



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond and equity inflows at \$29bn in the first half of 2012, AUM at \$923bn

Capital flows to emerging market equity and bond funds posted net inflows of \$29.5bn in the first half of 2012, with bond inflows at \$16.1bn and equity inflows at \$13.4bn. Latin America accounted for \$6.6bn or 41.3% of inflows to bond funds; Emerging Europe, the Middle East & Africa (EMEA) for \$5.4bn, or 33.8%; and Emerging Asia with \$4bn or 24.9% of the total. Further, Emerging Asia posted \$7.3bn in inflows to equity funds in the first half of the year and accounted for 54.9% of equity inflows to emerging markets, followed by the EMEA region with \$3.2bn (23.7%), and Latin America with \$2.9bn (21.4%). Mexico was the biggest recipient of bond inflows with \$1.8bn, or 11.1% of total inflows into emerging market bond funds in the first half of the year; while China was the largest recipient of equity inflows with \$2bn or 14.8% of total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled \$923.1bn at the end of June 2012, with bonds accounting for \$193.2bn and equities for \$729.9bn. The EMEA region had \$72.4bn in bonds-related AUM, followed by Latin America with \$68.6bn, and Emerging Asia with \$52.1bn. Further, Emerging Asia had \$476.3bn in equity-related AUM, followed by Latin America with \$130.5bn and the EMEA region with \$123.1bn.

Source: Barclays Capital, Byblos Research

MENA

Equity markets up by 1.3% in the first half of 2012

Arab stock markets increased by 1.3% and GCC equity markets rose by 1.9% in the first half of 2012 compared to drops of 6.8% and 4%, respectively, in the same period last year. Activity on the Egyptian stock market increased by 28% in the first half of 2012 and posted the best performance among Arab markets during the covered period. It was followed by the Dubai financial market with a 7.3% increase, the Tunis exchange with a 5.6% improvement, Saudi Arabia's stock market with a 4.6% rise and the Abu Dhabi exchange with a 1.9% appreciation. In parallel, the Iraqi stock exchange dropped by 14.7% in the first half of 2012 and posted the worst performance among Arab stock markets during the covered period. It was followed by the Casablanca stock exchange with an 8.8% drop, the Doha bourse with a 7.5% decline, the Palestine equity market with a 6.9% retreat, the Amman stock market with a 5.7% contraction, the Beirut stock exchange with a 3.2% decrease, the Damascus financial market with a 3% fall, the Bahrain bourse with a 1.6% drop, the Kuwait bourse with a 0.4% decline and the Muscat equity market with a 0.1% decrease. In comparison, emerging market equities rose by 2.2% and global equities grew by 4.2% in the first half of the year. Arab stock markets dropped by 2% in June compared to increases of 3.2% for emerging market equities and 4.5% for global equities.

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

Real estate markets' transparency still low

Global real estate management, consulting and investment firm Jones Lang LaSalle included 15 Arab countries and markets in its Global Real Estate Transparency Index for 2012. The index measures national real estate transparency across the globe and provides governments and industry organizations with a point of reference to measure and improve transparency in their markets. The index is a composite of five categories that cover performance measurement, market fundamentals, listed investment vehicles, regulatory and legal issues, and the transaction process. Dubai was the region's most transparent real estate market and ranked in 47th place among 97 markets. It was followed by Abu Dhabi in 52nd place, Bahrain (63), Saudi Arabia (64) and Lebanon (66) as the five most transparent Arab markets. The survey classified Dubai, Abu Dhabi, Bahrain, Saudi Arabia, Lebanon and Kuwait in the "Semi-Transparent" category. Also, it included Qatar, Oman, Egypt, Morocco and Jordan in the "Low Transparency" category; and grouped Tunisia, Iraq, Algeria and Sudan in the "Opaque" category. The survey said the MENA region continues to have one of the least transparent real estate markets in the world, and that improvements have been relatively modest. The Arab average composite score was 3.9 points, worse than the global average score of 3.1 points; while the Arab average scores for all five categories of the index were lower than the corresponding global average scores.

Source: Jones Lang LaSalle, Byblos Research

IRAN

Tehran urged to address its anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that it remains "particularly and exceptionally" concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system, despite Iran's engagement with the FATF. It urged again all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also repeated its call to its members and other jurisdictions to apply counter measures to protect their financial sectors and the international financial system from the ongoing and substantial money laundering and terrorist financing risks originating from Iran. The FATF reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also urged jurisdictions to protect against correspondent relationships being used to bypass or evade counter-measures and risk mitigation practices, and to take into account money laundering and terrorism financing risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction.

Source: Financial Action Task Force

POLITICAL RISK OVERVIEW - JUNE 2012

EGYPT

Muslim Brotherhood candidate Mohammad Mursi was declared President of Egypt after the elections took place on June 16th and 17th. The Ministry of Justice granted the right of arresting civilians to the military on June 13, which was later annulled by the court. The Supreme Court dissolved Parliament on June 14 after finding that the political exclusion law, which was passed by the Parliament, breached equality between independent and party affiliated candidates. Former President Housni Mubarak was sentenced to life in prison on June 2 for his involvement in the killing of protesters, while the court released four interior ministry officials and two local security chiefs. The Court jailed 12 people including Former Oil Minister Samih Fahmi over their role in a natural gas export deal to Israel.

IRAN

Chinese President Hu Jintao urged Iran to cooperate with the International Atomic Energy Agency (IAEA) over its nuclear issue. Talks between P5+1 countries and Iran ended in Moscow without a breakthrough, while EU foreign policy head Catherine Ashton said that discussions will continue with Iran on a technical level. The U.S. and Israel are collaborating on a new computer virus targeting the Iranian nuclear program. Further, the Iranian Parliament has re-elected Ali Larijani as its speaker.

IRAQ

Shiite Cleric Muqtada al-Sadr said that Prime Minister Nouri al-Maliki must be removed from his position for government reforms to take place. A number of attacks against Shiites occurred across Baghdad. Also, a suicide bomb outside a Shiite religious office killed around 26 people and wounded over 190 others. Shiite pilgrims were attacked on June 13, where at least 93 people were killed and 50 others were wounded. Turkish airstrikes started on June 18 against Kurdistan Workers Party (PKK) bases in the Iraqi-Kurdistan border.

DEM REP CONGO

Human Rights Watch said that Rwandan officials are supplying Bosco Ntaganda, Military Chief of the National Congress for the Defense of the People, with troops and weapons. Rwandan government officials met with their DRC counterparts on June 19 and reiterated denials of Rwandan support for rebels. The African Union called for an end to the mutiny in the eastern part of the country, and for the use of political channels to address concerns. Also, the UN Security Council extended the MONUSCO peacekeeping mandate one year to June 2013.

LIBYA

Authorities in Zintan in the north of the country detained four members of the International Criminal Court (ICC) defense delegation stating that the ICC harmed national security during a meeting with the defendant Saif al-Islam Qadhafi. At least 105 people were killed and 500 others were injured during a week-long clash between Zintani militia and the al-Mashasha tribe. The government called for immediate ceasefire and sent its troops to end the fighting. The Supreme Court annulled a recent law criminalizing the glorification of former President Muammar Qadhafi and said that the law is unconstitutional. The National Assembly elections were delayed until July 7 to provide more time for campaigning.

SUDAN

Anti-government protests in Khartoum and other main cities were sparked by austerity measures, while the police forcibly dispersed the demonstrators. Opposition parties failed to agree on a common political platform for a constitutional framework. Clashes between the Sudan Armed Forces (SAF) and rebels continued in South Kordofan. Opposition Popular Congress Party (PCP) senior member Ibrahim al-Sonosi was released from prison after a five-month detention. Also, talks between Sudan and South Sudan failed after negotiators disagreed on the delimitation of the border zone.

SOUTH SUDAN

South Sudan filed a complaint with the United Nations Security Council (UNSC) against Sudan for its continued presence in the disputed Abyei region while seeking international arbitration. The UNSC welcomed the resumption of negotiations, reduction of violence, and called on Sudan to withdraw police from Abyei. Further, Justice Minister Mohamed Dousa was newly appointed as a prosecutor for Darfur crimes.

SYRIA

Security conditions continue to deteriorate with both the UN and Arab League envoys warning of a sectarian war. Also, the UN Security General Ban Ki-Moon said that there is little evidence that the government is complying with the peace plan. The UN peacekeeping head Herve Ladsous noted that Syria is in a civil war. The UN Supervision Mission suspended its operations due to the increased risk to its monitors, and the lack of willingness by involved parties to seek a peaceful transition. In parallel, President Bashar Assad stated that Syria is in a state of war. Turkish Prime Minister Recep Tayyip Erdogan instructed his army to treat the Syrian military units approaching the border as a national security threat after Syrian forces shot down a Turkish jet.

TUNISIA

President Moncef Marzouki said that the extradition of former Libyan Prime Minister Baghdadi al-Mahmoudi to Libya was illegal, and that the decision was taken without consultation. Salafists clashed with police after a controversial art exhibition in Tunis, with over 100 people arrested, while the government condemned rioting as an act of terrorism. The military court sentenced in absentia ousted president Ben Ali to 20 years in prison on charges, including incitement to murder. Further, Al-Qaeda leader Ayman al-Zawahri called on Tunisians to defend Islamic law.

YEMEN

The US-backed offensive against Islamic militants in Yemen intensified as the army recaptured southern towns following heavy fighting and air strikes. A suicide bomber from al-Qaeda in the Arabian Peninsula killed the commander of the military forces Major General Salem Ali Qatan. Also, Ansar al-Sharia Islamist group announced the release of 27 soldiers after they vowed to quit the army. The government admitted that it mistakenly killed the Red Cross international committee staff member during an airstrike.

Source: International Crisis Group



OUTLOOK

JORDAN

Pressure on fiscal and external balances to increase in case of oil price shock and a drop in foreign grants

Barclays Capital revised downward its projection of economic growth in Jordan to 2.2% in 2012 from an earlier forecast of 2.6% and compared to growth of 2.7% in 2011. It attributed the downward revision to the government's new fiscal measures and to the spillovers from increasing political instability in Syria. It noted that the measures, which aim to reduce the fiscal deficit by 1.7% of GDP, include a reduction in operational expenditures at public agencies; a 10% cut in capital expenditures; a freeze on public sector hiring; raising taxes on the income of banks and mining firms; and increasing tariffs on automobile imports. It added that the government also increased fuel and electricity prices to control the growth of energy subsidies that account for 11.8% of total spending. It warned from the adverse impact of the cut in capital spending on economic growth, but expected the fiscal deficit to narrow to 3.9% of GDP in 2012 from 5.9% of GDP previously.

In parallel, Barclays Capital expected renewed global turbulence to affect Jordan's external position, but to a lesser extent than other countries in the region. It said that trade and investment linkages with the Eurozone are limited in terms of exports and exposure to European banks. But it noted that slowing international trade, tourism and FDI will add pressure on already tight external balances. Further, it said that further tightening in global market conditions would lead to a fall in foreign grants to Jordan, which are equivalent to 9% of current account receipts. It pointed out that the recent \$2.5bn in support pledged by Kuwait and the UAE would help reduce the current account deficit. But it noted that the level of foreign grants reflects the extent of the country's increasing dependence on external official support. It expected that at least half of the pledged amount to be disbursed this year, bringing the current account deficit to 8.1% of GDP from an earlier forecast of 9.4% of GDP.

Source: Barclays Capital

EGYPT

Political uncertainties to dampen growth, keep external vulnerabilities high

The Institute of International Finance projected Egypt's real GDP growth at 2.5% in 2012 compared to a contraction of 0.8% in 2011. It anticipated the economic recovery to remain slow and for balance-of-payments pressures to continue, given the political uncertainties and the difficult external environment. It expected the economy to continue facing substantial downside risks mainly from social unrest, the Eurozone crisis and fiscal slippage. Further, it forecast the Egyptian pound to depreciate by 10% to 15% by the end of this year, given the precarious reserves situation. It said that this would increase the inflation rate to about 11% by the end of 2012. It pointed out that foreign exchange reserves, excluding gold, fell sharply from a peak of \$32.5bn at end-2010 to an estimate of \$12.5bn in June 2012, and are currently equivalent to just 2.2 months of imports of goods, services and interest payments.

It expected the fiscal deficit to widen to 10.6% of GDP in fiscal year 2011/12 from 9.8% of GDP in FY2010/11 and for deficit financing to become increasingly difficult and more expensive. But it forecast the deficit to narrow to 8.8% of GDP in FY2012/13. It said debt servicing has increased from the equivalent of 5.9% of GDP in FY2010/11 to 6.9% of GDP in FY 2011/12. It estimated the public debt to have increased to 80.4% of GDP in FY2011/12 from 76.6% of GDP in FY2010/11 and expected it to rise to 82.1% of GDP in the next fiscal year.

In parallel, the IIF said that the external vulnerabilities of the Egyptian economy have increased in recent years. It estimated Egypt's liabilities to BIS banks have increased to 94% of reserves in FY2011/12 from 60.8% of reserves in FY2010/11; and for Egypt's short-term liabilities to have grown to 41.6% of foreign assets in FY2011/12 from 29.4% in FY2010/11. Further, it forecast the current account deficit to be equivalent to 54.1% of foreign currency reserves in FY2011/12, up from 18.4% of reserves in FY2010/11. It expected the current account deficit to widen to 2.8% of GDP in FY2011/12 relative to 1.8% of GDP in FY 2010/11.

Source: Institute of International Finance

IRAQ

Oil price volatility to impact public finances

Citigroup expected the fall in global oil prices to present significant fiscal challenges for the Iraqi economy over the near-term. It forecast Iraq's fiscal breakeven oil price to increase to \$98.5 per barrel in 2012 from \$86.2 per barrel in 2011 due to a 34% budgeted increase in government spending this year. It projected global oil prices to average \$115 per barrel this year, higher than Iraq's fiscal breakeven price, which would support the country's public finances. But it noted that Iraq is sensitive to oil price fluctuations and that current global oil prices face high uncertainties. It pointed out that if oil prices average \$80 per barrel, the current projected fiscal surplus of 13% of GDP in 2012 would shift to a deficit of the same magnitude.

However, it said that Iraq has greater flexibility in dealing with a fall in oil prices. First, it noted that Iraq's oil production is growing faster than expected, which would lower the budget's breakeven oil price. It expected the country's oil production to average 2.95 million b/d in 2012 compared to 2.65 million b/d in 2011, and to rise to 3.35 million b/d on average in 2013 and to around 4 million b/d by 2016. Second, it considered that much of the budgeted rise in expenditures is discretionary and related to projects, which would facilitate the reduction in spending in the event of a fall in oil prices. Third, it pointed out that Iraq has alternative funding options, including drawing down its substantial holdings from the Development Fund for Iraq, which currently exceed \$20bn.

Citigroup projected oil receipts at 82.1% of GDP this year relative to 74.4% of GDP last year. It forecast the government spending at 74.7% of GDP in 2012 compared to 63.5% of GDP in 2011, with capital expenditures at 24.7% of GDP this year relative to 17.6% of GDP last year. It also anticipated the non-oil government deficit to widen to 279.2% of GDP in 2012 from 219.6% of GDP in 2011.

Source: Citigroup



ECONOMY & TRADE

EMERGING MARKETS

Insurance premiums up 8% to \$699bn in 2011

Figures issued by global re-insurer Swiss Re indicate that total insurance premiums generated in emerging markets (EMs) reached \$699.5bn in 2011, constituting an increase of 8.4% from \$645.4bn in 2010 and compared to premiums increase of 5.6% in advanced economies last year. Life insurance premiums grew by 2.5% to \$365.4bn, while non-life premiums increased by 15.7% to \$334.1bn. Emerging market premiums accounted for 15.2% of global premiums in 2011, up from 14.9% in the previous year. Also, EM premiums rose by 1.3% in real terms year-on-year compared to a contraction of 1.1% for industrialized countries. EM life premiums decreased by 5.1% in real terms relative to a 2.3% contraction in industrialized nations, while non-life business in EMs posted real growth of 9.1% compared to an increase of 0.5% in advanced economies. Insurance penetration in EMs, or premiums relative to the economy, was equivalent to 2.7% of GDP last year compared to 8.6% of GDP in advanced economies; while EMs' insurance density was \$117.8 per capita relative to \$3,711 per capita in industrialized countries. EM life premiums were equivalent to 1.42% of GDP, while non-life premiums reached 1.3% of GDP. Also, EM life premiums reached \$61.5 per capita and non-life premiums totaled \$56.3 per capita in 2011. Global insurance premiums reached \$4.6 trillion in 2011, rising by 6% nominally and contracting by 0.8% in real terms year-on-year; with life premiums growing by 4.4% nominally and shrinking by 2.7% in real terms to \$2.6 trillion and non-life premiums increasing by 8.3% nominally and by 1.9% in real terms to \$1.9 trillion last year.

Source: Swiss Re, Byblos Research

MENA

Net private capital inflows to rise by 8% to \$63bn in 2012

The Institute of International Finance expected total net private capital inflows to the Middle East & Africa region to reach \$62.5bn in 2012, lower by \$1.3bn from an earlier projection, and constituting a rise of 8.5% from \$57.6bn in 2011. It expected inflows to pick up to \$79.1bn in 2013, due in part to the liberalization of non-resident equity investment regulations in some markets and the modest recovery in capital flows to North African economies. It estimated net private capital flows to the region to account for 6.9% of total net private flows to emerging markets in 2012 compared to 5.6% last year. The IIF forecast net direct investment to increase to \$40.2bn in 2012 and \$46.5bn in 2013 from \$37.4bn in 2011. It estimated net portfolio investment outflows from the region at \$1.6bn last year and expected inflows of \$6.2bn in 2012 and \$9.2bn in 2013. Also, it forecast net commercial bank lending to rise to \$1.3bn this year from \$0.3bn in 2011, and to considerably increase to \$5.3bn in 2013. It estimated net non-bank private lending to regress to \$14.8bn in 2012 from \$21.5bn in 2011, before improving to \$18.1bn in 2013. It also projected net lending by official creditors at \$6.4bn this year and \$7.7bn next year compared to \$1.9bn last year.

Source: Institute of International Finance

SYRIA

Annual inflation rate at 33% in May, Aleppo hardest hit

Figures issued by the Central Bureau of Statistics show that the Consumer Price Index increased by 32.5% in May 2012 from May 2011 and by 15.4% from end-December 2011. The prices of alcoholic beverages & tobacco rose by 45.1% year-on-year in May 2012, followed by the prices of food & non-alcoholic beverages with a 41.6% increase, household equipments & supplies and ordinary maintenance works (+37.1%), Various goods & services (+33.2%), clothes & shoes (+29.6%), hotels & restaurants (+28.6%), housing, water, electricity, gas & other fuel oils (+24.4%), transportation (+21.1%), entertainment & culture (+18.5%), education (+14.6%), health care (+8.1%) and communications (+3.6%). In parallel, the Consumer Price Index increased by 36.2% annually in Aleppo, followed by Tartous with a 34.8% rise, Al-Hasakeh (+33.6%), Homs (+33.3%), Rural Damascus (+33%), Hama (+32.7%), Al-Sweida (+32.3%), Lattakia (+32.2%), Dar'aa and Deir-ez-Zor (+31.7%, each), Al-Rakka (+31.2%), Idleb (+30.3%), Quneitra (+30.1%) and Damascus (+29.1%). The ongoing turmoil, disruption in economic activity and of supply routes, and international sanctions have led to significant shortages of basic goods and household items.

Source: Central Bureau of Statistics

NIGERIA

Approval of sovereign wealth fund to support balance sheet, reduce impact of oil price shocks

Fitch Ratings indicated that the approval of Nigeria's new sovereign wealth fund, the Nigerian Sovereign Investment Authority (NSIA), by the states' governors would help rebuild the country's foreign exchange reserves and improve discipline and transparency in the use of oil revenues. It said the NSIA will manage the country's oil revenues that accrue from oil prices that exceed the budget break-even oil price. It added that the revenues will be subject to tighter, rules-based controls on withdrawals compared with the Excess Crude Account (ECA), which was set up in 2004 to receive the proceeds of oil revenues above the budgeted benchmark. It noted that the withdrawals from the NSIA fund, which need to be approved by the Ministry of Finance, will be limited to supporting the budget during an oil price shock. Further, Fitch said that the ratification of the NSIA signals that the country is back on a reform path that would reduce its vulnerability to oil price fluctuations. It added that the NSIA is part of a number of reforms which, if implemented together, would strengthen Nigeria's fiscal framework and its external balance sheet. It noted that other reforms are progressing but at a limited pace due to political constraints, such as the Petroleum Industry Bill. The agency said that Nigeria's foreign exchange reserves reached a 21-month high of \$37.7bn in early June, but are still significantly lower than they were before the 2009 oil price shock, when Nigeria used ECA funds to support the naira and for additional spending.

Source: Fitch Ratings



BANKING

SAUDI ARABIA

Mortgage law approved

The Council of Ministers announced that it has approved Saudi Arabia's first mortgage law. The law allows direct lending against property; the operation of standalone real estate leasing companies; the codification of the rights and obligations of lessor and lessee; the creation of a registry of title; and the accommodation of mortgages for off-plan purchases, as well as defines the process for foreclosure on defaulting mortgages. It also mandates SAMA with supervisory responsibility, including the determination of acceptable solvency ratios, concentration limits and provisioning requirements. The details of the new law, and its applicability in court, are not yet known but the Finance Ministry said more details regarding the legislation will be published within 90 days. The lack of a credible legal framework has hampered the development of mortgages in Saudi Arabia, as they account for only 3.5% of the banking sector's total loans. The effective implementation of the mortgage law is expected to generate SAR80bn in additional new loans each year, which would increase the sector's lending growth over the long-term from the historical average of 12% per year to around 20% per year. Also, the country's mortgage penetration rate is forecast to increase to 11% of GDP by 2017, leading to a mortgage market size of about SAR322bn by 2017.

Source: Deutsche Bank, Citigroup

SUDAN

Anti-money laundering deficiencies remain

The Financial Action Task Force, the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Sudan made in February 2010 a high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its strategic AML/CFT deficiencies. But it determined that certain strategic AML/CFT deficiencies remain. It encouraged the authorities to address these deficiencies by continuing to work on implementing adequate procedures for identifying and freezing terrorist assets; ensuring a fully operational and effectively functioning Financial Intelligence Unit; and ensuring an effective supervisory program for AML/CFT compliance.

Source: Financial Action Task Force

MOROCCO

Lending picks up in May, liquidity remains tight

Figures issued by Bank Al-Maghrib show that the total assets of the commercial banks in Morocco reached MAD1,069bn, or about \$125bn, at the end of May 2012, constituting a rise of a growth of 1.7% month-on-month, a rise of 10.2% from end-May 2011, and an increase of 2.2% from end-2011. The sector's aggregate loans totaled MAD684.9bn, rising by 0.9% from the preceding month, decreasing by 0.3% from end-2011, and increasing by 7% year-on-year. Total lending grew in May 2012, driven mainly by consumer lending and residential mortgages, and following a 0.8% contraction in the preceding month. Investment-related lending in the corporate segment grew by 2% year-on-year, while working capital lending grew by 9% annually. The loans-to-deposits ratio stood at 100% at end-May 2012, up slightly from 99% in the preceding month.

COUNTRY RISK WEEKLY BULLETIN

Liquidity in the Moroccan banking sector has been tight over the past three years, with loan growth outpacing deposit growth. Banks have overcome the lack of deposit growth through short-term borrowing from bank al Maghrib and the issuance of subordinated debt in the domestic market. Also, the sector's NPLs ratio of 4.95% in May 2012 which remains broadly unchanged since January 2009, reflects an increase in nominal NPLs.

Source: Bank Al-Maghrib, EFG Hermes

TUNISIA

Economic weakness to affect banks' performance

Standard & Poor's maintained Tunisia's Banking Industry Country Assessment (BICRA) in 'Group 8' and its industry risk score at '8', but reduced its economic risk score to '8' from '7'. 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 8' include Egypt, Lebanon, Argentina, Kazakhstan, and Nigeria. Further, it indicated that Tunisia's economic risk score reflects the downgrade of its economic resilience to "very high risk" from "high risk" and its credit risk in the economy to "extremely high risk" from "very high risk", as well as its assessment of economic imbalances at "intermediate risk". It attributed the lowered assessments to weaker-than-anticipated economic fiscal performance, which would weigh on banks by increasing credit costs; lowering their revenue-generating capacity; and their asset quality. It said that non-performing loans reached 13.3% of gross loans at end-2011, but it noted that this figure is underestimated. Further, it noted that its industry score indicates that the country faces "very high risks" in its institutional framework and in its system-wide funding, and "high risks" in its competitive dynamics.

Source: Standard & Poor's

TURKEY

Ratings on largest private banks affirmed

Fitch Ratings affirmed the long-term foreign currency Issuer Default Ratings (IDRs) of Turkey's four largest privately-owned banks Turkiye Is Bankasi, Turkiye Garanti Bankasi, Akbank and Yapi ve Kredi Bankasi at 'BBB-' with a 'stable' outlook. It said that the banks' ratings reflect their broad and stable franchises; sound capitalization, asset quality, performance and liquidity; generally strong risk management; and the relatively low level of systemic risks and imbalances in the Turkish banking sector. It added that the ratings take into account the elevated sovereign risks and considerable volatility of the country's macroeconomic indicators, the sharp ongoing slowdown in domestic economic growth, and the high share of foreign currency loans in the corporate portfolios of the four banks. Fitch expected the four banks' asset quality to weaken, as loan books start to season in a less benign economic environment. But it forecast the deterioration to be moderate, given the generally sound credit underwriting and the moderate degree of leverage in both corporate and household sectors. It also expected profitability at the four banks to moderate this year from levels reported in 2011, mainly due to lower credit growth, normalization of loan impairment charges and lower fee income.

Source: Fitch Ratings

July 5, 2012



ENERGY / COMMODITIES

Brent prices just below \$100 a barrel

Brent crude prices slipped below \$100 a barrel on July 5, as recent evidence of weakness in European economies generated demand concerns even as investors kept up their hopes for European stimulus measures to counter the fragile global growth. Also, investors were awaiting signs of disruptions of oil shipments originating from Iran as tensions between Tehran and the West remained high. Further, a lack of resolution to the oil workers strike in Norway, the world's eighth biggest oil exporter, underscored concerns over oil supply from the North Sea. Concerns over economic uncertainty in the United States and Europe have dominated oil markets in recent months, often overshadowing supply and demand indicators. Brent crude prices fell by 27 cents to \$99.49 a barrel on July 5, while U.S. crude prices lost 67 cents to \$86.99 a barrel. Oil prices fell by 18% in the second quarter of the year, posting the first loss in three quarters and the worst quarterly loss since late 2008.

Source: Thomson Reuters

Sudan awards nine oil exploration contracts

Sudan awarded nine oil exploration contracts to 17 international companies that are expected to invest \$500m in the oil sector. The agreements were signed with companies from Brazil, Australia, Canada, Hong Kong, France and Nigeria, and they cover eight oil blocks. The blocks are forecast to start production in six months to five years. The Sudanese economy has been suffering since South Sudan assumed control of 75% of the formerly unified state's oil production of almost 490,000 barrels a day, when it became independent a year ago.

Source: Bloomberg

Angola to launch bid for onshore oil exploration next year

Angola is planning to launch a bidding round for onshore oil exploration rights next year in an attempt to double production by 2020. Angola will offer exploration rights in the onshore part of the Kwanza Basin where major volumes of high-quality light oil have been discovered in recent years. The plan follows the signing in December 2011 of oil exploration deals between Angola's state oil firm Sonangol and seven major oil companies. Angola aims to boost output to 3.5 million barrels per day by 2020 from a current level of 1.8 million b/d. Angola's economy depends on crude output for 95% of its export revenues, making it vulnerable to swings in the global oil market.

Source: Thomson Reuters

Nigeria to build six refineries

Nigeria signed a \$4.5bn Memorandum of Understanding with a U.S.-Nigerian joint venture to build six modular refineries with a combined capacity of 180,000 barrels a day. The joint venture includes U.S.-based Vulcan Energy Corp. and Nigerian-based Petroleum Refining and Strategic Reserve. Two refineries are expected to be operational within a year. Nigeria produces around two million barrels a day of crude oil, but it often pays high prices for processing its own crude abroad because of inadequate refining capacity.

Source: Bloomberg, Agence France Presse

Base metals: Zin to underperform in 2012, tin to outperform

Zinc prices are expected to average \$1,850 per tons in 2012, but downside risks are weighing on the forecast. Zinc prices will be negatively affected by the slowdown of China's economic growth as the country's construction industry constitutes a key source of zinc demand globally. Shortage in zinc output is anticipated in the next few years as key zinc mines in Canada and Australia come offline, which would reduce global output by one million tons per year, equivalent to around 10% of current levels. But delays in the closures of these mines would keep zinc supply in surplus in 2012 and 2013, while inventories which are close to their all time high will protect the market from the effect of the mines' closures.

In parallel, tin is expected to be an outperformer in the metals complex over the medium-term with potential for gains in the short-term. The world's largest tin exporters are forecast to reduce production if tin prices remain low. Also, tightness in tin inventories is not expected to ease with stocks-to-use at just four weeks in 2012, from an average of 5.5 weeks over the past decade.

Source: Business Monitor International

Precious metals: Prices down on strengthening dollar

Precious metal prices fell slightly as investors awaited monetary policy moves by the Bank of England and the European Central Bank. Gold futures for August delivery fell by 0.4% to \$1,615.6 on July 5th. Looser monetary policy would drive inflation expectations, and in turn stimulate a buying interest in gold. Gold prices increased by 3.26% year-to-date on July 5, silver prices rose by 1.73% and platinum prices grew by 5.9%, while palladium prices decreased by 8.9% year-to-date. Gold prices grew by 1.9% in the first half of the year from \$1,573.8 an ounce to \$1,604.2 an ounce. Further, silver prices increased by 0.6% to \$28.28 an ounce on July 5, Platinum rose by 0.61% to \$1,481.75 an ounce, and palladium rose 0.56% to \$595.25 an ounce. In parallel, investment demand for bullion fell in recent months on economic uncertainty and resulted in the dollar emerging as a safe-haven on the detriment of gold. Also, holdings of gold in exchange-traded funds, which is used as a measure of longer-term investor demand, eased but remained above 70.89 million ounces.

Source: Marketwatch, 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								
Africa													
Algeria	-	-	-	-	BB	-2.6	10.7	1.9	4.8	1.7	2.1	13.7	1.3
Angola	BB-	Ba3	BB-	-	BB	7.9	29.9	17.4	28.2	8.9	-	12.0	10.7
Egypt	B	B1	B+	BB+	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	-	B+	-	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	-	B	-	-	8.6	-	2.0	-	-	3.6
Mauritania	-	-	-	-	-	-2.8	62.0	70.0	96.6	-	700.0	-7.5	0.3
Morocco	BBB-	Ba1	BBB-	BBB-	B	-5.8	54.2	28.4	75.7	9.1	120.1	-5.2	0.8
Nigeria	B+	-	BB-	-	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	Baa3	BBB-	BBB	B	-4.1	41.7	58.2	111.3	8.4	285.6	-5.7	3.2
Middle East													
Bahrain	BBB	Baa1	BBB	BBB+	BB	-7.7	34.2	75.3	66.1	8.2	340.9	12.6	-0.9
Iran	-	-	B+	BB-	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	Ba2	-	BB	CCC	-6.1	68.5	23.8	53.4	5.1	59.8	-6.7	6.4
Kuwait	AA	Aa2	AA	AA-	A	23.6	4.5	26.0	41.7	7.0	184.3	33.5	-1.5
Lebanon	B	B1	B	B	CCC	-8.3	134.0	158.0	264.7	14.7	208.5	-14.1	11.2
Oman	A	A2	-	A	A	10.9	4.0	12.3	17.2	-	59.0	14.5	2.9
Qatar	AA	Aa2	-	AA-	AA	7.7	38.2	70.1	115.5	7.8	703.9	32.6	2.9
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	9.4	7.1	18.0	30.1	2.1	19.7	20.6	5.4
Syria	-	-	-	-	CC	-11.0	27.5	11.0	36.8	-	43.6	-6.1	2.4
UAE	-	Aa2	-	AA-	BB	5.8	18.5	44.4	53.5	7.2	293.3	10.3	0.6
Yemen	-	-	-	B-	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								
Asia													
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								
Central & Eastern Europe													
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	0.75	05-Jul-12	Cut 25bps	N/A
UK	Bank Rate	0.50	07-Jun-12	No change	05-Jul-12
Japan	O/N Call Rate	0-0.10	15-Jun-12	No change	12-Jul-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
Emerging Markets					
China	One-year lending rate	6.00	05-Jul-12	Cut 31bps	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	10-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	0.16	01-Jul-12	Raise 2bps	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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