to non-oil growth of 4.4% and 4.3%, respectively, for oil exporters in the MENA region. It expected Libya's oil production to recover from 500,000 barrels per day in 2011 to 1.4 million b/d in 2012 and 1.7 million b/d in 2013; and for crude oil exports to increase from 400,000 b/d last year to 900,000 b/d this year and 1.3 million b/d next year. It forecast Libya's annual average inflation rate at 1.9% in 2012, down

from 14.1% in 2011 and compared to the average inflation in the region's oil exporting countries of 10.6%. Also, it forecast broad money to contract by 20.5% this year but to grow by 4.5% next year, up from 25.4% in 2011.

In parallel, The IMF forecast Libya's total gross external debt at 7% of GDP in 2012 and 5.8% of GDP in 2013, down from 15.1% of GDP in 2011. The Fund estimated Libya's exports of goods & services to increase from \$19.4bn in 2011 to \$52.8bn in 2012 and \$64.4bn in 2013; and for imports of goods & services to grow from \$15.8bn in 2011 to \$39.7bn in 2012 and \$40.6bn in 2013. It forecast the country's current account balance to post surpluses of \$12.3bn in 2011 and \$22.7bn in 2013, equivalent to 15.4% of GDP in 2012 and 23.6% of GDP in 2013, respectively, and relative to a surplus of \$1.6bn or 4.4% of GDP in 2011. The Fund expected gross official reserves to reach \$90.8bn at end-2012 and \$96.9bn at end-2013 from \$111.3bn at end-2011.

Source: *International Monetary Fund*

SOUTH SUDAN

Fiscal reliance on oil revenues is unsustainable in the long term

Standard Chartered expected the decline in South Sudan's net exports of oil over the long term to negatively affect the country's economic growth in the absence of new oil discoveries. It indicated that South Sudan's growth outlook is closely linked to its oil production and political situation, as oil exports account for 70% of GDP and 98% of government revenues, which is one of the highest levels of oil-dependency in the world. It said that South Sudan's oil production is on a declining trend given that the aggregate oil production of former Sudan peaked in 2011 and South Sudan's production of 350,000 barrel per day is likely to fall. It noted that South Sudan does not have significant oil exploration activity and did not confirm of new commercially viable oil finds. It said that South Sudan's public revenue base collapsed since the oil shutdown following a dispute with Sudan over oil transit fees.

In parallel, Standard Chartered said that a decline in oil receipts without diversification of the domestic tax base would pose significant challenges to government spending in the long-term. First, it expected the current levels of public expenditures to be unsustainable over the long-term with the decline in oil revenues. It noted that military spending accounts for up to 33% of expenditures, which is higher than the education and health budgets combined. Second, it pointed out that achieving fiscal balance would be difficult in the context of declining oil production. It noted that the authorities aim to post fiscal surpluses in the early years of oil production before resorting to fiscal deficits. But, it added that this will be challenging as oil revenues have already proven to be volatile. Third, it said that South Sudan is likely to rely on foreign development aid for public service delivery for some time to come, given the pressure to lower public spending despite a substantial need for social-service provision. Further, Standard Chartered expected the currency to continue to weaken against the US dollar, at least until foreign currency inflows from oil production resume.

Source: *Standard Chartered*



ECONOMY & TRADE

SAUDI ARABIA

Optimism of non-hydrocarbon sector retreats

The D&B Business Optimism Index for Saudi Arabia indicated that the composite index for the non-hydrocarbon sector dropped to 52 in the second quarter of 2012 from 54 in the first quarter of 2012 and 68 in the same quarter last year. The index for expected sales rose to 67 from 66 in the previous quarter, as 71% of firms in the non-hydrocarbon sector anticipate an increase in their sales; while the index for expected new orders fell marginally to 65 from 67, as 69% of businesses expect a rise in their order book status. Also, the expected profits index dropped to 54 from 59 in the preceding quarter, with 62% of firms expecting their profitability to improve in the second quarter of 2012; while the index for inventory levels decreased to 33 from 39 as 45% of respondents forecast their inventory levels to improve. Further, 32% of firms forecast selling prices to increase in the second quarter, leading to a drop in the related index to 24 from 27; while 52% of non-hydrocarbon businesses plan to expand their staff compared to 44% that do not have such plans, with the number of employees index falling to 33 from 39. In parallel, the construction index contracted to 57 in the second quarter from 59 in the previous quarter. It was followed by the manufacturing index that decreased to 54 from 55 in the previous quarter, the trade & hospitality index which increased marginally to 50 from 49 in the first quarter of 2012; and the finance, real estate & business services index that fell to 49 from 55. The transport & communication index remained unchanged quarter-on-quarter at 47.

Source: *Dun & Bradstreet*

LIBYA

Fiscal policy to remain challenged by prevailing conditions

Business Monitor International expected Libya's fiscal policy to remain predominantly in the form of cash handouts over the coming years, rather than in the form of long-term capital spending, given concerns about the National Transitional Council's (NTC) legitimacy. It said that the legitimacy or authority possessed by the NTC in terms of signing long-term investment contracts remains unclear, and that a new popularly-elected government is not expected to take office until June 2013 in a best-case scenario. It also anticipated that the process of building the necessary political structures to be challenging for any new government's ability to effectively carry out a coherent fiscal program. It added that Libya's lack of functioning institutions is problematic for the government's spending plans and anticipated that instances of corruption will likely remain the norm rather than the exception. BMI expected Libya's transitional government to come under further pressure to increase fiscal spending. It warned that this would result in a significant misallocation of funds, and would encourage corruption. It said that such operating environment raises concerns about the NTC's ability to effectively utilize the country's massive financial resources to pursue necessary reconstruction projects.

Source: *Business Monitor International*

SUDAN

Current account deficit to widen on loss of oil production

Business Monitor International forecast Sudan's current account deficit to widen to 9% of GDP in 2012 and 8.5% of GDP in 2013 compared to previous estimates of 7.8% of GDP and 7.2% of GDP, respectively. It attributed the deterioration in Sudan's current account to the partial shutdown of oil production at the Heglig oil fields following the fighting between South Sudanese and Sudanese armed forces. It said that this will have major implications on Sudan's export revenues during at least this year, given that around 50%, or 60,000 barrels per day, of Sudan's oil production comes from the Heglig area. It estimated that oil exports account for around 85% of total Sudanese exports. It warned that a return to full production at Heglig's oil fields is likely to take many months if the region's oil infrastructure was seriously damaged by the fighting. As such, it expected Sudan's balance of payments and, by extension, the Sudanese pound to likely remain under pressure over the coming months. Further, it forecast Sudan's services account to remain deeply in deficit, with the value of service imports equivalent to around threefold that of service exports. It said that Sudan's capital and financial account improved due to investments from the Middle East and Asia, given that the international sanctions on the country do not limit their investment activities in Sudan. But it warned that some stakeholders may stay on the sidelines over the short- to medium-term until a political resolution to the longstanding disputes with South Sudan is on the horizon.

Source: *Business Monitor International*

TURKEY

Outlook revised to 'stable' from 'positive' on increased credit risks

Standard & Poor's revised the outlook on Turkey's long-term foreign and local currency sovereign credit ratings to 'stable' from 'positive' and affirmed the 'BB/B' foreign currency and 'BBB-/A-3' local currency long- and short-term sovereign credit ratings. It also affirmed the long- and short-term national scale ratings at 'trAA+/trA-1' and the transfer and convertibility assessment at 'BBB-'. It attributed the outlook revision to less-buoyant external demand, worsening terms of trade, and increased risks to Turkey's creditworthiness given its high external debt and the state budget's reliance on indirect tax revenues. It said that the key constraints on Turkey's ratings include external vulnerability as measured by high net external debt and gross external financing needs; modest income levels; and risks related to the 2010-11 credit boom. It estimated Turkey's gross external financing needs at 142% of current account receipts and usable reserves in 2012, one of the highest ratios for a rated sovereign. It considered that the heavy reliance on external savings exposes Turkey to domestic and external shocks. It said that external shocks may lead to a rapid depreciation of the Turkish lira, with a significant pass-through to inflation, which would increase domestic interest rates and increased the government's borrowing costs. Further, it pointed out that the Central Bank of Turkey's accommodative monetary policy has been less effective in influencing monetary conditions.

Source: *Standard & Poor's*



BANKING

JORDAN

Private sector lending up 2.2% in first quarter of 2012

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD38bn at the end of March 2012, constituting a rise of 1% from end-2011 and an increase of 7% from end-March 2011. Resident private sector loans rose by 2.2% from end-2011 to JD15.2bn, while credit facilities to the non-resident private sector increased by 1.8% to JD991.8m, leading to an increase of 2.2% in overall private sector lending in the first quarter of the year. Resident private-sector lending accounted for 40% of total assets, unchanged from a year earlier. In parallel, resident private sector deposits reached JD20.1bn, up 1% from the end of 2011 and by 8% from a year earlier. Also, deposits of non-bank financial institutions dropped by 7% from end-2011 to JD257.7m. The central government's deposits reached JD686.2m, up 7.7% from end-2011, while those of public non-financial institutions increased by 6.8% to JD351m. Further, claims on the public sector increased by 7.2% to JD7.9bn in the first quarter, with claims on the central government accounting for 94% of lending to the public sector. Claims on the public sector accounted for 21% of total assets at end-March 2012 compared to 16.9% a year earlier. Further, reserves at the Central Bank of Jordan totaled JD5.1bn, down 10% from JD5.6bn at end-2011; while capital accounts and allowances rose by 5% to JD5.7bn. Deposits with foreign banks reached JD4.4bn at end-March 2012, up 2.3% from end-2011, and the sector's foreign liabilities dropped by 3.3% to JD6bn.

Source: Central Bank of Jordan, Byblos Research

NIGERIA

Sale of nationalized banks to be finalized by 2014

The Asset Management Corporation of Nigerian (AMCON) expected the sale of the nationalized Keystone Bank, Main Street Bank and Enterprise Bank to be completed by 2014. It estimated that the entire process of selling the banks to investors would take about two years, given that any failure to follow the due process would be counterproductive. It said that all necessary approvals must be secured from the Central Bank of Nigeria (CBN) and other relevant institutions. It added that the three banks are currently posting profits and are managed in line with corporate governance standards. It pointed out that the sale of the banks does not pose any challenge but that due processes must be followed. Last August, The CBN nationalized and revoked the operating licenses of Afribank, Spring Bank and Bank PHB, which are among the nine banks that the CBN rescued in 2009, as they were unlikely to meet the end-September 2011 deadline for recapitalization. The CBN transferred the assets and liabilities of the three banks to newly-formed 'bridge banks' under the control of AMCON until new investors are found. As such, Keystone Bank, Main Street Bank and Enterprise Bank assumed the assets and liabilities of Bank PHB, Afribank and Spring Bank, respectively. AMCON injected a total of NGN678.5bn into the banks and pledged to inject further capital in case of need.

Source: Vanguard

INDIA

Negative outlook on banks

Standard & Poor's revised the outlook on the long-term counterparty credit ratings of Axis Bank, Bank of India, HDFC Bank, Indian Overseas Bank, Indian Bank, Syndicate Bank and Union Bank of India to 'negative' from 'stable', and affirmed their long- and short-term counterparty credit ratings at 'BBB-' and 'A-3', respectively. It also revised the outlook on the long-term foreign currency rating of ICICI Bank and IDBI Bank to 'negative' from 'stable'. It attributed the outlook revision to an earlier decision to revise India's sovereign credit ratings to 'negative'. The agency said it does not rate Indian banks above the sovereign ratings as they invest a significant portion of their funds in government securities; a high proportion of their revenue comes from domestic operations; and most of them are majority-owned by the government. It warned that it would lower the ratings on the banks in case of a sovereign downgrade; or if the standalone credit profiles of the banks deteriorate sharply. In parallel, Moody's Investors Service placed on review for possible downgrade the 'C-' standalone bank financial strength rating and 'baa2' baseline credit assessment of ICICI Bank, HDFC Bank and Axis Bank. The agency said its actions reflect its revised assessment of the linkage between the credit profiles of sovereigns and financial institutions globally. It pointed out that the reviews will take into account the extent to which the banks' business depends on the domestic macroeconomic and financial environment; the degree of reliance on market-based funding; and direct or indirect exposures to domestic sovereign debt, compared with their capital bases.

Source: Standard & Poor's, Moody's Investors Service

GHANA

Currency weakness to continue

Business Monitor International expected the weakness of the Ghanaian cedi to continue given the country's widening current account deficit and the lack of local confidence, and anticipated that the Bank of Ghana (BoG) would have to implement further aggressive interest rate hikes. It said that the BoG's latest measures to contain the currency depreciation indicate that it will take time for local confidence in the cedi to be rebuilt and that the BoG did not go far enough when it increased rates by 100 basis points on April 13th. It considered that market sentiment is unlikely to change overnight, given that the currency depreciated by over 3% following the previous 100bps interest rate hike. It pointed out that the BoG introduced additional measure in an attempt to reinforce the monetary policy stance and restore stability and transparency to the foreign exchange market. It noted that the measures included the reintroduction of Treasury bills with maturities of 30, 60 and 270 days to provide additional opportunities for cedi investments; and required banks to maintain the mandatory 9% reserve requirement in the local currency only, rather than in a mix of currencies. It added that the measures also obliged all banks to provide 100% cedi cover for their vostro balances. It noted that Ghana is in the middle of a vicious circle of currency depreciation, rising imported inflation, a growing current account deficit, declining foreign reserves, and a loss of confidence in the cedi.

Source: Business Monitor International



ENERGY / COMMODITIES

Brent steady above \$118

Brent crude prices were steady at above \$118 a barrel on May 3, reflecting caution among investors ahead of a key U.S. employment report. Prices declined on May 2 as investors sold off commodities and equities after the Eurozone's manufacturing sector index marked its lowest reading since June 2009. Brent crude for June delivery increased by 11 cents to \$118.3 per barrel on May 3, while U.S. oil prices declined by 11 cents to \$105.1 a barrel. In parallel, U.S. crude oil stocks rose by 2.8 million barrels last week to 375.9 million barrels, reaching their highest level since September 1990. Further, the U.S. Energy Information Administration showed that domestic crude stocks increased by more than 29 million barrels since late March, the highest six-week increase since February 2009. Overall, prices of Brent ICE futures decreased by 2.8% in April to \$119.5 a barrel on April 30th, and prices of WTI NYMEX Futures rose by 1.7% in April to \$105.3 a barrel.

Source: Thomson Reuters

China to give sovereign guarantees for ships carrying Iranian oil

China is considering providing sovereign guarantees to ships carrying Iranian oil to enable Chinese vessels to continue importing crude oil from Iran after EU sanctions come into effect in July. The sanctions ban EU-based insurers and reinsurers, who cover more than 90% of the world's tankers, from covering ships transporting Iranian oil anywhere in the world. Most of Iran's daily 2.2 million barrels of oil output are imported by Asia. China was Iran's top customer, taking more than 20% of its crude exports, but customs data showed that China halved its Iranian crude imports in March compared with the same month in 2011.

Source:

Angola LNG to start exports in June

Angola LNG is planning to start regular exports of liquefied natural gas in late June, and to target non-U.S. buyers in Europe and Asia where prices are higher. The Angola LNG project is expected to generate 5.2 million tons per year and is led by the state-owned company Sonangol. The plant was built in Soyo in northern Angola at an estimated cost of \$10bn. Also, according to the revised LNG law approved by the Parliament, prices for sales to the new markets will be agreed for each cargo, in contrast to the quarterly price-setting for shipments to the U.S.

Source: Thomson Reuters

Nigeria loses \$6.8bn for mismanagement of fuel subsidy program

A parliamentary report indicated that Nigeria lost \$6.8bn due to corruption and mismanagement of its fuel subsidy program between 2009 and 2011. It said that the program cost \$16.5bn in 2011 constituting a tenfold increase since 2006 and more than double the \$7.5bn in losses previously estimated by the government. It noted that the amounts uncovered would allow an increase in spending on infrastructure and improvements in fiscal savings and foreign exchange reserves.

Source: Business Monitor International

Base metals: LME copper prices decline amid lower supply

London copper prices declined on May 3 amid lower supply, after posting their highest daily drop in more than a week in the previous session. Three-month copper prices on the London Metal Exchange declined by 0.4% to \$8,270 a ton on May 3 after falling 1.6% in the previous day, their highest single-day decline since April 23rd. Also, the August copper contract on the Shanghai Futures Exchange closed at \$9,200 a ton on May 3rd.

In parallel, some copper experts increased their 2012 price forecasts on expectations for a mild recession in the Eurozone and reduced likelihood of a global financial crisis. Further, three-month LME aluminum prices increased by 0.14% to \$2,101 per ton on May 3, while nickel prices rose by 0.8% to \$17,429 per ton. Three-month LME lead prices declined by 0.7% to \$2,117 per ton and zinc prices decreased by 0.3% to \$2,013 per ton.

Source: Thomson Reuters

Precious metals: Gold declines on lower Indian demand

Gold prices decreased during the past week as physical demand declined in India, the world's largest gold importer. Gold futures for June delivery fell by 0.5% to settle at \$1,654 an ounce on May 3 on the Comex in New York, the largest drop since April 23rd. Holdings in bullion-backed exchange-traded products reached 2,382 tons as of May 2, the lowest level since February 1st.

Further, silver futures for July delivery decreased by 0.9% to \$30.6 an ounce, retreating for the third straight day. Also, palladium futures for June delivery declined by 1.7% to \$669.5 an ounce, while platinum futures for July delivery fell by 0.5% to \$1,564.4 an ounce. Overall, the price of gold decreased by 0.2% in April to \$1,669 per ounce on April 30, while that of silver declined by 4.7% in March to \$31 an ounce. Palladium prices increased by 4.6% in April to \$684 per ounce and platinum prices rose by 4.3% to \$1,644 per ounce.

Source: Bloomberg

Global Commodity Outlook			
(3-months LME, \$/ton)	2011	2012f	2013f
Aluminum	2,424	2,254	2,500
Copper	8,833	8,829	10,750
Lead	2,391	2,279	2,600
Nickel	22,896	21,298	21,000
Tin	26,042	25,734	25,500
Zinc	2,212	2,210	2,450
(Spot price, \$/ounce)			
Gold	1,573	1,810	2,000
Palladium	733	721	850
Platinum	1,720	1,752	2,050
Silver	35	33	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	-2.6	10.7	1.9	4.8	1.7	2.1	13.7	1.3
Angola	BB- Stable	Ba3 Stable	BB- Stable	-	BB Negative	7.9	29.9	17.4	28.2	8.9	-	12.0	10.7
Egypt	B Negative	B1 Negative	BB- Negative	BB+	CCC Stable	-9.9	76.2	13.8	73.4	7.8	128.6	-1.9	2.4
Ethiopia	-	-	-	-	B Stable	-2.1	39.4	-	165.9	-	-	-6.3	0.7
Ghana	B Stable	-	B+	-	BB Positive	-4.2	38.1	19.4	50.1	-	-	-6.5	7.7
Ivory Coast	-	-	-	-	CCC Stable	-6.4	93.3	48.7	108.3	-	-	1.0	1.7
Libya	BB Negative	-	B Stable	-	B Stable	-	-	8.6	-	2.0	-	-	3.6
Mauritania	-	-	-	-	-	-2.8	62.0	70.0	96.6	-	700.0	-7.5	0.3
Morocco	BBB- Stable	Ba1	BBB- Stable	BBB- Stable	B Stable	-5.8	54.2	28.4	75.7	9.1	120.1	-5.2	0.8
Nigeria	B+ Stable	-	BB- Stable	-	B Stable	0.4	15.7	5.0	12.4	0.4	-	13.5	2.6
Sudan	-	-	-	-	C Stable	-2.8	78.2	61.0	301.6	-	4,825	-7.3	2.3
Tunisia	BBB- Negative	Baa3 Negative	BBB- Negative	BBB Stable	B Stable	-4.1	41.7	58.2	111.3	8.4	285.6	-5.7	3.2
Middle East													
Bahrain	BBB Negative	Baa1 Negative	BBB Negative	BBB+	BB Stable	-7.7	34.2	75.3	66.1	8.2	340.9	12.6	-0.9
Iran	-	-	B+	BB-	CCC Stable	2.4	9.2	3.0	10.9	2.1	14.3	7.8	0.8
Iraq	-	-	-	-	CCC Stable	-8.7	42.3	37.1	53.2	-	72.4	-0.9	1.7
Jordan	BB Negative	Ba2 Negative	-	BB	B Stable	-6.1	68.5	23.8	53.4	5.1	59.8	-6.7	6.4
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA-	A Stable	23.6	4.5	26.0	41.7	7.0	184.3	33.5	-1.5
Lebanon	B Positive	B1	B Stable	B	CCC Stable	-8.3	134.0	158.0	264.7	14.7	208.5	-14.1	11.2
Oman	A Negative	A2	-	A	A Stable	10.9	4.0	12.3	17.2	-	59.0	14.5	2.9
Qatar	AA- Stable	Aa2 Stable	-	AA-	AA Stable	7.7	38.2	70.1	115.5	7.8	703.9	32.6	2.9
Saudi Arabia	AA- Stable	Aa3 Stable	AA- Stable	AA-	BBB Stable	9.4	7.1	18.0	30.1	2.1	19.7	20.6	5.4
Syria	-	-	-	BB-	CCC Stable	-11.0	27.5	11.0	36.8	-	43.6	-6.1	2.4
UAE	-	Aa2	-	AA-	BB Stable	5.8	18.5	44.4	53.5	7.2	293.3	10.3	0.6
Yemen	-	-	-	B-	CC Stable	-7.1	42.9	18.0	58.4	-	244.4	-5.3	-1.3

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-	-	-	-3.8	41.5	65.5	304.5	-	352.6	-11.7	6.4
	-	Negative	Stable	-	-								
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.1	17.8	84.7	90.3	19.3	240.1	1.6	4.0
	Stable	Stable	Stable	-	Stable								
Kazakhstan	BBB	Baa2	BBB-	-	BBB	1.7	12.9	67.7	138.4	40.5	312.9	5.9	1.5
	Stable	-	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	BBB-	BB	-4.4	34.4	72.3	189.9	24.6	256.0	-4.5	2.1
	Stable	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	1.9	11.7	22.5	73.7	9.7	75.4	5.5	-0.7
	Stable	Positive	Stable	-	Stable								
Turkey	BB	Ba2	BB+	BB	B	-0.8	40.3	44.2	184.9	28.6	361.8	-10.3	1.0
	Positive	Positive	Stable	Stable	Stable								
Ukraine	B+	B1	B	-	CCC	-4.1	39.3	79.0	145.9	36.5	316.4	-3.9	4.2
	Negative	Negative	Stable	-	Positive								

Sources: International Monetary Fund; Economist Intelligence Unit - The above figures are estimated for 2011



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	13-Mar-12	No change	24-Apr-12
Eurozone	Refi Rate	1.00	04-Apr-12	No change	03-May-12
UK	Bank Rate	0.50	05-Apr-12	No change	09-May-12
Japan	O/N Call Rate	0-0.10	10-Apr-12	No change	27-Apr-12
Australia	Cash Rate	4.25	03-Apr-12	Cut 25bps	01-May-12
New Zealand	Cash Rate	2.50	08-Mar-12	No change	26-Apr-12
Switzerland	3 month Libor target	0.00	15-Mar-12	No change	14-Jun-12
Canada	Overnight rate	1.00	17-Apr-12	No change	05-Jun-12
Emerging Markets					
China	One-year lending rate	6.56	06-Jul-11	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	Mar-12	No change	24-Apr-12
Taiwan	Discount Rate	1.88	22-Mar-12	No change	28-Jun-12
South Korea	Base Rate	3.25	13-Apr-12	No change	10-May-12
Malaysia	O/N Policy Rate	3.00	09-Mar-12	No change	03-May-12
Thailand	1D Repo	3.00	21-Mar-12	No change	02-May-12
India	Reverse repo rate	8.00	17-Apr-12	Cut 50bps	18-Jun-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 100bps	N/A
Turkey	Base Rate	5.75	18-Apr-12	No change	29-May-12
South Africa	Repo rate	5.50	29-Mar-12	No change	24-May-12
Kenya	Central Bank Rate	18.00	Apr-12	No change	May-12
Nigeria	Monetary Policy Rate	12.00	20-Mar-12	No change	21-May-12
Ghana	Prime Rate	14.50	Apr-12	Raise 100bps	Jun-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	16-Mar-12	No change	27-Apr-12
Brazil	Selic Rate	9.00	18-Apr-12	Cut 75bps	30-May-12
Armenia	Refi Rate	8.00	10-Apr-12	No change	N/A
Romania	Policy Rate	5.25	30-Mar-12	Raise 25bps	N/A
Bulgaria	Base Interest	0.15	01-Apr-12	No change	N/A
Kazakhstan	Refi Rate	6.5	02-Apr-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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