

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Downgrades outpace upgrades in second quarter of 2012**

Standard & Poor's indicated that it downgraded 155 issuers and upgraded 125 issuers globally in the second quarter of 2012, with the downgrades representing \$1,475.4bn and the upgrades \$404.2bn in rated debt. The agency said that it downgraded 152 corporate issuers in the second quarter, representing \$679bn in rated debt, and upgraded 120 issuers worth \$391bn. It added that it downgraded three sovereigns in the second quarter for a total of \$796bn in rated debt; while it upgraded five for a total of \$13bn. Further, it said that it downgraded 16 corporate issuers in emerging markets worth a total of \$9bn and upgraded 12 issuers representing \$14bn; while it downgraded two sovereign issuers that totaled \$4bn in debt and upgraded five sovereigns that totaled \$13bn. In parallel, it said that the media & entertainment sector had 29 rating actions in the second quarter including 17 downgrades and 12 upgrades. The oil & gas exploration and production sector followed with 17 downgrades and eight upgrades; while the utilities sector had 17 downgrades and seven upgrades.

Source: *Standard & Poor's*

##### **Global trade in commercial services grows by 12% in 2011**

The World Trade Organization indicated that global trade in commercial services reached \$8,015bn in 2011, constituting an increase of 11.8% from 2010. It said that world exports rose by 11% year-on-year to \$4,150bn, compared to a 10% expansion in the previous year, while global imports reached \$3,865bn in 2011, up 10% year-on-year. It noted that exports of commercial services from Europe totaled \$1,964bn, up 10% year-on-year, as exports from the 27-member European Union reached \$1,762bn. Further, exports from Asia totaled \$1,096bn, up 12% year-on-year, and those from North America grew by 10% to \$668bn. Also, exports from South & Central America increased by 14% annually to \$130bn, and those from the Middle East grew by 10% to \$111bn. Further, exports from the Commonwealth of Independent States rose by 20% to \$96bn and those from Africa remained unchanged at \$85bn. The WTO said that travel services was the fastest growing component of commercial services exports in 2011 with an increase of 12% to \$1,063bn, or 25.7% of global commercial services exports. It was followed by other commercial services, including financial services, which grew by 11% to \$2,228bn in 2011 (53.7%) while transportation grew more slowly with a 8% growth to \$855bn (20.6%). In parallel, imports of commercial services to Europe totaled \$1,605bn in 2011, up 8% from 2010, as imports to the EU grew 4% year-on-year to \$1,480bn. Asian imports rose 14% to \$1,091bn, those to North America increased by 8% to \$516bn; while imports to the Middle East grew by 10% to \$210bn and those to Africa rose by 9% to \$149bn. Also, imports to South & Central America improved by 18% to \$163bn, and those to the CIS increased by 21% to \$133bn.

Source: *World Trade Organization*

#### MENA

##### **Arab world ahead of developing economies in cellular, broadband and Internet penetration**

Figures released by the International Telecommunication Union (ITU) show that the penetration rate of fixed telephone lines in the Arab world reached 9.6 lines per 100 inhabitants in 2011 compared to a penetration rate of 11.6% in developing economies. The total number of fixed telephone lines in Arab states reached 35 million in 2011. Also, the ITU estimated the penetration rate of mobile cellular lines in Arab states at 96.9 subscriptions per 100 inhabitants in 2011, up from 87.8% in 2010 and relative to 77.8% in developing economies. The total number of mobile cellular subscriptions in Arab states reached 350 million in 2011 but accounted for just 7.9% of subscriptions in developing economies. Further, Arab states' Internet penetration reached 29.1 users per 100 inhabitants in 2011 relative to a rate of 24.5% in 2010, and compared to 24.4% in developing countries. The ITU estimated the number of Internet users in the Arab world at 105 million in 2011, up from 87 million in 2010. In parallel, mobile broadband penetration in the Arab world rose to 11.7 users per 100 inhabitants in 2011 from 7.4% in 2010, compared to 8% in developing economies. The total number of Arab mobile broadband subscribers was 42 million in 2011 relative to 26 million in 2010. In addition, the penetration rate of fixed broadband in Arab states was 2.1 users per 100 inhabitants in 2011, relative to 4.9% in developing economies. The total number of fixed broadband subscriptions in Arab economies was estimated at 8 million in 2011.

Source: *International Telecommunication Union, Byblos Research*

##### **Region has higher barriers to investment in oil & gas exploration and production**

The Fraser Institute's 2012 Global Petroleum Survey indicated that the Arab world has higher barriers to investment in oil & gas exploration and production relative to the world's level. The region received an average score of 56.6 points in 2012 on the Institute's Composite Index, which is worse than the global average of 47.4 points. Qatar has the lowest barriers to investments in oil & gas exploration and production among 16 Arab economies and ranks in 32nd place among 147 countries and jurisdictions around the world. It is followed by Oman in 46th place, Tunisia (56th), Morocco (57th), and Kuwait (64th) as the five Arab economies with the lowest barriers to investment in energy. The survey captures the opinions of managers and executives about the level of investment barriers in oil & gas exploration and production. Libya has the highest barriers to investment in the region and came in 143rd place globally. It was preceded by Iraq in 139th place, Syria (131st), Yemen (130th) and Algeria (125th) as the five Arab countries with the highest barriers to investment. Barriers to investment increased in Tunisia, Morocco, Egypt and Syria, while they regressed in Qatar, Oman, Kuwait, Mauritania, Algeria, Yemen and Iraq.

Source: *Fraser Institute, Byblos Research*

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# OUTLOOK

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## WORLD

### **Global growth reduced to 3.5% in 2012, developing economies to expand by 5.6%**

The International Monetary Fund reduced its forecast for global economic growth to 3.5% in 2012 from projections of 3.6% last April. It attributed the downward revision to further weaknesses in the global recovery, weaker activity in the Eurozone, and lower-than-expected growth in emerging markets. It expected global growth to be weaker in the second half of the year in both advanced and key emerging market economies. As such, it revised downward its forecast for real GDP growth in emerging and developing economies to 5.6% this year compared to an April projection of 5.7%, and maintained its growth projections for advanced economies at 1.4% in 2012. The Fund also revised downwards its growth projections in developing Asia to 7.1% from an April forecast of 7.4%, and reduced its forecast to 5.4% from 5.5% for Sub-Saharan Africa, and to 3.4% from 3.7% for Latin America & the Caribbean; while it revised upwards the output growth in the MENA region to 6.8% from 5.5% previously. It maintained its growth forecast for the Commonwealth of Independent States at 4.1% and for Central & Eastern Europe at 1.9%.

In parallel, the IMF indicated that delayed or insufficient policy action in both developed and emerging market and developing economies constitutes the most immediate risk to global economic growth, as it will further escalate the crisis in the Eurozone. It noted that downside risks to growth in emerging markets and developing economies are primarily related to external factors in the near-term. It pointed out that rapid credit growth in the current environment of weaker global growth, elevated risk aversion, and signs of domestic strain constitute the main risks to the financial stability of emerging markets. It encouraged policymakers in emerging and developing economies to adjust their policies, given spillovers from weaker advanced economy prospects, slowing export growth and volatile capital flows.

*Source: International Monetary Fund*

## ARMENIA

### **Drop in multilateral support and economic slowdown in Russia are main medium-term risks**

Business Monitor International revised upwards its projection for Armenia's real GDP growth to 4.3% in 2012 from a previous forecast of 2.1%, and compared to the government's growth estimate of between 5% and 7% for this year. It attributed the change to a more robust household sector as well as higher growth in exports of goods and services. But BMI expected the economy to face significant challenges over the medium-term. It said that challenges include a potential drying up of multilateral funding in the event of further escalation of the Eurozone sovereign debt crisis. It added that the economy also faces the risk of a more pronounced slowdown in economic growth in Russia. It forecast average annual real GDP growth at 4% during the 2012-16 period, which is higher than the average annual growth rate of 2.7% between 2006 and 2011. It warned that an escalation in the ongoing political conflict between Armenia and Azerbaijan would affect economic activity.

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BMI forecast household expenditures to increase by 4.1% in real terms this year compared to an earlier forecast of 2.4%, due to rapidly falling inflation and strong private sector credit growth. Further, it revised downward the growth in government expenditures to 1.4% in 2012 from 2% previously, and relative to growth of 7.7% in 2011. It said that the increase in government expenditures last year led to a fiscal deficit of 2.8% of GDP in 2011. It forecast real gross fixed capital formation to contract by 3% in 2012, following an 11.2% contraction in 2011, constituting the fourth consecutive year of negative fixed investment in Armenia. It expected gross fixed capital formation to start growing by 2013, but that growth levels will not reach those posted before the onset of the global financial crisis until 2019. It warned that an escalation of the situation with Azerbaijan would lead to further collapse in fixed investment given that Armenia's access to external financing would be cut off by international political pressure and due to increased operational and security risks. In parallel, BMI expected Armenia's exports of goods and services to grow by 11% this year compared to an earlier forecast of 7%. It noted that prospects of significant import growth are very limited, given that the currency is coming under selling pressure.

*Source: Business Monitor International*

## ANGOLA

### **Growth projected at 7% in 2012, fiscal balance to turn to deficit by 2016**

The International Monetary Fund projected Angola's real GDP to grow by about 7% in 2012 relative to growth of 3.9% in 2011. It said that oil production problems constrained economic growth last year, but that the rebound in oil production this year will accelerate the pace of economic activity. It anticipated that the energy, transportation and construction sectors will benefit from a gradual increase in public investment programs. The IMF cautioned that the country remains vulnerable to oil revenue shocks, a large infrastructure gap and widespread poverty, despite its favorable growth outlook.

In parallel, the Fund indicated that authorities are facing several policy challenges, such as implementing a comprehensive medium-term fiscal framework; accumulating further foreign currency reserves in an environment of elevated external risks; and enabling the structural transformation and diversification of the economy to promote more inclusive growth. It said that the rise in non-oil tax revenues as a result of tax administration reforms will not fully offset the decline in oil receipts implied by the projected oil prices and production levels. It expected current spending to remain broadly unchanged as a share of GDP, but for capital spending to gradually increase as the authorities implement their development plans. As such, it forecast the overall fiscal balance to shift to a modest deficit by 2016. It anticipated Angola's debt profile to remain manageable but to continue to be vulnerable to oil revenue shocks. It noted that the gradual implementation of the government's investment programs will provide the authorities with time to further strengthen capacity and reinforce fiscal buffers and institutions. In parallel, the IMF highlighted the need to carefully manage the risks associated with the new foreign exchange law for the oil sector.

*Source: International Monetary Fund*

July 19, 2012



# ECONOMY & TRADE

## SUDAN

### **Inflationary pressures to persist**

Business Monitor International expected Sudan's inflation rate to continue to increase and for the Sudanese pound to continue facing downward pressure, which would weigh heavily on economic activity. It said that the inflation pressures are mainly driven by the rise in food prices that represent the bulk of the Consumer Price Index basket, with inflation increasing by 37.2% year-on-year in June 2012, the highest level in at least five years, and by 9.8% month-on-month. BMI forecast the inflation rate to exceed 45% in each of October and November, but to decelerate to 42.9% by end-2012. Further, it said that the Sudanese pound, which was devalued in June, constitutes one of the principle drivers of inflation. It noted that the devaluation of the pound was meant to help alleviate pressure on the local currency, but that it led to further increases in food prices as the country relies on imports to meet its food needs, while the increase in fuel prices from the partial lifting of fuel subsidies led to a further rise in overall inflation. In parallel, BMI indicated that many companies operating in Sudan are facing shortages of US dollars, which is impacting their normal business operations as some firms rely heavily on imported services and equipment. It added that individuals and firms in Sudan consider the US dollar to be a safe haven, which adds pressure on the pound and could lead to another sharp decline in the pound's value. It warned that the authorities' intervention to control inflation could distort the market, significantly widen the budget deficit, remove confidence in the pound, and seriously damage prospects for a return to economic growth and stability.

*Source: Business Monitor International*

## SOUTH SUDAN

### **Authorities take drastic fiscal measures, rule out oil receipts**

Business Monitor International indicated that the austerity measures adopted in South Sudan's budget for fiscal year 2012/13 are difficult to meet. It expected the spending cuts in the budget to be more challenging than anticipated, as well as for the government's projections for non-oil revenues for FY2012/13 and its ability to raise domestic funds to be overly optimistic. It noted that the budget includes an 80% decline in capital spending, a 47% decrease in operating and other expenditures, a 22% cut in the government's salary bill and a 10% contraction in transfers. It added that the draft budget eliminated benefits for government workers including overtime and incentives. Further, it pointed out that the budget projects total domestic revenues to account for 10% of total revenues, oil revenue savings and domestic borrowing for 15% each, while the remaining 60% will come mainly from the sale of petroleum and mining concessions and from foreign loans. It noted that the government is not expecting any revenues from oil, as such proceeds which accounted for 98% of public revenues in FY2011/12, collapsed after the authorities halted oil production in January 2012. BMI considered that borrowing will prove very difficult for South Sudan until oil production resumes. It added that government revenues will depend on the willingness and the ability of Western donors to offer their assistance.

*Source: Business Monitor International*

## ARMENIA

### **FDI at \$524.6m in 2011, Armenia ranks 74th globally in FDI attraction**

Foreign direct investment (FDI) in Armenia totaled \$524.6m in 2011, constituting a decrease of 8% from \$570.1m in 2010 compared to an increase of 22.6% in aggregate FDI inflows to the 12 economies of the Commonwealth of Independent States (CIS). FDI inflows to Armenia totaled \$777.5m in 2009 and \$935.4m in 2008. Net FDI to Armenia was \$446.6m in 2011, down from \$561.8 in 2010. Armenia was the 10th largest recipient of FDI in nominal terms among the 12 economies of the Commonwealth of Independent States (CIS) in 2011, and was one of four CIS economies that saw a decrease in FDI last year. FDI inflows to Armenia accounted for 0.1% of aggregate FDI to emerging markets and for 0.6% of total FDI in CIS countries. Also, Armenia ranked 74th globally on the Inward FDI Attraction Index, and in 136th place on the Inward FDI Potential Index. FDI flows to Armenia were equivalent to 5.2% of GDP in 2011, the sixth highest in the CIS, while FDI flows to the CIS accounted for 3.5% of the region's GDP. FDI flows to Armenia accounted for 17.2% of gross fixed capital formation, the sixth highest such ratio in the CIS region. In comparison, FDI flows as a percentage of gross fixed capital formation were equivalent to 15.1% in CIS countries, 8.5% in developing economies and 9.2% on a global basis in 2011.

*Source: UNCTAD, Byblos Research*

## UKRAINE

### **Ratings affirmed, external financing and devaluation risks persist**

Fitch Ratings affirmed Ukraine's long-term foreign currency and local currency Issuer Default Ratings (IDRs) at 'B' with a 'stable' Outlook. It also maintained the short-term IDR at 'B' and the Country Ceiling at 'B'. It attributed its decision to the country's fragile external financing situation. It said that Ukraine's external liquidity ratio is one of the lowest among rated sovereigns at a prospective 55% in 2012. It added that private sector external debt accounts for much of debt servicing, but that rollover rates have been over 100% since the global crisis. It warned that Ukraine's limited ability to refinance sovereign external debt obligations risks pressure on the exchange rate and a decline in reserves. Further, the agency pointed out that the public debt, including state-guaranteed debt, stood at 36% of GDP at end-2011; and that Ukraine faces \$6.4bn in repayments and interest to the IMF in 2013. It said that the future path of the debt ratio will depend partly on the exchange rate. It noted that the government has increasingly issued foreign currency bonds on the local market as it lost access to the Eurobond market and faced high borrowing costs in local currency. It expected the current account deficit to reach 6% of GDP in 2012, adding that the main stress is on the capital account. It noted that a failure to secure IMF financing by early 2013, or improve confidence sufficiently to regain sovereign external market access over a sustained period, would lead to the deterioration to foreign currency reserves and a sharp fall in the value of the currency.

*Source: Fitch Ratings*



# BANKING

## QATAR

### Lending and deposits rise in June

Figures issued by the Central Bank of Qatar show that total assets reached QAR742.8bn at the end of June 2012, constituting an increase of 6.4% from end-2011 and a rise of 19.6% from end-June 2011. Loans totaled QAR460.9bn, increasing by 13.9% from end-2011 and by 2% from the preceding month. The growth in lending in the first half of the year was mainly driven by a 29% expansion in credit to the public sector, as lending to the private sector grew by 5%. Also, loans increased by 36% from end-June 2011, driven by public and private sector credit growth of 80% and 13.5% year-on-year, respectively. In parallel, aggregate deposits reached QAR378.3bn at end-June 2012, up 6.8% year-on-year and by 4% from end-2011. Total deposits rose by 1.6% from the preceding month driven by growth in private sector deposits, while government deposits decreased by 4% month-on-month. The loans-to-deposits ratio increased marginally to 122% at end-June 2012 from 121.4% at end-May 2012, but posted a significant rise from 95.8% a year earlier.

Source: Central Bank of Qatar, EFG Hermes

## TURKEY

### Anti-money laundering regime needs to improve

The Financial Action Task Force (FATF), the global standard-setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Turkey made a high-level political commitment in February 2010 to work with the FATF to address its strategic AML/CFT deficiencies. But it said that Turkey has not made sufficient progress in implementing its action plan, and certain strategic CFT deficiencies remain. It encouraged Turkey to continue implementing its action plan to address these deficiencies, including by adequately criminalizing terrorist financing, and by implementing an adequate legal framework for identifying and freezing terrorist assets. The FATF noted that, if Turkey fails to take concrete steps to improve its AML/CFT regime by October 2012, it will call on its member-countries to apply countermeasures proportionate to the risks associated with the jurisdiction.

Source: Financial Action Task Force

## NIGERIA

### Credit risks remain elevated

Fitch Ratings upgraded the Viability Rating (VR) of First Bank of Nigeria to 'b' from 'b-' and downgraded that of Union Bank of Nigeria to 'ccc' from 'c'. It also affirmed the VR of Access Bank, Diamond Bank, and United Bank for Africa at 'b-', and that of Guaranty Trust Bank and Zenith Bank at 'b+'. It also upgraded the long-term national rating of Fidelity Bank to 'BBB+(nga)' from 'BBB-(nga)' and its national short-term rating to 'F2(nga)' from 'F3(nga)', and affirmed those of Stanbic IBTC Bank at 'AAA(nga)' and 'F1+(nga)', respectively. It affirmed the remaining ratings on the nine banks. The agency said that the VRs of the nine banks reflect highly speculative fundamental credit quality due to an extremely challenging operating environment, rapid underlying credit growth, concentrated credit risks, and weak corporate governance and transparency requirements.

Source: Fitch Ratings

## ANGOLA

### New foreign exchange law challenging for banks, currency to face upward pressure

Business Monitor International expected the implementation of Angola's new foreign exchange law, which requires oil-related transactions to be carried out in Angolan kwanza, to increase upward pressure on the currency. It said that the new law, which was endorsed in May 2012, currently requires oil firms operating in the country to pay their taxes and suppliers through local banks. It noted that the settlement of oil-related transactions in local currency will become fully binding by July 2013. BMI anticipated the new law to increase exchange rate stability and support the government's efforts to de-dollarize the economy. It added that the full implementation of the law will increase demand for the kwanza and provide the Banco Nacional de Angola with better control over monetary policy. However, it noted that large foreign capital inflows to the financial system over the next few years will provide a test for its robustness. Further, it pointed out that the implementation of the new law may lead to a retrenchment of investors' interest in the country's oil industry. But it noted that this is unlikely to be a deterrent, given that international oil companies are competing for access to the country's attractive sub-salt reserves. Further, BMI expected that financial inflows to the banking sector would reinforce the outlook for the country's capital and financial accounts and generate an important source of foreign exchange reserves. It said that this will strengthen Angola's vulnerable external position and, in turn, exert further upward pressure on the local currency over the medium-term. It added that upward pressures on the currency would reduce the risks of imported inflation over the coming years, given the country's reliance on imported goods and services.

Source: Business Monitor International

## CHINA

### Ratings on 11 Tier 2 banks affirmed

Fitch Ratings affirmed the long-term foreign-currency Issuer Default Ratings (IDRs) of China Merchants Bank, China CITIC Bank, China Everbright Bank at 'BBB' and those of Bank of Shanghai, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Banking Corporation, Hua Xia Bank, Shenzhen Development Bank, China Guangfa Bank and Bank of Beijing at 'BB+'. It also maintained the viability ratings of all the banks. It said that the long-term foreign currency IDRs of all banks have a 'stable' outlook. Fitch said that the 11 banks, which are part of China's Tier 2 commercial banks, are weaker, have higher credit exposure, larger off-balance-sheet items and less liquid inter-bank and investment securities portfolios than their large, state-owned peers. It added that the banks' funding and liquidity have been under pressure across the sector, as deposit growth slows and liquid assets further contracts. It expected Tier 2 banks to suffer from a flight of deposits to the safety of large state banks if the sector faces more serious strains in funding, liquidity, or asset quality. However, it said that asset quality indicators of Tier 2 banks are generally stronger than that of state-owned banks, reflecting the latter's greater policy lending function.

Source: Fitch Ratings



# ENERGY / COMMODITIES

## Brent prices close to \$106 a barrel

Brent crude prices rose to nearly \$106 a barrel on July 19 to reach a seven-week high due to tensions in the Middle East, while comments by the U.S. Federal Reserve downplayed the risk of a recession in the U.S. economy. However, oil supply worries increased after a deadly bombing in Syria and an attack on Israeli tourists in Bulgaria. Brent crude prices rose by 81 cents to \$106 a barrel on July 19, the highest level since May 30; while U.S. crude prices rose by 76 cents to \$90.6 a barrel. Brent crude prices gained 20% from its lows reached in June 2012. U.S. crude oil stocks fell slightly last week due to a decline in crude imports, while gasoline inventories rose and distillates fell. Further, U.S. stocks of crude fell by 809,000 barrels to 377.4 million barrels week-on-week on July 18, while gasoline inventories fell by 1.82 million barrels.

Source: Thomson Reuters

## OPEC oil revenues exceeded \$1 trillion in 2011

Oil export revenues earned by members of the Organization of Petroleum Exporting Countries (OPEC) exceeded \$1 trillion in 2011, for the first time last year. Higher oil prices increased revenue year-on-year for each member, apart from Libya which saw exports drop by 73%. Most OPEC members in the Gulf, excluding Iran, increased exports as they offset the loss of Libyan supplies. Also, Iraqi exports rose by 14.6%, as the country's oil industry recovered from years of under-investment, while Saudi Arabia, OPEC's largest oil producer, grew exports by 8.6%.

Source: Dow Jones Newswires

## Saudi Arabia and Iran export 62% of their oil to Asia in 2011

Saudi Arabia and Iran shipped around 62% of their oil exports to buyers in the Asia-Pacific region in 2011. Asian buyers received 4.5 million barrels per day (b/d) of Saudi crude last year, relative to 4.3 million b/d in 2010. Also, Iran shipped 1.4 million b/d to Asia in 2011, compared with 1.6 million b/d in the previous year. OPEC's exports to North America and Western Europe fell in 2011 as total consumption of oil in those regions fell by 1.2% and 2.1%, respectively. The world's five biggest crude exporters last year were Saudi Arabia at 7.2 million b/d, followed by Russia at 5.8 million b/d, Nigeria at 2.4 million b/d, the UAE at 2.3 million b/d, and Iran at 2.3 million b/d.

Source: Bloomberg

## Abu Dhabi regulator approves construction of first two nuclear reactors

The UAE's Federal Authority of Nuclear Regulation granted a license to Abu Dhabi's Nuclear Energy Corporation for the construction of the country's first two nuclear reactors. The reactor is set to be built by a South Korean-led consortium and is composed of two 1,400 megawatt plants. The UAE will be the first Arab Gulf state to start building a nuclear power plant in the region, where top oil exporters are seeking alternative energy resources to meet soaring electricity demand. The first of four reactors is scheduled to start operating in 2017 and the others by 2020.

Source: Bloomberg, Thomson Reuters

## Base metals: Prices rise based on expectations of global growth

Base metal prices rose in the past week on speculation that monetary easing by Central Banks around the world would stimulate economic growth. Three-month copper prices on the London Metal Exchange increased by 0.9% to \$7,705 a metric ton on July 19, as orders to withdraw the metal from exchange warehouses in South Korea rose to the highest level since October 2011, signaling improving demand in China. Also, regular strikes in large mines in Chile and Peru resulted in lower copper production. Copper prices grew by 0.7% year-to-date, zinc by 1.4%, while nickel prices declined by 14%, lead prices decreased by 6.6% and aluminum prices declined by 5.5% year-to-date. Prices of aluminum and nickel declined by 11% and 16%, respectively, in the first half of 2012 due to a stronger U.S. dollar and growing market concerns about Chinese demand growth. The demand for base metals is expected to grow in the remaining half of 2012.

Source: Standard & Poor's, Thomson Reuters, Bloomberg

## Precious metals: Gold prices stable at \$1,583 per ounce

Gold prices remained stable as the dollar reached a two-week low against a basket of currencies, with rising stock markets and sharper appetite for risk. The metal's price rebounded in the last two days after the U.S. Federal Reserve disappointed traders who had expected clearer signals on the prospect of further monetary stimulus. Spot gold prices increased by 0.7% to \$1,582.8 an ounce on July 19, while U.S. gold futures for August delivery were up \$11.3 to \$1,582 an ounce.

In parallel, gold's gains lifted silver prices by 0.9% to \$27.4 an ounce on July 19, while the gold-to-silver ratio, which measures the number of silver ounces needed to buy an ounce of gold, held near its highest level in nine months. Further, platinum prices rose by 0.8% to \$1,411.5 an ounce on July 19, while palladium prices increased by 1.3% to \$578.7 an ounce. Global demand for gold is expected to fall by 2.2% in 2012 and 1.6% in 2013. Overall, a significant surplus of 378 tons of gold will need to be absorbed by ETFs and purchasers of coins and medals to balance the gold surplus in 2012, which is expected to rise to 1,097 tons in 2013.

Source: Thomson Reuters, Citigroup

Global Commodity Outlook			
(3-months LME, \$/ton)	2011	2012f	2013f
Aluminum	2,424	2,084	2,200
Copper	8,833	8,114	9,000
Lead	2,391	2,063	2,300
Nickel	22,896	18,728	21,000
Tin	26,042	22,266	25,500
Zinc	2,212	2,018	2,250
(Spot price, \$/ounce)			
Gold	1,573	1,688	1,900
Palladium	733	665	800
Platinum	1,720	1,652	1,850
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 Negative	7.9	29.9	17.4	28.2	8.9	-	12.0	10.7
Egypt	B Negative	B1 Negative	B+ 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+ Stable	-	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	-	-	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+ Positive	-	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	BB Stable	Baa3 Negative	BBB- Negative	BBB Stable	B Stable	-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 Stable	BBB+	BB Stable	-7.7	34.2	75.3	66.1	8.2	340.9	12.6	-0.9
Iran	-	-	B+ Stable	BB- Stable	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 Stable	CCC 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- Stable	A Stable	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 Stable	-8.3	134.0	158.0	264.7	14.7	208.5	-14.1	11.2
Oman	A Negative	A2	-	A Stable	A Stable	10.9	4.0	12.3	17.2	-	59.0	14.5	2.9
Qatar	AA Stable	Aa2 Stable	-	AA- Stable	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- Stable	BBB Stable	9.4	7.1	18.0	30.1	2.1	19.7	20.6	5.4
Syria	-	-	-	-	CC Stable	-11.0	27.5	11.0	36.8	-	43.6	-6.1	2.4
UAE	-	Aa2	-	AA- Stable	BB Stable	5.8	18.5	44.4	53.5	7.2	293.3	10.3	0.6
Yemen	-	-	-	B- Negative	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								
<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	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	0.75	05-Jul-12	Cut 25bps	02-Aug-12
UK	Bank Rate	0.50	05-Jul-12	No change	02-Aug-12
Japan	O/N Call Rate	0-0.10	12-Jul-12	No change	09-Aug-12
Australia	Cash Rate	3.50	03-Jul-12	Cut 25bps	07-Aug-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	6.00	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	3.00	12-Jul-12	Cut 25bps	09-Aug-12
Malaysia	O/N Policy Rate	3.00	05-Jul-12	No change	06-Sep-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	16.50	10-Jul-12	Cut 150bps	Aug-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	8.00	11-July-12	Cut 50bps	29-Aug-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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