

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### MENA

##### **Private capital inflows to reach \$12bn in 2012**

The World Bank estimated net private capital inflows to the Middle East & North Africa at \$11.7bn in 2012, constituting a shift from \$0.3bn in capital outflows in 2011, and accounting for 1.5% of capital inflows to developing economies, the smallest share of such inflows among all regions. It forecast net private inflows to the region to be equivalent to 1% of the region's GDP. The World Bank said net capital inflows to the region fell by almost 90% in 2011, reflecting large outflows on debt instruments as both foreign and domestic investors sought safer havens for their assets, given political and regulatory uncertainty. It forecast net equity inflows to rise by 39.3% to \$11.7bn, driven by an increase of 42% in net FDI to \$12.2bn, while net portfolio equity outflows would increase to \$0.5bn relative to \$0.2bn in the previous year. Also, net private debt inflows would reach zero in 2012 compared to outflows of \$8.7bn last year. The World Bank forecast net private inflows to reach \$22.8bn in 2013 and \$31.7bn in 2014, and to be equivalent to 1.7% of GDP in 2013 and 2.2% of GDP in 2014. It expected net equity flows to rise to \$19.5bn in 2013 and \$24.6bn in 2014, along with an increase in net private debt inflows to \$3.3bn in 2013 and to \$7.1bn in 2014.

*Source: World Bank*

##### **Insurance premiums up 10% to \$23.2bn in 2011**

Swiss Re's annual survey of the global insurance market indicated that the premiums generated by 12 Arab markets included in the survey totaled \$23.2bn in 2011, constituting a nominal increase of 10% from \$21.1bn in 2010. The region's aggregate premiums accounted for 0.5% of global premiums in 2011 and for around 3.3% of premiums generated in emerging markets. Insurance firms in the UAE accounted for 28.7% of aggregate premiums last year, followed by Saudi Arabia with 21.5% of the total, Morocco (12.3%), Egypt (7.4%), Lebanon (5.3%), Algeria (5.2%), Qatar (4.1%), Kuwait and Tunisia (3.5%, each), Oman (3.3%), Jordan (2.7%) and Bahrain (2.5%). Further, Arab markets generated \$18.9bn in non-life premiums last year, up 10.3% from \$17.1bn in 2010. Non-life premiums generated in the Arab world accounted for 1% of global non-life premiums and for 5.7% of non-life premiums in emerging markets. Also, aggregate life premiums generated in Arab markets stood at \$4.3bn in 2011, constituting a nominal rise of 8.3% from \$4bn in 2010. Life premiums generated in Arab markets accounted for 0.2% of global life premiums and for 1.2% of such premiums generated in emerging markets in 2011. In parallel, insurance penetration in Arab markets, or premiums relative to the size of the region's economy, stood at 1.1% of GDP last year compared to 1.3% of GDP in 2010, and relative to global and emerging markets penetration rates of 6.6% and 2.7%, respectively. Further, insurance density in Arab markets, or premiums per capita, reached \$109 in 2011 relative to \$101 in 2010, compared to global and emerging markets density of \$661 and \$118, respectively.

*Source: Swiss Re, Byblos Research*

##### **Investment promotion agencies post 'average' performance**

The World Bank's assessment of best practices at investment promotion agencies (IPAs) around the world placed the MENA region in the 'average' category. The performance assessment covered the evaluation of Web sites and the handling of investor inquiries. The region's IPAs received a score of 41%, lower than the OECD (64%), Latin America & the Caribbean (48%), and Europe & Central Asia (44%); but better than East Asia & the Pacific (36%), South Asia (32%) and Sub-Saharan Africa (25%). The World Bank said that the MENA region is the only region globally to post collective improvement since 2009 in both Web sites progress and inquiry-handling. It attributed the improvements in the Web sites of the region's IPAs to new national portals in North Africa that were designed to promote non-traditional industries through the provision of well-researched business information. It added that improvement in the inquiry-handling of the region's IPAs was more modest, but noted it was the only region to show improvement despite the political turmoil at the time of the assessment.

*Source: World Bank*

#### UAE

##### **Up to 50% of ADIA's portfolio invested in North America, 20-year returns at 6.9%**

The Abu Dhabi Investment Authority (ADIA), the emirate's sovereign wealth fund, indicated that its global investment portfolio is diversified across more than 24 asset classes and sub-categories that include listed equities, fixed income, real estate, private equity, alternatives and infrastructure. It said that approximately 80% of its assets are managed by external fund managers whose activities are monitored daily, and that nearly 60% of its assets are invested in index-replicating strategies. ADIA noted that the 20-year and 30-year annualized rates of return in US dollar terms for its portfolio were 6.9% and 8.1%, respectively, at end-2011 compared to 7.6% and 8.1%, respectively at end-2010. It said that North America represents between 35% and 50% of its portfolio, followed by Europe with a 25% to 35% range, emerging markets with a range of 15% to 25%, and Developed Asia with a 10% to 20% range. Further, developed markets' equities account for 35% to 45% of its portfolio, followed by emerging markets equities and government bonds (10% to 20% each), credit, alternatives, credit and real estate (5% to 10% each), private equity (2% to 8%) and infrastructure and small cap equities (1% to 5% each). In parallel, ADIA stated that it carries out its investments independently and without reference to the government of the Emirate of Abu Dhabi or other entities that also invest on the government's behalf. It added that it is not involved with, nor has any visibility on matters relating to the spending requirements of the Abu Dhabi government.

*Source: Abu Dhabi Investment Authority*

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# OUTLOOK

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## SYRIA

### **Economic activity to contract by 4.3% in 2012**

Business Monitor International projected Syria's real GDP to contract by 4.3% in 2012 and 1.3% in 2013 due to continued political instability and the impact of international sanctions on the hydrocarbon sector. It said that the political and economic crisis has led to a fall in spending and investment across all sectors. It noted that the difficulty in obtaining loans both internationally because of the sanctions; as well as locally, as banks stopped almost all types of credit facilities, is damaging economic activity in the country. Further, it said that the 2012 budget plan anticipates a 12% increase in expenditures. However, it forecast government consumption to grow by a real rate of just 1% in 2012 and to stagnate in 2013. It expected public expenditures to be severely constrained by falling oil receipts, which used to account for around 25% of total revenues, and by the depletion of Syria's foreign reserves. It also forecast private consumption to contract by 3% in real terms in 2012 and by 1.5% in 2013 as consumption as all income levels will be constrained. In parallel, BMI forecast gross fixed capital investment to fall by 4% and 1% in 2012 and 2013, respectively. It pointed out that foreign direct investment has collapsed due to international sanctions, while capital expenditures will be affected by the government's growing budget deficit.

In parallel, BMI expected Syria's net export position to weigh heavily on headline growth over the coming years. It said that exports will be weak as long as political instability persists and international sanctions on the oil industry remain in place. It added that oil exports are severely affected by the EU oil embargo, as around 95% of Syria's hydrocarbon exports used to be destined to EU markets. As such, it forecast that total exports will fall by 7% in 2012 and by 2% in 2013. Further, it said that the continued weakness of the Syrian pound and shrinking foreign reserves will constrain import growth. As a result, it forecast imports to fall by 3% in 2012 and by 2% in 2013.

*Source: Business Monitor International*

## DEM REP CONGO

### **Economy to grow by 7% in 2012**

The International Monetary Fund projected the Democratic Republic of Congo's (DRC) real GDP growth at about 7% in 2012. It said that economic performance improved recently and has been driven by the mining sector, while the economy has largely been shielded from the economic crisis in Europe due to its low level of global integration. But the IMF stressed that the country's low level of global integration, despite its short-term benefits, would be a significant constraint on its development over the medium-term. It noted that closer integration will require diversifying the economy, investing in infrastructure, and improving the business environment to attract investment.

The IMF urged the authorities to improve macroeconomic buffers over the short-term, mainly through further fiscal consolidation and a buildup of foreign currency reserves in order to reduce the economy's external vulnerabilities. It said foreign currency reserves reached the equivalent of eight weeks of non-aid related imports in 2011. It encouraged the government to

maintain its current fiscal policy, which constituted the foundation behind the country's better economic performance. As such, it advised the government to avoid relying on the Banque Centrale du Congo (BCC) to finance the fiscal deficit.

In parallel, the IMF forecast inflation to reach its single-digit target of 9.9% by the end of this year due to the recent slowdown in global food and fuel prices, and based on the continuation of macroeconomic policies. It noted that such policies target a slight decline in the fiscal deficit to about 1% of GDP in 2012, and actions by the BCC to ensure that the monetary aggregates progress in line with the IMF program. It expected the current account deficit to deteriorate to about 12% of GDP in 2012 from 8.3% of GDP in 2011 as a result of declining commodity prices. It added that risks for the outlook are on the downside, as the country's terms of trade may deteriorate further if the global economy weakens, and if the uncertainty generated by domestic security concerns in the Eastern part of the country destabilizes the economy.

*Source: International Monetary Fund*

## NIGERIA

### **Currency pressure, lower oil prices and security concerns are key short-term challenges**

Barclays Capital projected real GDP growth in Nigeria at 6.6% in 2012, down from 7.4% in 2011. It said that delays in critical reforms continue to weigh on economic growth and noted that security concerns, increasing pressure on the naira, and weaker global oil prices constitute Nigeria's near-term challenges. But it pointed out that the government has been able to increasingly shift its focus to areas other than security concerns such as oil theft, dealing with corruption, ratification of the petroleum industry bill, and electricity sector reforms. It noted that licensing rounds, contract renewals, and investment in the petroleum sector have been put on hold for five years as the country awaited the passing of the Petroleum Bill.

In parallel, it noted that declining global oil prices, along with a reduction of foreign investors' holdings of local debt, suggest the risks of further naira depreciation are increasing. However, it said that economic fundamentals remain solid, while the Central Bank of Nigeria's (CBN) high level of foreign currency reserves would allow it to meet demand and intervene directly in the market. It projected the naira to reach 163 per US dollar at end-2012 from 162 at end-2011. It said that inflation continues to rise due to the higher domestic fuel prices and the increase in electricity tariffs, while the planned increase in import tariffs on wheat and rice is also likely to put upward pressure on inflation. It forecast the inflation rate to reach 12.9% at end-2012 relative to 10.3% at end-2011.

In parallel, Barclays forecast the fiscal deficit at 3% of GDP, unchanged from last year. But it considered said that pressures on the fiscal deficit are mounting, as losses from oil theft and weaker global oil prices would affect public revenues. It added that indications of overspending on fuel subsidy payments since the beginning of the year also pose risks to the deficit. It expected Nigeria's current account to post a surplus of 7.3% of GDP this year compared to a surplus of 7.4% of GDP last year.

*Source: Barclays Capital*



# ECONOMY & TRADE

## SYRIA

### Sovereign ratings suspended

Capital Intelligence withdrew the sovereign credit ratings of Syria as the increasing lack of information on the economy would have made it difficult to maintain ratings coverage over the next 12 months. It added that the ratings coverage has been discontinued because the agency does not rate any other entities or issuers in the country, as well as due to a lack of subscribers' interest. In August 2010, Capital Intelligence assigned to Syria long- and short-term foreign currency ratings of 'BB-' and 'B', respectively; as well as a long- and short-term local currency ratings of 'BB' and 'B', respectively. The ratings were one notch below investment-grade level and constituted the first time a ratings agency has assigned sovereign ratings to Syria. It noted at the time that political risks constitute a significant concern, the economic structure and institutional frameworks are relatively weak, and the financial system is underdeveloped.

Source: *Capital Intelligence*

## EGYPT

### Ratings placed on CreditWatch with negative implications

Standard & Poor's placed Egypt's 'B' long-term foreign- and local-currency sovereign ratings on CreditWatch with negative implications due to political uncertainties and increased pressures on the fiscal and external indicators. It expected political tensions to remain high, which would lead to further deterioration in the country's economic, fiscal and external performance. It noted that the incoming president is likely to take office without a parliament in place and without a permanent constitution to define his powers and duties. It pointed out that the potential confrontation between political parties over the levers of power would weaken the effectiveness of the executive and its ability to pursue policies to address Egypt's structural challenges. It added that additional political instability would discourage investors, tourists, and official donors. It noted that this would increase the likelihood of further deterioration in Egypt's economic indicators and, ultimately, sovereign creditworthiness. S&P said the CreditWatch placement reflects at least a 50% likelihood of a downgrade over the next three months.

Source: *Standard & Poor's*

## TUNISIA

### Gradual recovery on the way

Moody's Investors Service expected Tunisia's economy to continue recovering gradually, supported by sound policy measures and concessional funding from the international community, despite a fragile domestic political and social environment. It said that persistent political uncertainty and occasional civil unrest continue to constrain the country's sovereign creditworthiness. But it noted that Tunisia's economy has been steadily recovering with tourism-related receipts increasing by 35.8% annually in the first five months of 2012, and FDI inflows recovering almost entirely with a 42.8% annual increase in the first five months of 2012 compared to a 25.7% annual drop in the same period last year. Further, Moody's said that the government allocated additional funds for development spending that would support growth. It added that the main priorities set in the

2012 budget are in line with the plan launched by the previous temporary government which focuses on supporting investment in Tunisia's underdeveloped regions and promoting job creation. It noted that Tunisia has secured concessional financing from the international community to fund its 2012 external borrowing needs, which were estimated at \$2.8bn in the recent supplementary budget law.

Source: *Moody's Investors Service*

## ARMENIA

### Yerevan is 182nd most expensive city in the world

The annual survey on the cost of living in 214 cities around the world by Mercer Consulting ranked Yerevan as the 182nd most expensive city and the sixth most expensive among 11 cities surveyed in the Commonwealth of Independent States (CIS) in 2012. Yerevan was the 167th costliest city worldwide and the sixth costliest in the CIS in 2011. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. On a global basis, Yerevan was considered to be more costly than Phnom Penh in Cambodia, Dhaka in Bangladesh and Monterrey in Mexico; and was less expensive than Sofia in Bulgaria, Muscat in Oman and Cape Town in South Africa. Regionally, it was considered more expensive than Tbilisi in Georgia, Tashkent in Uzbekistan, and Minsk in Belarus; while it was less expensive than Kiev in Ukraine, Almaty in Kazakhstan and Baku in Azerbaijan. Moscow is the most expensive city and Bishkek in Kyrgyzstan the least costly in the CIS. The survey is conducted annually to help multinational companies assess international hardship allowances.

Source: *Mercer Consulting, Byblos Research*

## CÔTE D'IVOIRE

### Multilaterals announce \$4.4bn in debt relief

The International Monetary Fund and the World Bank announced \$4.4bn in debt relief for Côte d'Ivoire after the country met the conditions for reaching the completion point under the Enhanced Heavily Indebted Poor Countries (HPIC) initiative and qualified for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). The debt relief totaled \$3.1bn under the HPIC of which 23% was delivered by multilaterals creditors, 43% by Paris Club bilateral creditors and the balance by bilateral and commercial creditors. THE Fund said Côte d'Ivoire implemented the policy measures required to qualify for debt relief, such as the implementation of the Poverty Reduction Strategy Paper, the maintenance of a sound macroeconomic policy framework, regular publication of information on public finances, and reform of the governance of the cocoa sector. It noted that reaching the completion point will help Côte d'Ivoire normalize relations with its external creditors, and will also help generate further support from donors and potential investors despite increased debt servicing in the medium-term. In parallel, the Fund said that the full delivery of debt relief will considerably reduce the country's debt burden. It expected the present value (PV) of the debt to fall from about \$12bn in 2011 PV terms, equivalent to threefold 2011 government revenues, to about \$4.7bn in 2012 PV terms, similar to the level of 2012 revenues.

Source: *International Monetary Fund*



# BANKING

## JORDAN

### Credit and deposit growth to slow down

Business Monitor International expected credit and deposit growth in Jordan's banking sector to moderate in the near-term due to the slowing economy, as well as due to the recent fiscal austerity measures that will affect new deposits and demand for new credit. It said that the government's austerity measures would weigh on household income and corporate profits, and include tax and energy price hikes for locally-based companies. It also anticipated banks to remain conservative in their asset allocation strategies, to build up liquidity and to refrain from leveraging up their balance sheets given the rise in NPLs. Further, it said that the monetary authorities have tightened policy despite the slowing economy, as they increased the policy rate by 50 basis points (bps) to 5% in early 2012. It expected the policy rate to further increase by 50bps by end-2012, which will further negatively affect the banking sector. It projected the sector's aggregate assets to grow by 4% in 2012 compared to 7.8% in 2011, deposits to rise by 5% in 2012 relative to 8.8% in 2011, and credit to grow by 5% from 9.7% in 2011. However, BMI said that the sector's consolidated balance sheet position is strong and that risks related to broader banking sector stability appear relatively minimal. It noted that banks operating in Jordan are broadly well capitalized and have a capital adequacy ratio of 18.2%, well in excess of the Central Bank's regulatory minimum of 12% as well as Basel III requirements.

Source: *Business Monitor International*

## EGYPT

### Bank ratings affected by actions on the sovereign

Fitch Ratings downgraded the Long-term foreign currency Issuer Default Ratings (IDR) of National Bank of Egypt (NBE), its subsidiary National Bank of Egypt (UK) Ltd, and Commercial International Bank (CIB) to 'B+' from 'BB-', and kept the outlook on the ratings at 'negative'. It attributed its actions to its earlier downgrade of Egypt's sovereign ratings due to increased political uncertainties which would weaken confidence and heighten near-term economic and financial pressures. It also downgraded the banks' Viability Ratings based on the likely impact of political uncertainties on the banks' performance and asset quality. In parallel, Standard & Poor's placed its 'B' long-term and 'B' short-term issuer credit ratings on NBE, CIB, and Banque Misr on CreditWatch with negative implications, in line with that of the sovereign ratings. It noted that the banks' long-term ratings are restrained by the sovereign ceiling and take into consideration the risks of operating in Egypt. It added that the banks face significant sovereign risks because they hold a large amount of government debt relative to their equity base and earnings capacity.

Source: *Fitch Ratings, Standard & Poor's*

## QATAR

### Credit risk affected by rapid lending growth

Standard & Poor's ranked Qatar's Banking Industry Country Assessment (BICRA) in 'Group 4', and assigned an economic risk score of '4' and an industry risk score of '5'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions.

It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors and 'Group 10' the riskiest ones. S&P noted that other countries in BICRA's 'Group 4' include Brazil, Kuwait, Mexico, Oman, Peru, South Africa and Taiwan. Further, it indicated that Qatar's economic risk score reflects its "low risks" in economic resilience, "intermediate risks" in economic imbalances, and "high risks" in credit risk in the economy. It pointed out that banks' exposure to credit risk constitutes one of the main risks for the sector due to very rapid loan growth, aggressive lending and underwriting standards, and a high concentration in lending to cyclical or vulnerable sectors like real estate and construction. It added that the banking system is also affected by a modest payment culture, as shown by the recent increase in problem loans in the retail sector. In parallel, it said that its industry score indicates that the country faces "intermediate risks" in its institutional framework, "high risks" in its competitive dynamics, and "intermediate risks" in system-wide funding. It noted that Qatari banks' risk appetite is high, given their significant growth in assets and high exposure to real estate lending. It added that the small size of the domestic market leads to high price competition and concentration, and pushes the banks to expand abroad. But it pointed out that strong margins and efficiency, and the absence of income tax, provide banks with an effective cushion to face a potential increase in the cost of risk.

Source: *Standard & Poor's*

## ARMENIA

### Capital adequacy ratio at 18%, NPLs at 3.4%

The risk-weighted capital adequacy ratio of banks operating in Armenia reached 18.3% at the end of 2011, constituting a decline from 22.2% a year earlier and 28.3% at end-2009. Also, the sector's net capital-to-assets ratio regressed to 17.2% at end-2011 from 20.4% a year earlier and 21% at end-December 2009. The sector's liquidity slightly decreased, as liquid assets accounted for 28% of total assets at end-2011 relative to 29.5% at end-2010 and 34.2% at end-2009, while they reached 120.8% of total short-term liabilities at the end of 2011 compared to 131.5% at end-2010 and 142.1% at end-2009. Further, the sector's customer deposits-to-loans ratio increased to 91.5% at end-2011 from 87.2% a year earlier and 96.4% at end-2009. Also, foreign exchange liabilities reached 63.3% of total liabilities at end-2011 relative to 65% at end-2010 and 67.6% at end-2009; while foreign exchange loans represented 61.2% of total loans compared to 58% at end-2010 and 54% at end-2009. The sector's non-performing loans reached 3.4% of total loans at the end of 2011, up from 3.1% a year earlier but down from 4.8% at end-2009. Further, the sector's provisions-to-NPLs ratio reached 55.4% at end-2011 relative to 56.7% at end-2010 and 46.7% at end-2009. In parallel, banks' return on assets reached 1.9% in 2011, down from 2.2% in 2010; while their return on equity reached 9.8% in 2011 relative to 10.2% in the previous year. The sector's interest margin-to-gross income regressed to 42% in 2011 from 43.8% in 2010; while the interest spread in foreign currency reached 5.3% last year compared to 5% in 2010.

Source: *Central Bank of Armenia, International Monetary Fund*



# ENERGY / COMMODITIES

## Brent prices steady above \$93 a barrel

Brent crude prices were steady at above \$93 a barrel on June 28, supported by supply disruptions in Norway, the world's eighth-largest oil exporter. Oil production in Norway decreased by around 240,000 barrels per day, or 15% of capacity. Also, expectations that the EU summit was unlikely to produce concrete measures to contain the Eurozone's debt crisis further increased oil prices. However, slowing global growth suggests that the momentum might not be sustained. Brent crude prices fell by 8 cents to \$93.4 a barrel on June 28, after settling at \$93.5 a barrel the prior day, the highest in just over a week; while U.S. crude prices rose by 35 cents to \$80.5 a barrel. U.S. crude oil stocks fell slightly last week due to a decline in crude imports and on increased refining rates, while fuel stockpiles were mixed as gasoline inventories rose and distillates fell. Both Brent crude and U.S. crude prices fell by about 26% from their highs in March 2012. Also, Saudi Arabia and OPEC are generally producing at the highest rate in several years.

Source: Thomson Reuters

## Asia's top buyers of Iranian oil cut imports ahead of EU sanctions

Asia's top buyers of Iranian oil cut imports by more than 250,000 barrels per day (b/d) in the first five months of 2012 as they prepared for U.S. sanctions that take effect as of June 28 and EU sanctions that go into effect on July 1, 2012. Imports by Japan, China, India and South Korea from Iran fell by 25% in May to 999,230 b/d from 1.4m b/d in May 2011. South Korea became the first major Asian country to announce a halt in Iranian oil imports starting in July. Each of India, China and Japan plans to keep importing some oil from Iran.

Source: Thomson Reuters

## Nigeria loses more than \$1bn a month in oil theft

Nigerian state and oil companies are losing more than \$1bn a month due to oil theft by criminal networks whose activities have rapidly expanded. The trade in stolen oil led to a 17% fall in official oil sales in April 2012, or about 400,000 barrels per day. Oil theft and fraud in the allocation of a controversial fuel subsidy have cost the country around \$14bn in 2011. Nigeria, Africa's second-largest economy, depends on oil for over 75% of hard currency earnings and 90% of state revenues. The trade in stolen oil involves a criminal network that provides oil at discounted prices to refineries in West Africa, China and India.

Source: Financial Times

## Global LNG supplies to remain low through 2015

Global liquefied natural gas (LNG) prices are expected to increase over the next three years as supply grows more slowly than demand from a growing number of importers. Australia will supply the next round of gas to the LNG market from 2014 onward and is set to overtake top exporter Qatar in 2017. Also, there are at least 12 projects for the export of gas from North America at different stages of development. However, U.S. LNG prices have dropped to around \$2.4 per million British thermal units (Btu), as compared to \$18 per million Btu in the Asian spot markets.

Source: Thomson Reuters

## Base metals: Prices fall on macroeconomic slowdown in Europe

Base metal prices continued to fall in the past week, where copper prices declined by 3% week-on-week on June 26, aluminum decreased by 8% and lead and nickel prices declined by 12% each. Three-month copper prices declined by 0.6% to \$7,317 a metric ton on the London Metal Exchange, as U.S. consumer confidence fell this month and Spanish and Italian bond yields rose. Copper prices have lost 13% since March 30, and are expected to register their first quarterly fall since the third quarter of 2011. The macroeconomic slowdown, led by Europe, remains a key driver of market sentiment. Shanghai copper premiums rose 45% month-on-month in June and bonded warehouse stocks dropped from 600,000 tons at end-April to 400,000 tons on June 26th. Shanghai exchange stocks also declined by 68,000 tons over the same period.

Source: Standard Chartered, Bloomberg

## Precious metals: Prices down on strengthening dollar

Precious metal prices declined in the past week as the U.S. dollar strength weighed on the whole commodity complex. Gold prices declined by 2% week-on-week on June 26, while silver and platinum prices were down 3% each and palladium prices decreased by 4% week-on-week. Gold prices increased by \$2.45 to \$1,576.85 an ounce on June 28th. The precious metals market rallied in mid-June as hopes for a further round of quantitative easing by the U.S. Federal Reserve lifted sentiment. Fear about Europe is starting to push investors back into gold, as a solution to the debt crisis still seems distant.

Major physical ETFs for gold reached a peak of 77.5 million ounces on June 26, while U.S. net speculative positions increased by 18% week-on-week. IMF data showed that Russia added 16 tons to its gold reserves in May 2012, reaching a total 911 tons, while Kazakhstan, Turkey and Ukraine also added to their gold reserves. Central banks continue to accumulate gold to diversify their risks amid the debt crisis in Europe and the worries about quantitative easing programs in a number of countries. Sentiment in platinum remains very bearish, but producers are starting to cut supply and prices are not expected to fall further. Also, palladium prices have found support from the recent drop in Russian shipments to Switzerland.

Source: Standard Chartered, Thomson Reuters

Global Commodity Outlook			
(3-months LME, \$/ton)	2011	2012f	2013f
Aluminum	2,424	2,161	2,400
Copper	8,833	8,404	10,000
Lead	2,391	2,174	2,500
Nickel	22,896	19,423	21,000
Tin	26,042	23,234	25,500
Zinc	2,212	2,075	2,350
(Spot price, \$/ounce)			
Gold	1,573	1,685	1,900
Palladium	733	696	850
Platinum	1,720	1,665	1,950
Silver	35	32	35

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								
<b>Africa</b>													
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	7.9	29.9	17.4	28.2	8.9	-	12.0	10.7
Egypt	B Negative	B1 Negative	B+ Negative	BB+ Negative	CCC	-9.9	76.2	13.8	73.4	7.8	128.6	-1.9	2.4
Ethiopia	-	-	-	-	B	-2.1	39.4	-	165.9	-	-	-6.3	0.7
Ghana	B Stable	-	B+ Stable	-	BB	-4.2	38.1	19.4	50.1	-	-	-6.5	7.7
Ivory Coast	-	-	-	-	CCC	-6.4	93.3	48.7	108.3	-	-	1.0	1.7
Libya	-	-	B Stable	-	B	-	-	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	-5.8	54.2	28.4	75.7	9.1	120.1	-5.2	0.8
Nigeria	B+ Positive	-	BB- Stable	-	B	0.4	15.7	5.0	12.4	0.4	-	13.5	2.6
Sudan	-	-	-	-	C	-2.8	78.2	61.0	301.6	-	4,825	-7.3	2.3
Tunisia	BB Stable	Baa3 Negative	BBB- Negative	BBB	B	-4.1	41.7	58.2	111.3	8.4	285.6	-5.7	3.2
<b>Middle East</b>													
Bahrain	BBB Negative	Baa1 Negative	BBB Negative	BBB+ Negative	BB Stable	-7.7	34.2	75.3	66.1	8.2	340.9	12.6	-0.9
Iran	-	-	B+ Stable	BB- Stable	CCC	2.4	9.2	3.0	10.9	2.1	14.3	7.8	0.8
Iraq	-	-	-	-	CCC	-8.7	42.3	37.1	53.2	-	72.4	-0.9	1.7
Jordan	BB Negative	Ba2 Negative	-	BB Stable	CCC	-6.1	68.5	23.8	53.4	5.1	59.8	-6.7	6.4
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	A	23.6	4.5	26.0	41.7	7.0	184.3	33.5	-1.5
Lebanon	B Negative	B1 Stable	B Stable	B Stable	CCC	-8.3	134.0	158.0	264.7	14.7	208.5	-14.1	11.2
Oman	A Negative	A2	-	A Stable	A	10.9	4.0	12.3	17.2	-	59.0	14.5	2.9
Qatar	AA Stable	Aa2 Stable	-	AA- Stable	AA	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- Stable	BBB	9.4	7.1	18.0	30.1	2.1	19.7	20.6	5.4
Syria	-	-	-	BB- Stable	CC	-11.0	27.5	11.0	36.8	-	43.6	-6.1	2.4
UAE	-	Aa2	-	AA- Stable	BB	5.8	18.5	44.4	53.5	7.2	293.3	10.3	0.6
Yemen	-	-	-	B- Negative	CC	-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								
<b>Asia</b>													
Armenia	-	Ba2	BB-	-	-	-3.8	41.5	65.5	304.5	-	352.6	-11.7	6.4
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	A	BBB	-1.1	25.8	8.5	29.3	1.9	-	2.8	0.6
	Stable	-	-	Stable	Stable								
India	BBB-	Baa2	BBB-	BBB-	BBB	-5.9	68.1	17.8	62.2	11.1	-	-2.8	0.6
	Negative	Stable	Negative	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								
<b>Central &amp; Eastern Europe</b>													
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								
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	Ba1	BB+	BB	B	-0.8	40.3	44.2	184.9	28.6	361.8	-10.3	1.0
	Stable	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	20-Jun-12	No change	01-Aug-12
Eurozone	Refi Rate	1.00	06-Jun-12	No change	05-Jul-12
UK	Bank Rate	0.50	07-Jun-12	No change	05-Jul-12
Japan	O/N Call Rate	0-0.10	23-May-12	No change	15-Jun-12
Australia	Cash Rate	3.50	05-Jun-12	Cut 25bps	03-Jul-12
New Zealand	Cash Rate	2.50	14-Jun-12	No change	26-Jul-12
Switzerland	3 month Libor target	0.00	14-Jun-12	No change	13-Sep-12
Canada	Overnight rate	1.00	05-Jun-12	No change	17-Jul-12
<b>Emerging Markets</b>					
China	One-year lending rate	6.31	07-Jun-12	Raise 25bps	N/A
Hong Kong	Base Rate	0.50	20-Jun-12	No change	01-Aug-12
Taiwan	Discount Rate	1.88	21-Jun-12	No change	Sep-12
South Korea	Base Rate	3.25	08-Jun-12	No change	12-Jul-12
Malaysia	O/N Policy Rate	3.00	11-May-12	No change	05-Jul-12
Thailand	1D Repo	3.00	13-Jun-12	No change	25-Jul-12
India	Reverse repo rate	8.00	18-Jun-12	No change	31-Jul-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	21-Jun-12	No change	26-Jul-12
South Africa	Repo rate	5.50	24-May-12	No change	19-Jul-12
Kenya	Central Bank Rate	18.00	01-Jun-12	No change	Jul-12
Nigeria	Monetary Policy Rate	12.00	21-May-12	No change	24-Jul-12
Ghana	Prime Rate	15.00	Jun-12	Raise 50bps	Aug-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	08-Jun-12	No change	20-Jul-12
Brazil	Selic Rate	8.50	30-May-12	Cut 75bps	11-Jul-12
Armenia	Refi Rate	8.00	08-May-12	No change	N/A
Romania	Policy Rate	5.25	30-Mar-12	Raise 25bps	N/A
Bulgaria	Base Interest	0.14	31-May-12	No change	N/A
Kazakhstan	Refi Rate	6.00	06-Apr-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	May-12	Cut 25bps	N/A
Russia	Refi Rate	8.00	26-Dec-11	Cut 25bps	N/A



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