

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### **Bond and equity inflows at \$35bn in first seven months of 2012, AUM at \$947bn**

Capital flows to emerging market equity and bond funds posted net inflows of \$35.2bn in the first seven months of 2012, with bond inflows at \$20.6bn and equity inflows at \$14.6bn. Latin America accounted for \$8.3bn or 40.2% of inflows to bond funds; Emerging Europe, the Middle East & Africa (EMEA) for \$7.1bn, or 34.5%; and Emerging Asia for \$5.2bn or 25.4% of the total. Further, Emerging Asia posted \$8.2bn in inflows to equity funds in the first seven months of the year and accounted for 56.1% of equity inflows to emerging markets, followed by the EMEA region with \$3.5bn (24%), and Latin America with \$2.9bn (19.9%). Mexico was the biggest recipient of bond inflows with \$2.3bn, or 11% of total inflows into emerging market bond funds year-to-July; while China was the largest recipient of equity inflows with \$2.3bn or 15.3% of total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled \$947.3bn at the end of July 2012, with bonds reaching \$205.9bn and equities for \$741.4bn. The EMEA region had \$77.9bn in bonds-related AUM, followed by Latin America with \$73bn, and Emerging Asia with \$55bn. Further, Emerging Asia had \$485.6bn in equity-related AUM, followed by Latin America with \$130.6bn and the EMEA region with \$125.2bn.

Source: Barclays Capital, Byblos Research

#### MENA

##### **IPOs up 244% to \$1.3bn in second quarter of 2012**

Ernst & Young indicated that initial public offerings (IPOs) in the Middle East raised \$1.3bn in the second quarter of 2012, constituting a rise of 244.4% from \$374.8m in the same quarter last year, and compared to \$82.8m raised in the first quarter of 2012. It noted that regional companies raised a total of \$1.4bn in the IPO markets in the first half of this year, constituting an increase of 253.1% from \$396.5m raised in the same period last year. It noted that five regional IPOs came to market in the second quarter of this year, relative to four in the preceding quarter. Saudi Arabia raised \$945.3m in the second quarter through three IPOs and accounted for 73.2% of the funds raised across the region. It was followed by the UAE with \$187m (14.5%) and Oman with \$158.5m (12.3%). The largest IPO in the region was Saudi Arabia's Al Tayyar Travel Group which raised \$364.7m, followed by Saudi Arabia Catering with \$354.1m, Saudi Arabia's Najran Cement Company with \$226.6m, the UAE-based NMC Healthcare with \$187m and Oman's Bank Nizwa with \$158.5m. Ernst & Young said that the sudden increase in IPO activity in the second quarter was an exceptional event within a consistently depressed regional IPO market. It noted that there were only four IPOs in the second quarter whose sizes made the difference, while most country markets remain slow. E&Y expected the third quarter to bring current IPO levels down again as traditionally the summer period is relatively slow.

Source: Ernst & Young

##### **Country risk level declines in second quarter**

Euromoney magazine's quarterly survey on global country risk shows that risks in the Arab world improved in the second quarter of the year, as the average score of 19 Arab economies reached 41.12 points in the second quarter of 2012 compared to 40.97 points in the first quarter of the year. But, the region's risks remain higher than the global risks level which averaged 42.19 points in the second quarter. The Arab world's Political Risks score was 12.17 points and improved slightly from the previous quarter, but remained below the global average of 13.91 points; while the Economic Performance score was 13.86 points, improving from the previous quarter, better than the global average of 13.31 points. Further, the region's Credit Ratings averaged 3.23 points, unchanged from the first quarter, but almost similar to the global average of 3.25 points; while the Access to Bank Capital & Capital Markets score remained at 3.65 points relative to the global average of 3.73 points. Also, the Debt Indicators' score was unchanged at 3.94 points and remained below the global average of 4.11 points, while the region's score on Structural Assessments reached 4.27 points compared to a global average of 3.87 points. Qatar is the country with the best country risk ratings in the Arab world and ranked in 20th place globally, followed by Kuwait (28th), Oman (30th), Saudi Arabia (33rd) and the UAE (38th); while the lowest-ranked countries in the region are Syria that came in 156th place worldwide, Mauritania (159th) and Djibouti (179th). Qatar had the lowest level of political risks in the region, and it ranked first regionally on all the other sub-indices.

Source: Euromoney, Byblos Research

##### **Export credit guarantees up 20% to \$1.4bn in 2011**

The Arab Investment & Export Credit Guarantee Corporation (Dhahan) indicated that the total value of export insurance contracts it signed with Arab exporters in 2011 reached \$1.4bn, constituting an increase of 20.3% from \$1.2bn in 2010. Dhahan provides insurance coverage to Arab and non-Arab investments in its member countries against non-commercial risks, as well as insurance against commercial and non-commercial risks for inter-Arab and worldwide Arab export credits. Companies in Saudi Arabia signed \$484m worth of export credit insurance contracts in 2011, accounting for 33.6% of the total value of such contracts. They were followed by exporting entities in Kuwait with \$320.6m (22.3%), Jordan with \$118.5m (8.2%), Lebanon with \$101.2m (7%) and Tunisia with \$78.9m (5.5%) as the top 5 countries using this facility. The aggregate value of export credit insurance contracts signed by Arab exporters totaled \$4.9bn during the 2007-2011 period and grew by a compound annual growth rate (CAGR) of 23.3%, with \$505.2m contracts signed in 2007, \$1bn in 2008 and \$701m in 2009. Saudi Arabia signed \$1.5bn worth of export credit insurance contracts during the 2007-11 period and accounted for 31.1% of the total, followed by Kuwait with \$1.4bn (28.2%), Tunisia with \$427m (8.8%), Lebanon with \$404m (8.3%) and Jordan with \$218.5m (4.5%).

Source: Arab Investment & Export Credit Guarantee Corp.

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# POLITICAL RISK OVERVIEW - JULY 2012

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## EGYPT

Tensions continued between the newly-elected President Mohammed Mursi and the Supreme Council of the Armed Forces (SCAF). President Mohammed Mursi ordered the parliament to reconvene and reverse June's decision by the Supreme Court to dissolve Parliament. Further, President Mohammed Mursi emphasized his commitment to the judicial process. U.S. Secretary of State Hillary Clinton stated her support for a full transition to civilian rule in the country. Also, Egyptian authorities started releasing prisoners detained by the military during the revolution. Former President Hosni Mubarak was ordered back to prison after his health situation improved.

## IRAN

Israel accused the Iranian Revolutionary Guards of coordinating the July 19th suicide bombing of an Israeli tour bus in Bulgaria, and warned of a forceful reaction, but Tehran denied its involvement. The U.S. warned on July 16 that all elements of American power will be used to prevent the Iranian acquisition of nuclear weapons. The European Union initiated an oil embargo against Iran on July 1, while the U.S. placed sanctions on the Iranian Central Bank. Also, an Iranian Parliamentary Committee submitted a draft law blocking shipments of oil through the Strait of Hormuz to countries supporting Western sanctions. Several hundred Iranians protested against rising prices as a result of the imposed sanctions, while chanting anti-government slogans.

## IRAQ

Kurdistan began exporting crude oil to Turkey, while the Iraqi government warned Turkey against violating its airspace, and threatened to file a complaint with the United Nations Security Council. Country-wide bombings killed and wounded hundreds of people throughout the month of July.

## DEM REP CONGO

The M23 rebel movement took control of several towns in North Kivu, while the Armed Forces of the Democratic Republic of Congo retreated after clashes with the rebels. Also, two civilians were killed on July 18 after the MONUSCO bombed M23 troops. The DRC agreed with Rwanda on the creation of an internationally-backed military force to combat the M23 rebels.

## LIBYA

The National Transitional Council announced that power transfer to the newly-elected General National Congress will take place on August 8th. Elections for the 200-seat General National Congress took place on July 7, when the National Forces Alliance led by the ex-interim Prime Minister Mahmoud Jibril won 39 out of 80 seats reserved for political parties, and the Muslim Brotherhood gained the remaining 17 seats. Also, the month of July saw pre-election violence by groups seeking more autonomy for the east of the country. Local militia shut down major oil exporting terminals in El-Sider, Ras Lanuf and Brega. Further, the Libyan government freed four members of the International Criminal Court defense delegation.

## SUDAN

Anti-government protests increased following a government crackdown on the opposition. Opposition groups signed a pact aiming at overthrowing President Omar al-Bashir's National

Congress Party regime. Negotiations with South Sudan did not succeed as President Omar al-Bashir refused to meet with President Salva Kiir in Addis Ababa. The UN extended its Hybrid operation in Darfur till July 2013. The Darfur Regional Authority called on improving security measures to protect internally displaced people. Further, the African Union suspended talks with the Sudan People's Liberation Movement in the North over humanitarian access to the Blue Nile.

## SOUTH SUDAN

South Sudan marked its first anniversary of independence from Sudan on July 9 with a series of country-wide celebrations. The month of July saw increasing signs of an economic crisis as foreign currency reserves declined, consumer prices continued to rise, and infrastructure projects continued to stall. Negotiations with Sudan stalled over security issues, oil and border separation ahead of the August 2 deadline.

## SYRIA

The month saw violent fighting spreading to Aleppo and Damascus, while rebel fighters seized the border crossings with Turkey and Iraq with thousands of people fleeing to neighboring countries. Four senior Syrian officials were assassinated in a bombing of the national security headquarters on July 18 in Damascus, including top security chief Assef Shawkat and Defense Minister Dawoud Rajiha. Concerns over Syria's unconventional weapon stockpiles increased, while the Foreign Ministry declared that chemical weapons will only be used in case of external aggression. The UN Security Council extended the UN supervision mission in Syria for 30 days, and appointed the Senegalese Lieutenant General Babacar Gaye as the head of the new mission. Further, Russia and China vetoed on July 19 the UNSC Chapter VII resolution threatening sanctions against Syria.

## TUNISIA

The Military Court sentenced former President Zine al-Abidine Ben Ali to life imprisonment over killing protesters during the uprising. Ennahda re-elected Rached Ghannouchi as party chief on July 16th. Anti-corruption Minister Mohammed Abbou resigned after accusing the government of failing to combat corruption. The government granted a license to Islamist group Hizb al-Tahrir, allowing it to become a legal political party.

## YEMEN

UN Envoy Jamal Benomar said that a National Dialogue will start in November, while President Abd-Rabbuh Mansour Hadi announced a 25-member technical committee to prepare for the National Dialogue Conference. Further, protestors demonstrated in Sanaa and called for the ousting of corrupt government officials from the former regime. Tribesmen loyal to the former president occupied the Interior Ministry on July 29 demanding jobs in the police force. Also, a bomb killed a top security officer in Aden, while a suicide bomber killed at least 10 people at the Sanaa police academy. Government forces continued to target Qaeda-linked militants in the south, where at least five people were killed in an airstrike.

*Source: International Crisis Group*



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# OUTLOOK

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## TUNISIA

### Medium-term outlook depends on structural reforms

The International Monetary Fund projected Tunisia's real GDP growth at 2.7% in 2012 compared to a contraction of 1.8% in 2011. It said that risks to Tunisia's short-term outlook are to the downside, and include a worse-than-anticipated recession in Europe that would depress exports; an escalation of domestic social tensions that would affect foreign and domestic investment; and capacity constraints and delays in financing that could limit the fiscal stimulus plan. It pointed out that Tunisia's medium-term economic growth potential remains favorable, but that it requires a comprehensive package of structural reforms to promote private investment. It forecast real growth to gradually reach 6% by 2017 in a baseline scenario that assumes continued macroeconomic stability; improvement in governance and the business environment; reforms of the labor market and education system to address the labor skills mismatches; and a strengthening of the financial sector. It added that achieving higher growth will require the mobilization of large external financing, including FDI inflows and borrowing by the government and corporate sectors.

In parallel, the IMF considered that there is room for fiscal policy to support growth and employment in the short term, given the country's pressing economic and social challenges. But it emphasized that fiscal consolidation should resume over the medium term to preserve fiscal and debt sustainability, and stressed the need for a clear consolidation plan. It emphasized the need to control medium-term public expenditures, including the wage bill, and to reform the subsidy and pension systems. It said that the budget deficit widened to 3.5% of GDP in 2011 from 1.1% of GDP in 2010, and anticipated the deficit to reach 7% of GDP this year. The Fund projected Tunisia's current account deficit at 7% of GDP in 2012 relative to 7.3% of GDP last year. It also forecast official reserves at \$8.2bn at end-2012, equivalent to 4 months of imports of goods and services, compared to \$7.5bn at end-2011, or 3.8 months of imports of goods and services.

*Source: International Monetary Fund*

## NIGERIA

### Banking sector to face challenges in raising capital

Fitch Ratings expected the rapid credit growth in Nigeria's banking sector to continue in 2012 and 2013 after banks posted credit growth rates that ranged between 30% and 66% last year. It noted that the increase in lending follows two years of subdued loan growth because of the Nigerian banking crisis. It also anticipated non-performing loans to increase as lending growth moderates. It noted that the performance of Nigerian banks has been hampered by higher levels of impairments since 2009 as the economic consequences of the global financial crisis affected banks' asset quality. However, it said that the sale of problem loans to the Asset Management Corporation of Nigeria (AMCON) in 2010 and 2011 led to a significant reduction in NPLs, which improved banks' asset quality and maintained stability in the banking sector.

Further, it expected capital ratios to deteriorate over the medium-term due to rapid credit growth. It added that many Nigerian banks post thin levels of Core Capital, which are lower than the level appropriate for Nigeria's difficult operating environment. It said that banks' internal capital generation needs to be addressed, as the generous dividend policies demanded by investors are not conducive to sustainable loan book growth over the medium-term. It anticipated that many banks will face challenges in raising capital in light of the stock market's recent performance and the negative investor perception about the banking sector. Also, it pointed out that the individual banks' cost-to-income ratios are relatively weak across the sector. It noted that that improving efficiency will support earnings growth and will contribute to better internal capital generation and provide a buffer against the higher impairment charges that would result from the renewed trend of rapid credit growth. In parallel, the agency anticipated that banks with stronger franchises will be in a position to capitalize on their lower-cost funding base and achieve more dominant market positions, which would increase the sector's concentration.

*Source: Fitch Ratings*

## CÔTE D'IVOIRE

### Real GDP projected at 8% in 2012, debt relief to support economic recovery

Business Monitor International projected Côte d'Ivoire's real economic growth at 8% in 2012 compared to a government estimate of 8.2%, mainly due to a base effect driven by last year's 4.7% contraction in real GDP. It said that the government forecast economic growth to reach double digits in 2014 due to a surge in foreign investment and the reconstruction of the country's damaged infrastructure from the 2010-2011 conflict. But it noted that growth will fall below the authorities' expectations between 2013 and 2015 as the country still suffers from serious political, social and infrastructure challenges, and because its economy remains heavily based on agriculture. It expected the government's investment-focused Plan National de Developpement to help the country recover from the 2010-2011 post-electoral crisis, given that the plan would support infrastructure spending and strengthen growth. It noted that the three-year plan will cost \$20.7bn, of which 74% will support productive industries rather than establish expensive one-off recovery programs. The plan also stipulates that 13% of the funds will be spent on social services; 8% on justice and legal reforms as well as on defense, security and peace administration; and 5% will be disbursed on investments to improve the quality of life.

BMI considered that legal reforms constitute a very positive sign, as the country suffers from high levels of corruption and a weak business environment. It noted that the massive debt relief agreement signed between Côte d'Ivoire, the IMF and World Bank in June 2012 will allow for the financing of such high level of public spending. It anticipated that the enhanced fiscal capacity of the government, along with improved security conditions, to support a robust economic recovery. However, BMI warned that political risks remain and that political divisions will continue to pose a serious threat to policy-making.

*Source: Business Monitor International*



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# ECONOMY & TRADE

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## MENA

### IMF extends support to Jordan and Morocco

The International Monetary Fund approved a 36-month Stand-By Arrangement of \$2bn for Jordan to support the government's economic reforms program. It noted that Jordan is facing external and fiscal challenges from the impact of the interruption in gas supplies, higher oil prices, and regional unrest, which have all put pressure on the current account and pushed the deficits of the government and of the electricity company into double digits. The reforms will consist of short- and medium-term fiscal adjustment underpinned by expenditure and tax reforms, comprehensive reforms in the electricity sector, and structural reforms. The Fund expects these policies to justify the exceptional level of access to IMF resources, which is equivalent to around 800% of Jordan's quota in the Fund.

In parallel, the IMF approved a two-year \$6.2bn credit line for Morocco under the Precautionary Liquidity Line to protect the country against external risks linked to uncertainties in the Eurozone and potential oil prices increases. It noted that the arrangement will provide Morocco with an insurance policy for meeting immediate financing needs if external risks materialize. It pointed out that Morocco will have access to \$3.6bn in the first year and \$2.6bn in the second one. It said that the liquidity line is precautionary and that Morocco does not intend to use it unless the economy experiences actual balance-of-payments needs from a deterioration of external conditions.

*Source: International Monetary Fund*

## SYRIA

### Damages to agriculture sector at \$1.8bn

The Food and Agriculture Organization (FAO) estimated the total damages and losses incurred by the agricultural sector in Syria due to the ongoing crisis at \$1.79bn, including \$1.77bn in losses and \$28m in damages. It said that damages and losses to livestock amounted to \$989.5m, of which \$972m in losses and \$17.6m in damages; while damages and losses to crops totaled \$795.8m, including \$791m in losses and \$4.9m in damages. It added that damages to the irrigation system reached \$5.5m. It noted that agricultural damages and losses in the Damascus Governorate reached \$395.8m, or 22.1% of the total; followed by the Homs Governorate with \$390.5 (21.8%) and the Aleppo Governorate with \$248.7m (13.9%). In parallel, the FAO estimated Syria's agricultural short-term needs at \$477.6m for the next 12 months, of which \$350m in food assistance, \$91m in crops needs, \$33.8m in livestock shortfall and \$2.7m in irrigation needs. It noted that the \$350m in food assistance aims to support 3 million persons over next six months. Further, it said that Syria's immediate short-term life-saving and life-sustaining needs in food security amount to \$215m, of which \$177m in food assistance for 1.5 million persons during the next three months, \$19.7m in crops, \$16.5m in livestock and \$1.7m in livestock for vulnerable women who are head of households. The agriculture sector, including livestock, constitutes the mainstay of Syria's rural economy and accounted for 17% to 25% of Syria's GDP during the 2000-2010 period. The rural population represents about 46% of the country total population, of which 62% is reported to be below the poverty line.

*Source: Food and Agriculture Organization*

## SUDAN

### Juba and Khartoum reach oil deal

The governments of South Sudan and Sudan reached an agreement to resume the transport and export of South Sudanese oil through Sudan for 3.5 years. South Sudan said that it will pay \$8.4 per barrel in transportation tariffs through the Greater Nile Petroleum Operating Company terminal and \$6.5 per barrel in transportation fees through the Petrodar terminal at Port Sudan. It added that it will also pay \$1 per barrel in transit fees and \$1.6 per barrel in processing fees for both pipelines. As such, South Sudan pointed out that it will be paying on average \$9.48 per barrel of oil exported through Sudan and that payments will be made on a monthly basis. South Sudan said that the agreement can be renewed upon expiration at the same or lower fees. It noted, however, that it has already decided to build an alternative pipeline, which it expects to be up and running by the expiration of the new deal. Also, the agreement stipulates that South Sudan will not request compensation from Sudan for oil that has been transferred to the refineries, or sold or kept in reserves by Sudan in settlement of transit charges or services after its independence and prior to the agreement. In parallel, South Sudan announced that it will pay Sudan a one-off payment of \$3.03bn in transitional financial assistance during the agreement period. It considered that the amount is equivalent to one-third of Sudan's financial gap that resulted from the loss of South Sudan's oil reserves following the latter's independence. It said that the deal is part of other agreements under negotiations between the two sides that aim to address the outstanding security issues, disputed and claimed border areas, the final status of Abyei, and nationality issues.

*Source: Government of South Sudan*

## SAUDI ARABIA

### Optimism of non-hydrocarbon sector retreats

The D&B Business Optimism Index for Saudi Arabia indicated that the composite index for the non-hydrocarbon sector dropped to 37 in the third quarter of 2012 from 52 in the second quarter of 2012 due to expectations of seasonal slowdown in economic activity and uncertain global conditions. The survey revealed that 30% of respondents in the non-hydrocarbon sector expect the Eurozone crisis, the uncertain and uneven global economic recovery, and negative spillovers from trade linkage disruptions to impact their operations in the third quarter of the year. The index for expected sales dropped to 39 from 67 in the previous quarter, while the index for expected new orders fell to 52 from 65. Also, the expected profits index dropped to 37 from 54 in the preceding quarter; while the index for inventory levels decreased to 29 from 33. Further, the level of selling prices index declined to 15 from 24 quarter-to-quarter, while the number-of-employees index fell to 44 from 48. In parallel, the trade & hospitality index decreased to 31 from 50 in the second quarter of 2012. Also, the manufacturing index decreased to 39 from 54 in the previous quarter; the construction index retreated to 44 in the third quarter from 57 in the previous quarter; the finance, real estate & business services index fell to 36 quarter-to-quarter from 49; and the transport & communication index declined to 39 from 47 in the previous quarter.

*Source: Dun & Bradstreet*



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# BANKING

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## SYRIA

### Central Bank takes new currency-related measures

The Monetary Policy Committee (MPC) of the Central Bank of Syria (CBS) announced in July a series of measures to regulate the movement of local and foreign currency into and out of the country. The MPC indicated that there are no restrictions on carrying out transactions in foreign currency, including through credit cards, as long as such transactions are conducted through registered banks or exchange houses. It said that resident and non-resident Syrians are allowed to bring an unlimited amount of cash in local currency into the country, on the condition that the amount is properly declared to customs authorities at entry points. It limited the amount that resident and non-resident Syrians are allowed to take out of the country at SYP10,000 in banknotes, and prohibited non-resident foreigners from taking cash in local currency with them when exiting the country. Further, the MPC said that all persons entering Syria, except for transit passengers, are allowed to bring in a maximum of \$50,000 or their equivalent in other foreign currencies, and are required to declare the amount at customs. It limited to \$10,000 the amount that Syrians can take with them while leaving the country and to \$5,000 the amount that foreigners are allowed to carry upon departure. It said these limits can be exceeded if travelers have declarations showing that they brought with them a larger amount when entering the country.

Source: Central Bank of Syria

## MOROCCO

### Lending growth picks up in June, liquidity remains tight

Figures issued by Bank Al-Maghrib show that the total assets of the commercial banks in Morocco reached MAD1,100bn, or about \$125bn, at the end of June 2012, constituting a rise of 2.8% month-on-month, a growth of 5% from end-2011 and an increase of 11.6% from end-June 2011. The sector's aggregate loans totaled MAD709bn and increased by 3.2% from end-2011, while they rose by 3.5% from May and posted the strongest monthly growth since June 2008 due to a 10% monthly increase in working-capital-related lending. Also, total lending grew by 7.7% annually in June 2012, driven mainly by consumer lending which grew by 19% year-on-year, and by residential mortgages that increased by 11% annually. Investment-related lending in the corporate segment remained flat year-on-year, while working capital lending grew by 12% annually. The loans-to-deposits ratio stood at 102% at end-June 2012, up slightly from 100% in the preceding month. Liquidity in the Moroccan banking sector has been tight over the past three years, with loan growth outpacing deposit growth. Banks have overcome the slow pace of deposit growth in the past two year through short-term borrowing and the issuance of subordinated debt in the domestic market. Also, the sector's NPLs ratio stood at 4.92% in June 2012, remaining broadly unchanged since January 2009 and reflecting an increase in nominal NPLs.

Source: Bank Al-Maghrib, EFG Hermes

## GHANA

### Banks' capital adequacy solid, NPLs decline

The risk-weighted capital adequacy ratio of banks operating in Ghana reached 17.3% at the end of March of 2012 relative to 17.4% at the end of 2011 and 19.1% at end-2010, while the Tier One capital ratio stood at 15.5% at end-March 2012 compared to 18.6% at end-2010. The sector's core liquid assets regressed to 23.8% of total assets at end-March 2012 from 27.8% at end-2011 and 25.3% at end-2010. Further, credit accounted for 41.2% of total assets at end-March, relative to 37.8% at end-2011 and 40.1% at end-2010. Also, foreign currency deposits accounted for 32.2% of total deposits at end-March 2012 compared to 27.4% at end-2011 and 25.4% at end-2010; while foreign liabilities accounted for 3.4% of total liabilities at end-March compared to 4.7% at end-2010. The sector's non-performing loans reached 13.1% of total loans at end-March 2012, down from 14.1% at end of 2011 and from 17.6% at end-2010. Further, the sector's provisions-to-NPLs ratio regressed to 74.6% at end-March from 76.2% at end-2011 but rose from 70.6% at end-2010, while the loan provisions-to-gross loans ratio stood at 6.6% at end-March 2012 relative to 7.7% at end-2011 and 9.4% at end-2010. In parallel, banks' return on assets reached 4.3% at end-March 2012 on an annualized basis, up from 3.9% in 2011 and 3.8% in 2010; while their return on equity reached 24.2% at end-March 2012 annually, up from 19.7% in 2011 and 20.4% in 2010.

Source: International Monetary Fund

## INDIA

### Ratings on largest private banks affirmed

Fitch Ratings affirmed the long-term foreign currency (FC) Issuer Default Ratings (IDR) of ICICI Bank and Axis Bank (ABL) at 'BBB-' with a 'negative' outlook and maintained the banks' short-term FC ratings at 'F3'. It also affirmed the national long-term ratings of ABL and HDFC Bank (HBL) at 'Fitch AAA(ind)' with a 'stable' outlook. The agency said that the ratings on India's three largest private banks are driven by their standalone risk profiles. It attributed its decision to the franchise's strength of the three banks, as well as to the steady and consistent performance on various aspects of their credit metrics, particularly asset quality, funding and profitability. It noted that the banks' performance has relatively been better than similarly-rated peers. The agency pointed out that both the quantity and quality of the banks' capital reflect their absorption capacity when asset portfolios are stressed under adverse conditions. It noted that stress tests show that capital impairment for the three banks is zero to negligible in stress scenarios, and that HBL's ability to withstand stress is significantly higher than ABL and ICICI due to its robust margins, strong funding structure and loan book diversity. In parallel, Fitch said that the three banks will need to access the markets for capital before 2019 due to the implementation of Basel III requirements. It expected the Indian market to be particularly active between fiscal year 2016 and FY2018 as banks aim to meet the minimum requirements. It estimated that the three banks will collectively require close to \$12.5bn by FY2018.

Source: Fitch Ratings



# ENERGY / COMMODITIES

## Brent prices close to \$89 a barrel

Brent crude for September delivery rose by 26 cents to \$112.4 a barrel on August 9, while U.S. crude prices rose by 28 cents to \$93.6 a barrel. The increase in oil prices was mainly attributed to improvement in investor's risk appetite on signs that policy-makers from the United States, Europe and China could take action to revive global economic growth. Further, the U.S. Energy Information Administration stated that crude stocks declined more than expected, decreasing by 3.72 million barrels and above expectations of a 1.55 million barrels drop.

In parallel, crude imports rose by 221,000 barrels per day (b/d) week-on-week to 8.63 million b/d on August 8, but remain low after a big drop last week. Crude output fell by 102,000 b/d week-on-week to 6.22 million b/d on August 9, but increased by 689,000 b/d year-on-year. Also, distillate stocks fell by 724,000 b/d, against expectations of a 250,000 b/d rise to 123.5m b/d on August 8th.

Source: Citigroup, Thomson Reuters

## Total enters Kurdistan

International oil company Total S.A. became the third oil major after ExxonMobil and Chevron to acquire licenses in the Kurdistan region in Iraq. It will acquire two blocks, Harir and Safen, for an undisclosed amount, which are located in the north of Erbil. It will buy a 35% working interest in the two blocks from Marathon Oil, while the Kurdish regional government will hold onto its 20% stake, and Marathon retaining the remainder. The company's four Kurdish blocks contain a potential 1.6 billion barrels of oil equivalent.

Source: Business Monitor International

## Exports of diamonds from Armenia down 60.5% in first half of 2012

Armenia's exports of diamonds reached 85,600 carats in the first half of 2012, down by 60.5% from 216,700 carats in the same period of 2011. Also, the customs cost of exports dropped by 11.6% annually to \$40.4m in the first half of 2012. Armenia imports rough diamonds from Europe, the U.S. and Russia and exports cut diamonds mostly to the same countries. In parallel, Armenia's gold exports reached 1,120.9 kilograms in the first half of 2012, constituting a rise of 19.5% from the same period of 2011. The customs cost of the exported gold grew by 60.3% annually to \$35.1m in the first half of 2012.

Source: Customs Service of Armenia

## Value of petroleum projects in the Gulf at \$659bn in July

The Kuwait Financial Center said the total value of planned petroleum projects in the Gulf region is estimated at \$659.1bn in July 2012, down by around \$6.9bn from the previous month. However, it explained that the number of major petroleum projects planned over the next 10 years rose by nine projects during July to 651 projects. Also, it stated that Saudi Arabia is the leading Gulf country in terms of the number of planned petroleum sector projects, whereas in terms of cumulative value, Iran continues to lead.

Source: Arab News

## Base metals: Prices increase led by aluminum and tin

Base metal prices increased last week after a long period of weakness, as the euro strengthened. Prices rose between 1% and 3% week-on-week, with aluminum and tin showing particular strength. Three-month copper prices on the London Metal Exchange increased by 3.1% week-on-week to \$7,575 a metric ton on August 9th. Also, copper futures for September delivery on the Comex rose by 2.4% week-on-week to \$3.4 per pound.

In parallel, LME stocks suggest underlying tightness, despite worries about declining demand. Copper and lead stocks declined by 4% and 6% month-on-month on August 8, respectively, while zinc is down 0.2% month-on-month after a long upward trend. Nickel LME stocks increased by 12% month-on-month on August 8th. Mine production in Chile rose by 1.2% year-on-year in June 2012 and by 2.5% in the first half of 2012. In the near-term, Central Bank action especially in the Eurozone, is expected to keep prices on an upward track.

Source: Standard Chartered, Bloomberg

## Precious metals: Silver prices increase as US dollar weakens

Precious metal prices rallied in the past week and month on a weaker U.S. dollar, with silver leading the way higher. Gold prices continued to trend higher towards \$1,600 per ounce in early August. While China and India have remained important consumers, demand for gold is declining. China's imports of gold from Hong Kong declined by 68 tons in June, after peaking at 104 tons back in April. Further, China imported 380 tons of gold in the first half of 2012 and exported 127 tons. Gold prices are expected to trend higher over the medium term due to the Eurozone debt crisis and strong demand from Asia.

In parallel, the value of global gold ETF holdings increased by 1.4% to \$123.8bn in August 3 from July 20, 2012, due to a 0.2% increase in ETF net inflows, coupled with a 1.2% increase in gold prices to \$1,603 per ounce. Also, global silver ETF holdings increased by 3% to \$12.9bn between July 20 and August 3, 2012. The value of global platinum ETF holdings increased by 0.7% to \$1.88bn between July 20 and August 3, 2012, while that of palladium increased by 1.2% to \$1.07bn during the same period.

Source: Citigroup, Standard Chartered

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	1,557	1,800
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
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	BB	7.9	29.9	17.4	28.2	8.9	-	12.0	10.7
	Stable	Stable	Stable	-	Negative								
Egypt	B	B1	B+	BB+	CCC	-9.9	76.2	13.8	73.4	7.8	128.6	-1.9	2.4
	Negative	Negative	Negative	Negative	Stable								
Ethiopia	-	-	-	-	B	-2.1	39.4	-	165.9	-	-	-6.3	0.7
	-	-	-	-	Stable								
Ghana	B	-	B+	-	BB	-4.2	38.1	19.4	50.1	-	-	-6.5	7.7
	Stable	-	Stable	-	Positive								
Ivory Coast	-	-	-	-	CCC	-6.4	93.3	48.7	108.3	-	-	1.0	1.7
	-	-	-	-	Stable								
Libya	-	-	B	-	B	-	-	8.6	-	2.0	-	-	3.6
	-	-	Stable	-	Stable								
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
	Stable	-	Stable	Stable	Stable								
Nigeria	B+	-	BB-	-	B	0.4	15.7	5.0	12.4	0.4	-	13.5	2.6
	Positive	-	Stable	-	Stable								
Sudan	-	-	-	-	C	-2.8	78.2	61.0	301.6	-	4,825	-7.3	2.3
	-	-	-	-	Stable								
Tunisia	BB	Baa3	BBB-	BBB	B	-4.1	41.7	58.2	111.3	8.4	285.6	-5.7	3.2
	Stable	Negative	Negative	Stable	Stable								
<b>Middle East</b>													
Bahrain	BBB	Baa1	BBB	BBB+	BB	-7.7	34.2	75.3	66.1	8.2	340.9	12.6	-0.9
	Negative	Negative	Stable	Negative	Stable								
Iran	-	-	B+	BB-	CCC	2.4	9.2	3.0	10.9	2.1	14.3	7.8	0.8
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CCC	-8.7	42.3	37.1	53.2	-	72.4	-0.9	1.7
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	CCC	-6.1	68.5	23.8	53.4	5.1	59.8	-6.7	6.4
	Negative	Negative	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	23.6	4.5	26.0	41.7	7.0	184.3	33.5	-1.5
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B1	B	B	CCC	-8.3	134.0	158.0	264.7	14.7	208.5	-14.1	11.2
	Negative	Stable	Stable	Stable	Stable								
Oman	A	A2	-	A	A	10.9	4.0	12.3	17.2	-	59.0	14.5	2.9
	Negative	-	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	7.7	38.2	70.1	115.5	7.8	703.9	32.6	2.9
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	9.4	7.1	18.0	30.1	2.1	19.7	20.6	5.4
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	CC	-11.0	27.5	11.0	36.8	-	43.6	-6.1	2.4
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	BB	5.8	18.5	44.4	53.5	7.2	293.3	10.3	0.6
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	CC	-7.1	42.9	18.0	58.4	-	244.4	-5.3	-1.3
	-	-	-	Negative	Stable								

# 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	01-Aug-12	No change	13-Sep-12
Eurozone	Refi Rate	0.75	02-Aug-12	Cut 25bps	06-Sep-12
UK	Bank Rate	0.50	02-Aug-12	No change	06-Sep-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	26-Jul-12	No change	12-Sep-12
Switzerland	3 month Libor target	0.00	14-Jun-12	No change	13-Sep-12
Canada	Overnight rate	1.00	17-Jul-12	No change	05-Sep-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	01-Aug-12	No change	13-Sep-12
Taiwan	Discount Rate	1.88	21-Jun-12	No change	27-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	25-Jul-12	No change	05-Sep-12
India	Reverse repo rate	8.00	31-Jul-12	No change	17-Sep-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	26-Jul-12	No change	16-Aug-12
South Africa	Repo rate	5.00	19-Jul-12	Cut 50bps	20-Sep-12
Kenya	Central Bank Rate	16.50	Aug-12	Cut 150bps	01-Sep-12
Nigeria	Monetary Policy Rate	12.00	24-Jul-12	No change	19-Sep-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	20-Jul-12	No change	07-Sep-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	0.08	01-Aug-12	Cut 8bps	N/A
Kazakhstan	Refi Rate	5.50	06-Aug-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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