

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

MENA

Equity markets up 5% in first nine months of 2012

Arab stock markets increased by 5.2% and GCC equity markets rose by 4.9% in the first nine months of 2012 compared to drops of 14.1% and 10.6%, respectively, in the same period last year. Activity on the Egyptian stock market increased by 60.7% in the first nine months of 2012 and posted the best performance among Arab markets during the covered period. It was followed by the Dubai financial market with a 16.7% increase, Saudi Arabia's stock exchange with a 6.6% rise, the Abu Dhabi equity market with an 8.5% growth, the Tunis exchange with a 5.1% improvement and the Kuwait bourse with a 2.9% rise. In parallel, the Casablanca equity market dropped by 14.1% in the first nine months of 2012 and posted the worst performance among Arab stock markets. It was followed by the Iraqi stock exchange with a 13.6% drop, the Palestine equity market with a 6.5% retreat, the Damascus financial market with a 6.1% fall, the Beirut stock exchange with a 5.2% decrease, the Bahrain bourse with a 5% drop, the Amman stock exchange with a 4.6% contraction, the Doha bourse with a 3.1% decline and the Muscat equity market with a 2.8% decrease. In comparison, emerging market equities rose by 9.6% and global equities grew by 10.7% in the first nine months of the year. Arab stock markets rose by 0.2% in September compared to an increase of 3% for global equities and a rise of 6% in emerging market equities.

Sources: *Dow Jones Indices, Byblos Research*

Country risk level in Arab world improves in third quarter of 2012

Euromoney magazine's quarterly survey on global country risk shows that risks in the Arab world slightly declined, as the average score of 19 Arab economies reached 41.5 points in the third quarter of 2012, a marginal improvement from 41.1 points in the second quarter of the year. But, the region's risks remain higher than the global risks level that averaged 42.3 points in the third quarter. The GCC countries' average score increased to 65.1 points from 64.6 points in the second quarter, while the average score of non-GCC Arab countries improved marginally to 30.6 points from 30.3 points in the preceding quarter. The Arab world's Political Risks score was 12.2 points and improved slightly quarter-to-quarter, but remained below the global average of 13.9 points; while the Economic Performance score was 13.9 points, better than the global average of 13.3 points. Further, the region's Credit Ratings averaged 3.2 points, relative to the global average of 3.22 points; while the Access to Bank Capital & Capital Markets score improved to 3.9 points and was similar to the global score. Qatar is the country with the best country risk ratings in the Arab world and ranked in 17th place globally, followed by Kuwait (25th), Oman (29th), Saudi Arabia (32nd) and the UAE (36th); while the lowest-ranked countries in the region are Mauritania that came in 155th place worldwide, Syria (160th) and Djibouti (180th).

Sources: *Euromoney, Byblos Research*

Public governance in Arab world regresses in 2011

The World Bank's annual World Governance Indicators for 2011 show that the scores of 20 Arab countries regressed on five out of six governance indicators included in the survey and improved on one other. The indicators cover 214 countries and territories worldwide and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes. Arab countries received a score of -0.37 points on the Government Effectiveness indicator which measures the competence of the bureaucracy and the quality of public service delivery, down from -0.30 points in 2010. The region's score was worse than that of East Asia & Pacific (EAP) (-0.06), Latin America & Caribbean (LAC) (0.22), Europe & Central Asia (ECA) (0.62) and North America (NA) (1.42), but better than that of South Asia (SA) (-0.47) and Sub-Saharan Africa (SSA) (-0.75). The UAE had the most effective government among Arab countries with a score of 0.95 points, followed by Qatar (0.83) and Bahrain (0.65), while Iraq, Sudan and Libya came last. In parallel, Arab countries received a score of -0.40 points on the Control of Corruption indicator, down from -0.30 points in 2010. The region's average score was only better than that of SSA (-0.6) and SA (-0.65). The UAE, Qatar and Bahrain were the least corrupt countries, while Iraq, Sudan and Libya were the most corrupt in the region.

Sources: *World Bank, Byblos Research*

SUDAN

Khartoum and Juba reach agreement on border and security issues, oil deal cleared

Sudan and South Sudan reached a cooperation agreement on border issues, as well as on trade and the status of nationals, which clears the way for the implementation of the oil deal reached earlier this year. The two sides had agreed last August on the terms of the resumption of oil shipment and exports, but the deal was contingent on addressing outstanding security issues, disputed and claimed border areas, the final status of Abyei, and nationality issues. The oil deal is for 3½ years and allows South Sudan to transport and export its oil through Sudan's energy infrastructure. In exchange, South Sudan 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 will also pay \$1 per barrel in transit fees and \$1.6 per barrel in processing fees for the use of the two pipelines. As such, South Sudan said that it will be paying on average \$9.48 per barrel in transit fees for oil exported through Sudan and that payments will be made on a monthly basis for a period of 42 months. Also, Juba will pay Khartoum a one-off payment of \$3.03bn in transitional financial assistance during the agreement period. South Sudan intends to resume oil production by the end of this year. In parallel, the security arrangements stipulate the establishment of a demilitarized buffer zone along the shared border, but the two countries failed to reach an agreement on the disputed Abyei region and several other contested areas.

Source: *IHS Global Insight, Thomson Reuters*

POLITICAL RISK OVERVIEW - SEPTEMBER 2012

EGYPT

More than 3,000 protesters demonstrated outside the U.S. embassy in Cairo on September 11 over an anti-Islam film. Egypt's prosecutor's office issued an arrest warrant on September 18 for seven Egyptian Coptic Christians and a U.S. pastor for their alleged role in the film's production on charges of harming national unity and insulting Islam. Mubarak-era Prime Minister and presidential candidate Ahmed Shafiq was referred to trial on corruption charges. President Mohammed Mursi endorsed a regime change in Syria at an Arab League summit on September 5th.

IRAN

The International Atomic Energy Agency expressed serious concern about Iran's uranium enrichment. The Iranian nuclear chief Fereydoun Abbasi-Davani admitted on September 20 that the government submitted false data on its nuclear program to mislead foreign intelligence. Iran and North Korea signed a cooperation deal in various science and information technology fields. The deputy nuclear chief Mohammad Ahmadian reported that the Bushehr nuclear power plant is operating at full capacity. The Canadian government announced the closure of its embassy in Iran. The head of the Revolutionary Guards, General Mohammad Ali Jafari, said that elite Quds Force members are providing non-military assistance in Syria.

IRAQ

The Iraqi court sentenced Vice President Tariq al-Hashemi in absentia to death for masterminding two murders. The Trade Ministry stopped registering Turkish companies over Turkey's refusal to hand over al-Hashemi. The government ended the oil payment dispute with the Kurdistan Regional Government following a pledge to continue exports. The government closed the border at al-Qaim town after rockets were fired from Syria, and it then reopened it to Syrian refugees while refusing the entry of young men for security concerns.

DEM REP CONGO

A regional summit on the DRC conflict agreed to deploy neutral forces to combat M23 rebels. The UN peacekeeping chief Herve Ladsous told the UN Security Council that M23 rebels have established a de facto administration in the east. The government began the integration of 800 Front for Patriotic Resistance of Ituri forces into the Armed Forces of the DRC. The UN Secretary General Ban Ki-Moon expressed concerns over continued reports of external support to M23. The government continued to lobby the international community to impose sanctions on Rwanda for its role in supporting M23 rebels.

LIBYA

The U.S. ambassador Chris Stevens and three other Americans were killed in a September 11 attack on the U.S. consulate in Benghazi. The army ordered unauthorized armed groups in and around Tripoli to leave Benghazi and vacate seized military premises. Thousands of demonstrators marched in Benghazi on September 21 in support for democracy, while calling on the government to split up militias. Islamists' anti-aircraft fire targeting drones forced the government to temporarily close the airspace over the Benghazi airport. The General National Congress selected Mustafa Abu Shagour as Prime Minister and issued an ultimatum to name a new Cabinet by October 8th.

SOUTH SUDAN

South Sudan signed a deal with Sudan on a demilitarized zone and oil transit fees, without reaching an agreement on the disputed Abyei region. The government issued a revision of the oil-exploration rights on September 14, dividing Total's license area into three blocks citing Total's failure to accelerate exploration.

SUDAN

UN Security Council President Peter Wittig expressed his concern over a humanitarian crisis in South Kordofan and the Blue Nile. South Kordofan's governor accused the UN, the African Union and the Arab League of obstructing the implementation of the tripartite agreement on humanitarian aid. The U.S. evacuated non-essential staff following the government's refusal to allow the deployment of U.S. special forces to secure Khartoum's embassy in face of violent protests over anti-Islam film. Sudan Armed Forces continued to clash with Sudan People's Liberation Movement-North rebels in South Kordofan.

SYRIA

Casualties and displacement continue to rise as fighting between the Free Syrian Army (FSA) and the Syrian military escalates, with regime forces conducting large-scale military operations and bombing raids on opposition-controlled areas. The UN Human Rights Council Commission of Inquiry reported that the regime's gross violations of human rights significantly increased throughout late August and early September with random attacks against civilians occurring daily. The Human Rights Watch accused the Syrian opposition groups of committing war crimes including torture and execution of prisoners. The UN/Arab League envoy Lakhdar Brahimi met with interlocutors, including President Bashar al-Assad throughout the month. The Opposition National Coordination Body for Democratic Change called for a Syrian regime overthrow at a meeting in Damascus attended by Iranian, Russian, and Chinese diplomats; while stating its opposition to the violent uprising and foreign military intervention.

TUNISIA

An attack on the U.S. embassy and on an American school in Tunis over a controversial anti-Islam film killed four people and injured 46 others. Hundreds of people demonstrated on September 20 against the violence. The government banned all demonstrations on September 21st.

YEMEN

The U.S. sent a platoon of marines to Yemen following the September 13 attack on the U.S. embassy compound in protest over the anti-Islam film. Al Qaeda in the Arabian Peninsula urged Muslims to protest and kill U.S. diplomats. The month saw several assassination attempts of Yemini officials. A U.S. drone killed six suspected Islamist militants in Hadramut province. The gas pipeline feeding the country's only gas export terminal was sabotaged on September 25th. Maarib's oil pipeline explosions was blamed on Islamist militants. President Abed Rabbo Mansour Hadi said that the government is ready for a dialogue with al-Qaeda militants. The government announced on September 19 an investigation into alleged rights' violations during the 2011 uprising.

Source: International Crisis Group



OUTLOOK

SUDAN

Non-oil GDP to contract by 5% in 2012, external debt to jump to 85% of GDP

The International Monetary Fund projected Sudan's real GDP to contract by 11.1% in 2012 and 0.6% in 2013 compared to a contraction of 3.3% in 2011, with non-oil output contracting by 5.1% in 2012 and 1.4% in 2013 relative to a growth rate of 3.4% in 2011. It said that the independence of South Sudan on July 9, 2011 led to the loss of a sizeable portion of Sudan's economic potential, and resulted in the challenge of adjusting to a permanent fiscal and external shock. It expected the inflation rate to average 28.6% in 2012 and 17% in 2013 compared to 18.3% in 2011. Further, it noted that Sudan's fiscal position weakened in the first half of the year as government revenues under-performed by around 30%, reflecting the delay in agreeing with South Sudan on oil transit fees, compared to an execution rate of 95% for spending. It forecast the country's fiscal deficit to widen to 3.7% of GDP in 2012 and 3.2% of GDP in 2013 relative to a deficit of 1.3% of GDP in 2011. Also, it estimated total external debt to reach \$43.7bn at end-2012 and \$45.6bn at end-2013 and to increase from 65% of GDP in 2011 to 85% of GDP in 2012 and 96.7% of GDP in 2013. It projected the current account deficit to widen to 7.4% of GDP in 2012 and 6.5% of GDP in 2013 from 0.5% of GDP in 2011. It pointed out that pressure on the Sudanese pound increased significantly this year, which led to premium on the US dollar above 100% by end-June 2012. It projected gross foreign currency reserves at \$1.1bn at end-2012 and \$1.2bn at end-2012, equivalent to 1.5 months and 1.6 months of import cover, respectively.

In parallel, the IMF indicated that the government's reform package approved in June 2012 constitutes a positive step towards restoring macroeconomic stability and addressing Sudan's macroeconomic imbalances. It added that expanding structural reforms such as reforming the civil service, restructuring the banking sector, privatizing state-owned enterprises, and improving governance, will help address the structural challenges facing the economy. Further, it recommended the removal of remaining fuel subsidies, restraining public-sector wages, and improving public expenditure management. Also, the Fund stressed the importance of reforms to improve the business climate and boost private sector-led growth.

Also, the IMF encouraged the Central Bank of Sudan (CBoS) to improve the effectiveness of monetary policy and to refrain from monetizing the fiscal deficit. It considered that further monetary tightening is needed given high inflation levels and exchange rate pressures. It called for discontinuing the CBoS gold-trading operations, unifying the official foreign exchange rates, and pursuing greater exchange rate flexibility.

Source: International Monetary Fund

ARMENIA

Economy to grow by 6.2% in 2012

The International Monetary Fund revised upward its projections for Armenia's real GDP growth to 6.2% in 2012 due to a positive harvest and dynamic mining and services sectors. But forecast growth to moderate to 4.3% in 2013 as the economy returns to trend and given economic conditions in Europe and Russia.

It said that inflation remains moderate driven by the agricultural rebound and a sound policy framework, and expected it to meet the Central Bank of Armenia's (CBA) target inflation of 4% with an upward or downward margin of 1.5% during the remainder of 2012. It noted that the CBA showed high commitment to a flexible exchange rate and to the inflation-targeting regime. It added that the CBA continues to improve its monetary policy and risk monitoring tools, especially those associated with foreign currency lending. It pointed out that an external shock at the beginning of the second quarter of 2012 led to a significant intervention by the CBA in the foreign exchange market to prevent excessive volatility.

The IMF indicated that Armenia's fiscal balance continues to improve, with the deficit expected to narrow to around 2% of GDP in 2012 and to widen moderately to 2.6% of GDP next year due to the implementation of large capital projects. Further, it said that structural reforms are progressing but at a slower-than-desirable pace. It noted that a homogeneous set of regulations for all businesses in Armenia, including in the key area of tax administration, would be an important improvement in the business environment.

Source: International Monetary Fund

AFRICA

Worsening Eurozone crisis to affect African economies

Moody's Investors Service expressed concerns that a worsening of the Eurozone crisis would affect the performance of African economies, given that Africa's exposure to Europe is through trade links, capital flows and banks flows. First, the agency said that trade constitutes the key transmission channel of risk, as Europe remains Africa's main trading partner. It noted that the impact of a deeper-than-expected economic contraction in the Eurozone would affect North Africa the most, given its high trade exposure to the EU that amounts to nearly 50% of North African trade. It noted that East Africa would be the least affected through the trade channel given that less than 15% of the region's total exports are linked to Eurozone countries.

Second, it said that the susceptibility of Africa's capital flows to event risk is high as demonstrated by the net portfolio outflows of \$40bn during the global financial crisis in 2008. It noted that the risks associated with an intensification of the crisis in Europe would potentially lead to similar outflows and, in turn, to currency depreciation and foreign-exchange volatility that would challenge governments' monetary management. But it anticipated that multinational development banks would likely intervene to alleviate the negative effect of capital outflows in the event of a severe financial scenario. Third, it expected Africa's access to external liquidity to be negatively affected, given that European banks are the main providers of external liquidity to African banking systems. It said that Sub-Saharan Africa and North Africa are more exposed to European financial volatility compared to other emerging markets, given their large exposures in terms of European banks' foreign claims.

Source: Moody's Investors Service



ECONOMY & TRADE

MENA

Insurance firms shifting investment strategies

Insurance-rating agency A.M. Best indicated that MENA insurers have historically tended to adopt aggressive investment strategies, with a high concentration of assets invested in equities and real estate markets. It noted that the strategy of companies and shareholders has been to achieve high returns through investment activity rather than through prudent underwriting. It added that investment portfolios have been concentrated in a limited number of classes, with holdings in a few major companies, indicating the generally low level of diversification within some insurers' asset profile. It said, however, that a number of companies have adopted a more prudent investment policy over the past few years by de-risking from volatile assets such as equities and real estate, with a shift towards a more liquid investment portfolio. It added that this should generate a steady income stream to supplement underwriting activities. Further, it noted that regulators' actions to introduce stricter guidelines should expedite requirements for a more prudent allocation of investments.

Source: A.M. Best

UAE

Abu Dhabi to post fiscal surplus of 2.8% of GDP in 2012

Merrill Lynch expected the Emirate of Abu Dhabi's fiscal balance to shift to a surplus of 2.8% of GDP in 2012 compared to a deficit of 4.1% of GDP in 2011, constituting the first fiscal surplus since 2008 and the smallest one since 2004. It noted that exceptional support to Dubai, to banks and to government-related entities (GREs) in 2009 led to the near quadrupling of Abu Dhabi's fiscal breakeven price from \$33 p/b in 2007 to a peak of \$121 p/b in 2009. It added that the emirate's fiscal balance posted a deficit of 21.8% of GDP in 2009, its steepest deficit since at least 1980, with the deficit narrowing moderately to 10.8% of GDP in 2010 and 4.1% of GDP in 2011. It said the accumulated deficits of \$60bn were covered by transfers from the Abu Dhabi Investment Authority. It estimated Abu Dhabi's fiscal breakeven price at \$103.5 per barrel in 2012.

Merrill Lynch indicated that total expenditures and grants increased by an average of 20% annually over the 2009-11 period, with on-budget capital expenditures doubling in 2009 to AED28bn, or 5.2% of GDP, but they have remained stable since then. It attributed the increase in total expenditures partly to higher current spending and largely to the increase in net loans and equity extended over the 2009-11 period. It noted that net loans and equity stood at AED88bn at end-2011, equivalent to 11% of GDP, and grew by 4.5 times from their 2007 level. It added that such spending includes direct additional budgetary transfers to Dubai estimated at AED33bn over the 2009-11 period, as well as building and housing loans, and equity or capital injections in GREs.

Source: Merrill Lynch

IRAQ

Fiscal balance highly sensitive to oil prices

Citigroup indicated that Iraq's budget is the most vulnerable to a negative oil price shock among the region's oil exporters. It estimated that a \$10 per barrel (p/b) drop in global oil prices would lead to the deterioration in Iraq's budget balance equivalent to 9% of GDP, the sharpest change in the region and compared to an average drop for the region of between 3% of GDP and 4% of GDP. As such, it noted that an average global oil price of \$89 p/b in 2013 rather than the projected \$99 p/b would lead to a fiscal deficit in Iraq of between 7% of GDP to 8% of GDP instead to a projected surplus of about 2% of GDP for the year. It pointed out that this sensitivity level is unusual among the region's oil exporters and underlines the fragility of Iraq's public finances. However, Citigroup expected Iraq's public finances to remain robust during the 2012-13 period despite conservative levels of oil production and prices. It anticipated that Iraq will maintain a fiscal surplus of 5.5% of GDP in 2012, 1.8% of GDP in 2013 and 0.2% of GDP in 2014 despite rising government spending on infrastructure. It forecast the budget to come under pressure by 2015 and to post a deficit of 4.6% of GDP in 2015 and 7.9% of GDP in 2016. But it considered that deficits do not represent a major fiscal challenge given the government's flexibility in both its expenditures and financing options.

Source: Citigroup

GHANA

Sovereign ratings affirmed, outlook stable

Fitch Ratings affirmed Ghana's long-term foreign and local currency Issuer Default Ratings (IDR) at 'B+' with a 'stable' outlook. It also affirmed the sovereign's short-term foreign currency IDR at 'B' and Country Ceiling at 'B+'. It attributed its decision to Ghana's robust economic performance, strong growth outlook, good governance record, and favorable business environment. It noted that gas production will lower the cost of electricity and improve competitiveness, while oil revenues would support the country's public and external balance sheets over the medium-term. It pointed out that the cedi started to stabilize in the second half of 2012, following a 30% depreciation in the first half of the year, and was supported by Bank of Ghana's (BoG) policy intervention as well as foreign demand for domestic bonds. It noted that Ghana's fiscal track record is weak and that containing spending ahead of the December 2012 elections will require strong political will. It indicated that the country's external position remains vulnerable due to high and persistent current account deficits and low external liquidity. It added that foreign currency reserves have deteriorated to 2.4 months of import cover due to the BoG's decision to intervene in the currency market in early 2012. As such, it said that the BoG's ability to intervene in the foreign exchange market would be limited in the event of significant cedi depreciation. It noted that the BoG has little scope to build substantial reserves due to the country's large current account deficit. It considered that the risks for the sovereign consist of continued policy mismanagement, a depreciation of the currency, loss of reserves, and the lack of a credible fiscal strategy after the elections.

Source: Fitch Ratings



BANKING

JORDAN

Slowdown in deposit growth and lending to continue

Business Monitor International expected credit growth in Jordan's banking sector to slow to 6% in 2012 relative to an annual growth of 10.5% in July 2012. It said that the country's growing fiscal deficit led to banks increasing their holdings of low-yielding government debt instruments, which left fewer resources available for lending to the private sector. It noted that increased government borrowing is weighing on banks' asset allocation decisions, with the sector's stock of government securities growing by an average of 35% annually since January 2012. It indicated that the Central Bank of Jordan (CBJ) recently announced that it will initiate open market operations through the buying of government securities from banks in an effort to enhance liquidity across the sector. But it noted that such moves are not likely to be sufficient to avoid a broader slowdown in lending to the private sector, as the CBJ's room to loosen its policy is limited by the pressure on the dinar's peg to the US dollar. In parallel, it pointed out that deposit growth fell to an eight-year low of 6.7% year-on-year in July 2012 compared to growth of 10.5% year-on-year in July last year, and forecast the downward trend to continue for the remainder of the year. Also, it said that banks operating in Jordan are unwilling to expand their balance sheets through an increase in lending due to high risk aversion and continued concerns over asset quality. As such, it expected the trend of weak deposit growth and conservative lending to continue over the coming months.

Source: *Business Monitor International*

SAUDI ARABIA

Banking sector performance lagging economic growth

Citigroup indicated that banking penetration in Saudi Arabia, measured by the asset-to-GDP ratio, fell to 66% at end-July 2012 from 97% at end-2011 and 69% at end-2001. It attributed the decrease in banking penetration to the fact that asset growth has significantly lagged GDP output. It added that the underperformance of the banking sector is reflected on both the assets and liabilities' sides. It noted that lending, which accounts for 59% of the sector's total assets, has been sluggish due to the relatively weak growth in time & saving deposits in a low interest rate environment. It added that sector's deposit stock, which is equivalent to 71% of the sector's total assets, has been steadily growing since 2009 but continued to lag nominal GDP growth. In parallel, it said that the Kingdom's banking sector remains under pressure from declining margins, in addition to the challenge of trying to keep pace with GDP growth. But it noted that Saudi banks have been able to match the decline in interest rates by controlling their funding costs, which helped contain the level of margin compression over the years. It anticipated that banks will have to develop their asset yields or increase their risk assets at a faster pace in order to be protected against continued margin erosion. But it said that asset yields expansion will be very challenging in a declining rate environment.

Source: *Citigroup*

KUWAIT

Annual loan growth at 6% in August, Central Bank cuts lending rate

Figures issued by the Central Bank of Kuwait show that total assets of commercial banks reached KD46.7bn at the end of August 2012, increasing by 6% from end-2011 and rising by 9.9% from end-August 2011. Lending to the private sector reached KD26.6bn at end-August 2012, constituting a 1% increase from the preceding month and a 5.5% rise from end-August 2011. Credit growth was mainly driven by the retail and corporate segments that grew by 1.4% and 1.1% month-on-month, respectively. Retail lending remained the fastest growing segment and posted a 12% year-on-year growth, compared to a 4.5% rise in corporate lending. Credit to financial institutions continued to contract, as it declined by 19% year-on-year. Also, the sector's aggregate deposits totaled KD32.9bn at end-August 2012, rising by 1.6% from the previous month, by 7.5% from end-2011 and by 12% from end-August 2011. Deposits grew by 7.5% year-on-year and were mainly driven by private sector deposits that account for 83.6% of the total. The loans-to-deposits ratio fell to 81% in August 2012, from 81.5% in the previous month. In parallel, the Central Bank of Kuwait reduced its discount rate by 50 basis points to 2%, constituting the first cut since February 2010 and bringing the lending rate down to its lowest level in over 10 years. The repurchase rates, or benchmark deposit rates, were left unchanged. The rate cut aims to support private sector credit growth and non-oil activity.

Sources: *Central Bank of Kuwait, EFG Hermes*

IRAN

Currency to depreciate further

Business Monitor International considered that the recent fall in the value of the Iranian rial in black market transactions is a symptom of an increasing loss of confidence in the currency, which has been accompanied by spiking inflation and difficulties in getting hold of foreign currency due to the international sanctions on the hydrocarbon and financial sectors. It noted that the currency hit an all-time low on the black market on October 2 when it traded at IRR37,500 to the US dollar, constituting a 26.7% drop compared to two days earlier, and well below the rate of IRR18,000 per dollar in January. It noted that Iran's foreign currency reserves are being depleted due to reduced oil revenues from international sanctions on the hydrocarbon sector, slowing foreign investment, and increasing capital outflows. It added that the credibility of the authorities fell sharply as a result of the recently failed attempt to reign in the crisis, and further initiatives by the Central Bank of Iran are unlikely to restore confidence in the currency. It expected the currency to depreciate in the black market to IRR65,000 per dollar over the coming quarters. It added that continued rial weakness will trigger upside inflationary pressures, which will significantly erode Iranians' purchasing power.

Source: *Business Monitor International*



ENERGY / COMMODITIES

Brent oil prices to reach \$103 per barrel in 2013

Brent crude oil prices are projected to average at \$111.8 per barrel (p/b) in 2012, constituting an increase of 0.5% from \$111.2 p/b in 2011, and to decrease to \$103.4 p/b in 2013. Also, WTI crude oil prices are expected to average at \$95.7 p/b in 2012, constituting an increase of 0.8% from \$94.9 p/b in 2011, and to decrease to \$92.6 p/b in 2013. The global oil market remains significantly vulnerable to supply disruption, due to uncertainties in the Middle East region and the unfolding uncertainties surrounding the disruption of the petroleum sector due to western sanctions on Iran. Overall, prices of Brent ICE futures decreased by 2.3% in September to \$112.2 a barrel, and prices of WTI NYMEX Futures declined by 4.3% to \$92.6 a barrel in September.

In parallel, U.S. crude imports rose by 511,000 million barrels per day (b/d) from the preceding week to about 8 million b/d; while U.S. crude output increased by 11,000 b/d on a weekly basis to 6.5 million b/d, the highest level of U.S. production since December 1996. Also, distillate stocks in the U.S. dropped by 3.7 million barrels, against expectations of a 400,000 barrels rise on October 3rd.

Sources: Citigroup, U.S. Energy Information Administration

Iran to export natural gas to Iraq by mid-2013

Iran expects to begin exporting its natural gas to Iraq by summer 2013. Iran has completed more than 25% of the pipeline that will carry 25 million cubic meters per day of natural gas to Iraq. Iranian contractors will help build the Iraqi section of the pipeline. The cost of the pipeline is estimated at \$450m. Iran has the world's second-largest gas reserves after Russia, but the expansion of its gas fields has been disrupted by the international sanctions targeting its energy sector.

Source: Thomson Reuters

Japan's Iranian oil imports to drop by 30%

Japan's crude oil imports from Iran are expected to drop by 30% for the rest of 2012 compared with a year earlier. Japan, the world's third-biggest oil consumer, imported 101,035 barrels per day (b/d) of crude from Iran in August 2012, down 66.8% from a year earlier. The August drop in oil imports was attributed to certain shipping arrangements. Japan had a one-month interruption in oil receipts in July due to the implementation of European Union sanctions imposed on Tehran. Japan expected its oil purchases from Iran in 2013 to depend on the geopolitical and economic situations at that time.

Source: Thomson Reuters

Iraqi oil exports at highest level in three decades

Iraq's oil exports rose to an average of 2.6 million barrels per day (b/d) in September 2012, up 1.4% from 2.5 million b/d in the preceding month, which constituted the highest export level posted in the country in more than three decades. Iraq's oil production reached a record of 3.2 million b/d in September 2012, overtaking Iran as OPEC's second biggest oil producer. Iraq's exports rose in September after an end to the oil payment dispute between Iraq's central government and Kurdistan's regional government. Iraqi exports revenue for September totaled \$8.4bn at an average price of \$107 a barrel.

Source: Thomson Reuters

Base Metals: Zinc prices to rise in 2013

Global refined zinc supply is projected to reach 13 million tons in 2012, constituting a decrease of 0.8% from 13.1 million tons in 2011, and to increase to 13.6 million tons in 2013. Chinese refiners have reduced their production mainly due to the metal's weak global consumption. In parallel, global zinc demand is expected to reach 12.4 million tons in 2012, constituting a decrease of 0.3% from 12.5 million tons in 2011, and to rise to 13.2 million tons in 2013. Global zinc demand remain weak as China's economic slowdown continues, and activities in the Chinese real estate, automotive and domestic appliance sectors contract. Further, global zinc consumption is expected to decline by 0.3% in 2012 from a growth of 0.2% in 2011, and to grow by 5.6% in 2013. Also, overall global zinc production is forecast to contract by 0.8% in 2012 from a growth of 1.4% in 2011, and to grow by 4.9% in 2013. Global zinc prices are projected to average at \$1,955 a metric ton in 2012, constituting a drop of 11.6% from \$2,212 a metric ton in 2011; and to rise to \$2,040 a metric ton in 2013.

Source: Citigroup

Precious Metals: Silver output to increase in 2013

Global silver production is projected to reach 1,107 million ounces in 2012, constituting an increase of 6.4% from 1,040 million ounces in 2011, and to increase to 1,129 million ounces in 2013. Global silver demand and supply are expected to balance in 2012. Total silver fabrication is expected to reach 889 million ounces in 2012, equivalent to 80.3% of global silver demand with industrial goods accounting for 490 million ounces or 55.1% of total silver fabrication, and jewellery products for 156 million ounces (17.5%). It would be followed by coins & medals with 122.5 million ounces (13.8%), photographic purchases with 61.2 million ounces (6.9%) and silverware with 42.3 million ounces (4.8%). Silver and gold prices are expected to outperform other precious metals in the near-term, as excess liquidity from global monetary easing measures works its way through the global financial system and as investors look to hedge inflation. Overall, the prices of silver rose by 10.2% in September to \$34.7 an ounce on September 30, while that of gold increased by 4.9% to \$1,771 per troy ounce. Global silver ETF holdings stood at \$16.5bn in the third week of September. Silver prices are projected to average \$31.6 an ounce in 2012, constituting a decline of 10.5% from \$35.3 an ounce in 2011; and to drop to \$31 an ounce in 2013.

Sources: Citigroup, Byblos Research

Global Commodity Outlook				
(3-months LME, \$/ton)	2012e	2013f	2014f	2015f
Aluminum	2,060	2,100	2,175	2,250
Copper	7,965	7,965	7,775	7,500
Lead	2,060	2,090	2,200	2,250
Nickel	18,360	21,770	24,400	24,000
Tin	21,265	22,750	22,875	25,000
Zinc	1,955	2,040	2,125	2,220
(Spot price, \$/ounce)				
Gold	1,680	1,749	1,655	1,540
Palladium	649	744	925	925
Platinum	1,557	1,675	1,775	1,825
Silver	31.6	31.0	26.5	23.3

Source: Citigroup



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	-3.6	9.9	2.8	5.7	1.2	2.6	10.3	2.0
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	BB	12.6	30.9	18.0	47.1	7.5	-	12.0	-
	Stable	Stable	Stable	-	Negative								
Egypt	B	B1	B+	BB+	CCC	-9.9	76.4	14.8	44.6	6.7	127.8	-2.0	-
	Negative	Negative	Negative	Negative	Stable								
Ethiopia	-	-	-	-	B	-1.6	37.3	26.5	276.7	-	-	-6.3	0.2
	-	-	-	-	Stable								
Ghana	B	-	B+	-	BB	-4.3	43.4	20.4	59.4	-	-	-6.5	3.2
	Stable	-	Stable	-	Positive								
Ivory Coast	-	-	-	-	CCC	-5.7	67.9	47.3	100.0	-	-	1.0	0.3
	-	-	-	-	Stable								
Libya	-	-	B	-	B	-	-	15.1	28.2	2.0	-	4.4	-
	-	-	Stable	-	Stable								
Mauritania	-	-	-	-	-	-1.5	92.4	92.2	100.0	-	560.0	-6.5	0.01
	-	-	-	-	-								
Morocco	BBB-	Ba1	BBB-	BBB-	B	-6.9	54.4	24.6	81.2	8.9	131.3	-7.4	2.3
	Stable	-	Stable	Stable	Stable								
Nigeria	B+	-	BB-	-	B	1.1	17.9	4.2	7.5	0.4	-	13.5	9.7
	Positive	-	Stable	-	Stable								
Sudan	-	-	-	-	C	-2.9	73.1	60.5	397.9	-	-	2.1	-
	-	-	-	-	Stable								
Tunisia	BB	Baa3	BBB-	BBB	B	-3.2	42.4	47.9	105.5	9.3	309.3	-7.4	1.1
	Stable	Negative	Negative	Stable	Stable								
Middle East													
Bahrain	BBB	Baa1	BBB	BBB+	BB	-2.3	36.5	138.6	65.1	6.2	354.8	4.2	-
	Negative	Negative	Stable	Negative	Stable								
Iran	-	-	B+	BB-	CCC	0.2	9.0	3.4	9.8	1.5	11.3	10.7	3.8
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CCC	7.4	86.9	76.8	61.4	-	83.1	7.9	1.5
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	CCC	-6.0	70.6	21.6	53.9	4.8	71.0	-9.5	1.4
	Negative	Negative	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	31.0	4.1	18.0	25.3	7.0	126.1	41.8	-
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B1	B	B	CCC	-5.6	136.2	174.5	536.4	14.7	92.5	-14.4	2.3
	Negative	Stable	Stable	Stable	Stable								
Oman	A	A2	-	A	A	8.2	5.1	11.5	19.1	-	65.7	13.2	0.2
	Negative	-	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	8.0	32.5	72.6	123.1	9.1	642.6	28.4	-
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	15.2	7.5	16.3	29.8	2.1	19.7	24.4	13.0
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	CC	-	-	-	87.7	-	-	-	1.1
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	BB	2.9	16.9	41.0	59.3	6.6	445.1	9.2	5.5
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	CC	-4.4	42.5	18.0	72.4	-	157.5	-3.5	-
	-	-	-	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								
Asia													
Armenia	-	Ba2	BB-	-	-	-2.7	35.1	65.5	453.3	-	357.9	-12.3	0.4
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	A	BBB	-1.1	25.8	9.1	31.5	1.7	-	2.8	58.9
	Stable	-	Stable	Stable	Stable								
India	BBB-	Baa2	BBB-	BBB-	BBB	-5.9	68.1	15.5	62.9	11.1	96.5	-2.8	16.8
	Negative	Stable	Negative	Stable	Stable								
Kazakhstan	BBB+	Baa2	BBB-	-	BBB	5.7	10.9	76.1	136.2	29.7	432.4	7.6	8.4
	Stable	-	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.5	17.0	87.9	132.3	17.8	-	1.9	1.7
	Stable	Stable	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	BBB-	BB	-4.1	33.0	67.4	175.7	23.7	246.9	-4.2	2.6
	Stable	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	0.8	9.6	22.5	71.9	9.7	-	5.5	-
	Stable	Positive	Stable	-	Stable								
Turkey	BB	Ba1	BB+	BB	B	-1.3	39.4	39.7	167.4	29.5	454.2	-9.9	13.4
	Stable	Positive	Stable	Stable	Stable								
Ukraine	B+	B1	B	-	CCC	-4.0	36.5	76.4	142.1	34.9	-	-5.6	7.0
	Negative	Negative	Stable	-	Positive								

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



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	13-Sep-12	No change	24-Oct-12
Eurozone	Refi Rate	0.75	06-Sep-12	No change	04-Oct-12
UK	Bank Rate	0.50	06-Sep-12	No change	04-Oct-12
Japan	O/N Call Rate	0-0.10	19-Sep-12	No change	05-Oct-12
Australia	Cash Rate	3.50	04-Sep-12	No change	02-Oct-12
New Zealand	Cash Rate	2.50	12-Sep-12	No change	25-Oct-12
Switzerland	3 month Libor target	0.00	13-Sep-12	No change	13-Dec-12
Canada	Overnight rate	1.00	05-Sep-12	No change	23-Oct-12
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	13-Sep-12	No change	24-Oct-12
Taiwan	Discount Rate	1.88	20-Sep-12	No change	27-Dec-12
South Korea	Base Rate	3.00	01-Oct-12	No change	11-Oct-12
Malaysia	O/N Policy Rate	3.00	06-Sep-12	No change	08-Nov-12
Thailand	1D Repo	3.00	05-Sep-12	No change	17-Oct-12
India	Reverse repo rate	8.00	17-Sep-12	No change	30-Oct-12
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	N/A
Saudi Arabia	Repo rate	0.25	16-Jun-09	Cut 25bps	N/A
Egypt	Overnight Deposit	9.25	24-Nov-11	Raise 100bps	N/A
Turkey	Base Rate	5.75	18-Sep-12	No change	18-Oct-12
South Africa	Repo rate	5.00	20-Sep-12	No change	22-Nov-12
Kenya	Central Bank Rate	13.00	05-Sep-12	Cut 350bps	Nov-12
Nigeria	Monetary Policy Rate	12.00	19-Sep-12	No change	20-Nov-12
Ghana	Prime Rate	15.00	10-Sep-12	No change	Nov-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	07-Sep-12	No change	26-Oct-12
Brazil	Selic Rate	7.50	29-Aug-12	Cut 50bps	10-Oct-12
Armenia	Refi Rate	8.00	04-Sep-12	No change	N/A
Romania	Policy Rate	5.25	27-Sep-12	No change	2-Nov-12
Bulgaria	Base Interest	0.03	01-Oct-12	Cut 1bps	N/A
Kazakhstan	Refi Rate	5.50	06-Aug-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	23-Mar-12	Cut 25bps	N/A
Russia	Refi Rate	8.25	14-Sep-12	Raise 25bps	N/A



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

The Country Risk Weekly Bulletin is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from the Country Risk Weekly Bulletin may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.



BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street
Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293

