

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### MENA

##### Corruption perception rises in region

Global non-governmental organization Transparency International included 20 countries from the Middle East and North Africa region in its 2007 Corruption Perceptions Index (CPI), none of which ranked in the top 20 of least corrupt countries in the world. The index reflects perceptions of the degree of corruption as seen by business people and country analysts. The rankings are based on scores that range between 10, representing highly clean countries, and zero, reflecting highly corrupt economies. The MENA region received an average score of 3.6 points, below the global average of 4 points. Corruption perception worsened in the region, as the MENA's aggregate score declined by 7.7% year-on-year.

The rankings of one country in the region improved, one was unchanged and 18 regressed, while the scores of 3 countries improved, one was unchanged and 16 regressed. The drop in MENA rankings is partly attributed to the addition of 17 new countries to the index. Syria posted the worst decline in the regional rankings, dropping by 45 spots from 2006, while Iraq's score regressed by 21%, the steepest drop in the region. Qatar was perceived as the least corrupt among Arab countries and ranked in 32nd place globally, while Israel was perceived as the least corrupt in the MENA region, coming in 30th place worldwide. Iraq was considered to be the most corrupt country in the region and ranked 178th globally.

Source: Transparency International, Byblos Research

#### SAUDI ARABIA

##### New laws establish specialized tribunals, stress independent judiciary

King Abdullah bin Abdul Aziz al-Saoud approved new regulations allowing the establishment of a Supreme Court and specialized labor and commercial tribunals, and allocated SAR7bn to upgrade judicial facilities. Earlier this week, King Abdullah endorsed the new Judiciary Law and the Court of Grievances Law as well as their executive bylaws. The new judicial laws allow the formation of special commercial, labor and administrative courts and emphasize the authority of judges in taking independent decisions. The Court of Grievances will work as an independent body and will report directly to the king. The new laws replace regulations in force for more than 30 years in the case of the judiciary and about 25 years for the Board of Grievances. Under the new regulations, commercial courts will look into disputes previously handled by special committees at the Ministry of Commerce and Industry, while labor courts will take over the functions of labor offices affiliated to the Ministry of Labor. Also, a higher administrative court will be established to look into cases objecting to the rules issued by administrative appeal courts. There will be administrative courts to look into cases related to rights of employees, administrative decisions, compensations, contracts, disciplinary actions and requests for implementing foreign rules.

Source: Saudi Press Agency

#### ETHIOPIA

##### U.S. House pushes for democratic reforms

The U.S. House of Representatives passed a bill that would force Ethiopia to implement democratic reforms or lose security aid. The bill would also deny U.S. entry visas to Ethiopian government officials involved in human rights violations unless the president authorizes a waiver. But the bill exempts counter-terrorism and peacekeeping operations from any funding restrictions. The vote came nearly two years after two violent protests over May 2005 election results left nearly 200 dead. A subsequent trial of opposition members led to criticism from rights groups and the withholding of certain aid by the European Union and Britain. The bill would withhold aid unless Ethiopia accepts outside human rights monitoring, fosters an independent judiciary and media, and permits U.S.-funded assistance to those ends. The bill still needs U.S. Senate approval and a presidential signature before it becomes law.

Source: Reuters

#### SUDAN

##### Government to pay \$300m for Darfur

President Omar Hassan al-Bashir promised to pay \$300m in compensation to the Darfur region, tripling a previous pledge of \$100m. The government will pay \$100m, while \$200m will come from a loan from China. Under the terms of a 2006 peace agreement signed with only one rebel group, Sudan promised to pay \$30m in compensation to Darfur. Other rebel groups who refused to sign rejected the offer as too low and remained unhappy when it was later raised to \$100m. Negotiations between the Khartoum government and Darfur rebels are scheduled for October 27th in Libya.

Source: Reuters

#### UKRAINE

##### Orange coalition likely to form Cabinet

Initial results of the early parliamentary elections held on September 30th show that the pro-Russia Regions Party headed by Viktor Yanukovich received 34.3% of the votes, translating into 174 seats in parliament, followed by Yulia Tymoshenko's bloc with 30.8% of the votes (156 seats), much higher than the 22.3% she received in the March 2006 elections. Also, Our Ukraine-People's Self Defence party received 14.2% (72 seats), and the Communist Party 5.4% (27 seats). Accordingly, the Orange coalition parties garnered about 45% of the votes and are expected to retain a slim majority in the Rada. Further, Ms. Tymoshenko obtained President Yushchenko's mandate to form a cabinet. This announcement was followed by a statement on behalf of Our Ukraine-People's Self Defence confirming the party's commitment to the agreement with Tymoshenko's bloc reached last February on forming a coalition and allocating 50% of portfolios in a new cabinet to each of the two parties. A possibility of a two-party coalition suggests that the formation of a cabinet should be a relatively straightforward outcome.

Source: Credit Suisse

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# SEPTEMBER POLITICAL RISK OVERVIEW

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## ALGERIA

Intensity and scope of attacks on civilian and official targets increased, leaving 75 dead in September. Al-Qaeda in the Islamic Maghreb claimed responsibility for many attacks including the apparent assassination attempt on President Bouteflika in Batna on September 6, killing 20, and the suicide car bombing in Dellys on September 8, killing 37 coastal guard officers. The group also claimed responsibility for the attack on a convoy of French company employees on September 21. Peace rallies were held in several cities on September 9.

## ARMENIA

Former President Ter-Petrosian announced he may run in the 2008 presidential elections and criticized the government's Nagorno-Karabakh policy, calling the regime corrupt and criminal.

## EGYPT

The court sentenced 4 newspaper editors to one-year prison terms for defamation of President Mubarak on September 13 and 3 journalists were sentenced for 2 years for damaging "image of justice" on September 24. Ayman Hassan, co-defendant in recent trial against leading opposition figure Ayman Nour was found hanged in prison after complaining of mistreatment. Muslim Brotherhood annual Ramadan dinner was blocked by the authorities for the first time in 20 years.

## ETHIOPIA

Ogaden National Liberation Front (ONLF) accused Ethiopian government of punishing civilians for rebel activity in Ogaden region and suspected an attempted genocide. The government denied the charge. A UN report called for an independent probe into accounts of serious human rights violations.

## IRAN

The Last of 3 U.S.-Iranians in detention on security grounds was released. The release came ahead of President Ahmadinejad's visit to New York to attend the UN General Assembly. There was a shift in the approach following the August IAEA accord with the French taking harder line. UN Security Council Permanent five and Germany agreed on September 28 to delay decision on further sanctions.

## IRAQ

U.S. Commander General David Petraeus and Ambassador Ryan Crocker testified before U.S. Congress on September 10. Petraeus said the surge had made progress in reducing violence but political reconciliation among warring factions remained elusive. President Bush announced the withdrawal of 5,700 troops by December and 20,000 by the summer of 2008. The Iraqi government reported a drop in civilian deaths by 50% from August. Iraqi vice-president and Sunni leader Tariq al-Hashemi held talks with Shiite leader Grand Ayatollah Ali al-Sistani on September 27 after publishing the "Iraqi National Compact" reconciliation proposals. A delegation from ruling Shiite United Alliance met al-Sistani on September 23 to discuss reuniting after the bloc loyal to Moqtada al-Sadr broke away on September 15. The delayed legislation to regulate oil revenue sharing will be debated in parliament in October.

## KAZAKHSTAN

New parliament, made up exclusively of presidential Nur Otan party members, unanimously re-endorsed PM Karim Masimov on September 2nd. President Nazarbaev told the assembly on September 3 that the country is in a new phase of democratic development.

## MOROCCO

Parliamentary elections were held on September 8 with a low turnout of 37%. The centre-right Istiqlal Party led with 52 seats from 325-seat in the lower assembly, closely followed by the moderate Islamist Justice and Development Party (46), the People's Movement (41), the National Rally of Independents (39) and the Socialist Union of People's Forces (38). King Mohammed V appointed Istiqlal's Abbas El Fassi as a new PM on September 19th. The U.S. signed a five-year \$698m aid deal from the Millennium Challenge Corporation on August 31st.

## SUDAN

The Situation deteriorated on both North/South and Darfur fronts. A serious setback of Darfur peace process is possible due the attack on the AU mission base at Haskanita on September 29 where 10 peacekeepers were killed, 10 wounded and dozens reported missing. Haskanita village attacked earlier by government forces mid-month. Non-DPA signatories, Sudan Liberation Army (SLA) Unity faction and Justice and Equality Movement (JEM) splinter were accused of the attack, no one claimed responsibility. Long-awaited negotiations between Khartoum and rebels are due on October 27 in Libya under AU/UN mediation in what is still seen as a rare opportunity for progress, but prospects are undermined by the fighting between the Government and rebel groups, and divisions between rebel groups. UN Secretary General Ban Ki-moon focused on the fragile CPA during his 4-day visit to Darfur and appointed Ashraf Qazi as the new UN mission Special Representative of the Secretary -General on September 11th.

## SYRIA

Tensions rose as an Israeli airstrike hit the north of Syria on September 6. Israel refused to comment, but Israeli opposition leader Binyamin Netanyahu congratulated PM Olmert on the raid on September 20th. Syrian-Saudi relations further deteriorated as the Kingdom rejected the proposed visit by FM Walid Muallim. Straining under refugee flow, Damascus introduced visa restrictions for Iraqis on September 10, suspended during Ramadan. Aleppo cleric, Sheikh Mahmoud Abou al-Qaqa, accused of recruiting insurgents to fight U.S.-led forces in Iraq, was shot dead on September 28th.

## TURKEY

The Government continued drafting a new "civilian" constitution to replace the 1982 post-coup document. Clashes between armed forces and PKK continued in the South East, including military operation in Sirnak, Hakkari and Siirt provinces in which 11 PKK militants were reported dead on September 14 to 21st. A PKK minibus attack in Sirnak killed 12 on September 29th. Visiting Iraqi Interior Minister Bolani signed a security agreement on September 28 to fight Turkish Kurd rebels taking refuge in northern Iraq.

*Source: International Crisis Group*



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# OUTLOOK

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## GCC

### Global risks could lead to buying opportunities for state funds

The Economist Intelligence Unit estimated that the current global credit and equity market problems in the West, tightening of bank lending practices and, potentially, large-scale asset sell-offs in the future could pose a massive "shopping opportunity" for the state-owned investment funds of the GCC countries. The EIU said Western private equity funds are likely to remain hindered by the ongoing global credit squeeze, and the price and quality of the assets available should become increasingly attractive if many institutions choose to de-leverage. It noted that the activities of the Gulf investment funds have attracted significant scrutiny in the West, but this has yet to check their objectives to any great extent. This reflects in part the massive sums they have to invest, as conservative estimates put the aggregate assets of GCC state-owned investment funds at \$845bn at end-2006. This includes \$600bn for the Abu Dhabi Investment Authority, \$200bn for the Kuwait Investment Authority, \$40bn for the Qatar Investment Authority, and \$5bn for Dubai International Capital.

*Source: Economist Intelligence Unit*

## SUDAN

### Increased risks to economic and financial stability

In its Article IV Consultation, the International Monetary Fund declared that policy slippages contributed to weaker fiscal and external sector positions in late 2006 and early 2007, leading to significant risks to Sudan's macroeconomic and financial stability. As such, the IMF welcomed the authorities' efforts to implement the necessary corrective measures envisaged in the new 18-month Staff-Monitored Program (SMP), which aims at restoring fiscal discipline and ensuring stability while supporting continued strong economic growth. It stressed that successful implementation of the peace agreement will be crucial for the social and economic advancement of Sudan. It expected real GDP to grow by 11.2% and for inflation to average 8% in 2007. The IMF noted that the authorities' program of increasing expenditures while maintaining macroeconomic stability will require bold fiscal reforms to increase revenues and improved expenditure management. It welcomed the reduction in fuel subsidies, called for expanding the tax base, and encouraged more transparency in oil sector revenues.

The Fund noted that Sudan's de facto exchange rate regime shifted from a managed float to a peg over the past year, which required heavy intervention by the Bank of Sudan and led to a low level of foreign exchange reserves. It forecast reserves to reach \$1.3bn at the end of the year, equivalent to 1.4 months of next year's imports of goods and services. As such, the Fund welcomed the authorities' decision to allow greater exchange rate flexibility and to rebuild reserves. It also welcomed the authorities' intention to eliminate before the end of 2007 the exchange restriction and multiple currency practice that exist from the imposition of a floor on cash margins for letters of credit and import credit.

The IMF considered that sustained economic growth will require deeper financial intermediation and expressed concern about the deterioration in financial sector indicators. It stressed the importance of preparing a restructuring strategy for the state-owned Omdurman Bank based on the results of the forthcoming independent audit. It also called on the Bank of Sudan to actively enforce prudential standards and ensure that banks comply with regulations on capitalization and provisioning. Also, the IMF welcomed Sudan's record of cooperation on economic policies and payments to the Fund. It urged the authorities to minimize non-concessional borrowing in view of Sudan's already unsustainable external debt burden and to avoid complications in a potential debt-relief operation.

*Source: International Monetary Fund*

## ARMENIA

### Entry of foreign banks to help increase financial intermediation

The International Monetary Fund declared that Armenia's economic performance remains strong, with double-digit growth and low inflation, and that the outlook for 2008 and beyond is positive in view of favorable investment prospects and availability of external grants. It said import growth continues to outpace export growth, but strong inflows of remittances should reduce the impact of the appreciating dram on the current account deficit. The IMF indicated that the Fund's Poverty Reduction and Growth Facility-supported program remains on track, and will continue to focus on maintaining macroeconomic stability and on implementing structural reforms. It added that continued sound fiscal policy will be essential to maintain macroeconomic stability and external competitiveness, as well as to encourage foreign investment. The IMF said inflation remains well within the authorities' target band of 2.5%-5.5%, but the Central Bank of Armenia should be ready to tighten monetary policy if high food and energy import prices exert inflationary pressure.

The Fund noted that the expected entry of new foreign banks and the recent pick-up in credit growth are positive developments that should help increase financial intermediation. To avoid possible risks related to a rapid expansion of bank credit, it encouraged the CBA to continue to hold banks to high prudential standards and to support further improvement in banks' risk management and in borrower transparency through strengthened corporate governance and accounting, and an effective credit bureau.

The Fund considered that the authorities' top priorities should be to modernize the tax administration, while increasing efficiency, transparency, and fairness in tax collection. Another priority should be to reduce monopolistic practices in the import business, as well as to allow current tax exemptions to expire without introducing new exemptions or tax amnesties.

*Source: International Monetary Fund*



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# ECONOMY & TRADE

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## SYRIA

### Financial intermediation firm gets final approval

The Syrian Commission on Financial Markets and Securities gave its final approval for the establishment of Pioneers Financial Investments, the first financial intermediation firm officially allowed to operate in Syria. PFI, which received preliminary approval last March, will start operations in one month. Egypt's Pioneers Securities will hold 65% of the shares of PFI, while Egyptian and Saudi individual investors will own another 15%. Syrian investors Ziad and Said Al-Zaim will hold together a 20% stake. PFI has been licensed to offer consultancy, financial brokerage, IPO management and investment banking services. Pioneers Securities is one of the largest brokerage firms in the Middle East, with operations in Egypt, the UAE and Saudi Arabia.

Source: Syria Report

## ALGERIA

### Money-losing state companies to be closed

Prime Minister Abdelziz Belkhadem declared that loss-making state-owned companies will be closed after failed attempts to upgrade them. He added that the government will no longer keep supporting unprofitable companies, and instead will seek to break them up. The measure will involve 120 companies. Official figures show that some 500 of the country's 1,000 state-owned companies were privatized by the end of 2006, and another 13 were put up for sale in September. PM Belkhadem added that the ongoing privatization of Crédit Populaire d'Algérie, one of the country's largest banks, would be followed by the sale of a 30% government stake in Banque de Développement Local.

Source: El-Watan, Reuters

## UKRAINE

### Strong economy supports ratings

Fitch Ratings indicated that the country's strong economic performance supports the sovereign ratings in a time of political uncertainty, adding that the emergence of a strong pro-business government could reduce political risk. The agency said Ukraine's economy grew by 7.5% in the first 8 months of 2007 year-on-year, as booming consumption and solid business investment are driving growth, fuelled by rising incomes, fast-growing bank credit and high steel prices. Fitch projects a moderate current account deficit of 3% in 2007, up from 1.5% of GDP in 2006, but expects this year's deficit to be more than covered by FDI inflows. Also, the strength of capital inflows saw official reserves rise to \$27bn by July 2007, further supporting external liquidity and the currency peg to the US dollar. The sovereign was a net public external creditor at 8% of GDP at end-2006. General government debt stood at 15% of GDP at end-2006 well below the 'BB' range median of 39% of GDP.

Ukraine has a Long-term foreign current Issuer Default rating of 'BB-' with Positive Outlook, Long-term local currency IDR of 'BB-' with Positive Outlook, and Short-term IDR 'B' and Country Ceiling 'BB-'.

Source: Fitch Ratings

## KAZAKHSTAN

### Ratings put of on watch with negative implications

Standard & Poor's placed Kazakhstan's 'BBB' foreign currency rating on CreditWatch with negative implications. The agency stated that an adjustment in the long-term ratings is unlikely to exceed one notch given the government's strong balance sheet position. A one-notch downgrade would put Kazakhstan's rating on par with Colombia, India, Morocco and Romania. According to S&P, the move reflects concern about the global credit market upheaval affecting the ability of Kazakhstan's banking sector to refinance its external obligations. The agency is also concerned that the likely sharp slowdown in credit growth will have a negative impact on GDP growth, with the potential for deterioration in the banks' asset quality in the future. S&P added that the sovereign rating quality may deteriorate due to eventual budgetary realization of contingent liabilities and the further decline in foreign exchange reserves.

Source: Standard & Poor's

## ROMANIA

### Sovereign ratings affirmed

Fitch Ratings affirmed Romania's Long-term foreign currency Issuer Default Rating (IDR) at 'BBB' and Long-term local currency IDR at 'BBB+', with Stable outlooks. The agency has also affirmed the Country Ceiling at 'A-' and the Short-term IDR at 'F3'. Fitch said Romania's ratings are supported by sustained GDP growth and solid public finances, as well as the structural and institutional reforms implemented to secure EU accession. It added that Romania's external financing risk is rising, as booming domestic demand accelerates imports, driving the current account deficit to widen from 10.2% of GDP in 2006 to 13.5% in 2007. The country's external solvency and liquidity indicators are in line with 'BBB' medians, but equity FDI coverage of the current account deficit is set to fall to 40% in 2007 from 60% in 2006, leading to a greater debt financing need at a time of more uncertain global capital flows and risk appetite. Further, some of the extra debt financing will come from foreign investment partners, in particular the foreign parents of Romanian banks, offering some mitigation of external risks.

Source: Fitch Ratings

## MOROCCO

### GDP growth rate decelerates to 1.7% in second quarter

Real GDP growth fell to 1.7% in the second quarter of 2007, a significant decline from 9.3% during the same period in 2006. The High Commissariat for Planning figures show the decline was due largely to a 20.9% drop in agricultural output following prolonged drought. Agricultural output accounts for 21.7% of Morocco's GDP but employs close to 40% of the population and fluctuations in weather conditions have a significant effect on unemployment, which stood at 9.4% in the second quarter of the year. Non-agricultural growth, however, decelerated only slightly, to 5.5% from 5.7% in the same period of 2006, due primarily to a decline in food-related industries.

Source: Magharebia News



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# BANKING

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## SYRIA

### Central Bank cancels fees on wire transfers

The Central Bank of Syria canceled all fees that it used to charge on money transfers between local banks as well as between the Central Bank and local banks. The decision is meant to encourage the use of banks for fund transfers between Syrian cities. Currently, many money transfer operations within Syria are carried through local transport firms.

Source: *Syria Report*

## EGYPT

### CIB discusses merger with local bank

Commercial International Bank (CIB) and Arab African International Bank have agreed to begin discussions on a possible merger. Based on their assets at the end of the second quarter the merger would create a bank with assets totaling \$13.9bn. CIB had assets worth \$7.33bn at the end of June, while the state-owned Arab African International Bank's assets stood at \$6.59bn at the same period. The two banks have agreed to exchange confidential information on an exclusive basis, adding that the parties have not conducted any due diligence nor have they agreed to any terms regarding a possible transaction. Bank of New York holds a 23% stake in Commercial International Bank through global depository receipts, while an American consortium led by Ripplewood Holding owns 18.7% of the bank.

Source: *CIB, Dow Jones Newswires*

## LIBYA

### Merger to create largest local bank

The Central Bank of Libya stated that authorities have decided to merge Al-Oumma Bank and Al-Joumhouriyya Bank to create the country's largest financial institution and one of the biggest 10 banks in North Africa with combined assets of \$65bn. Al-Oumma is Libya's largest state-owned bank in terms of assets and Al-joumhouriyya is the fifth largest. The CBL said the merger is part of a strategy to restructure, develop and modernize the banking sector. The merger is expected to be completed in early 2008, and the new entity plans to float a stake on the new stock market.

Source: *Reuters*

## TUNISIA

### Central Bank keeps key rates on hold

Following its regular meeting on September 27th, the Central Bank of Tunisia decided to keep its key interest rate on hold at 5.25%. Ongoing mild inflation levels coupled with strong economic indicators were the main factors underpinning the bank's decision. Inflation in the country accelerated to 3.3% in August from 2.8% in July driven mainly by an upward shift in food and utilities prices. Average inflation levels for the period between January and August fell to 2.6 % compared to 4.7 % for the same period in 2006. The Tunisian dinar has appreciated by 4.2% against the US dollar since the beginning of 2007, and has depreciated by 3% against the euro during the same period.

Source: *La Presse*

## YEMEN

### Qatari bank starts operations

Qatar National Bank (QNB) announced that its branch in Sana'a started providing banking activities. QNB was granted official approval to open a full service branch in Yemen at the end of 2006. The new branch will provide services to corporations and international firms and institutions. Standard & Poor's raised the bank's long-term Counterparty credit rating to 'A+'.

Source: *Dow Jones Newswire*

## ROMANIA

### Central Bank keeps policy rate unchanged

The National Bank of Romania (NBR) kept the policy rate unchanged at 7% as expected. The NBR said that the pick-up in year-on-year inflation to 5% in August was due to a significant increase in food prices and a correction of the leu's exchange rate against the background of recent turbulences on the world financial markets. The NBR also acknowledged that the short-term inflation outlook has worsened due to a prolonged impact of drought on food prices and uncertainties related to the evolution of leu's exchange rate given the difficulty of assessing the duration and the effects of the recent world financial markets turbulences.

Source: *Credit Suisse*

## TURKEY

### Banks' capitalization reduced despite profits

Fitch Ratings indicated that Turkish banks' profitability improved in 2006 and the first half of 2007 due to particularly robust loan portfolio expansion, good contribution from fees and commissions, improved efficiency and controlled NPLs charges. It added that bad loans have grown in absolute terms but remained flat as a proportion of total credit, and that banks have provided sufficient credit loss reserves. However, regulatory capital ratios have generally weakened system-wide due to loan growth and the implementation of an operational risk charge at end-June 2007. Free capital continues to improve through solid internal capital generation, sale of permanent assets and capital injections from shareholders.

Fitch estimates that privately-owned banks, which account for 65% of assets, reported an operating return on assets of 3.73%, bad loan ratio of 3.32% and loan growth of 42% at end-June 2007 on an annualized basis. It said new operational risk charge resulted in meaningful reduction in regulatory capital ratios, which led some banks to issue subordinated debt to limit the decrease. Also, authorities postponed the implementation of Basel II to January 2009 from the original date of January 2008.

Fitch said that because of the inherently volatile operating environment and potential negative impact on profitability and asset quality, no bank has had an Individual Rating higher than 'C' since 2001.

Source: *Fitch Ratings*



# ENERGY / COMMODITIES

## Oil extends losses after surprise U.S. crude build

U.S. crude prices fell by 21 cents to \$79.73 a barrel, taking five-day losses to more than \$3 a barrel on a rash of profit-taking from near record highs. A recovering dollar and evidence of weaker U.S. demand have fuelled the pull-back. Brent crude fell 29 cents to \$76.90 a barrel. The U.S. inventory data showed a build in nationwide crude supplies of 1.2 million barrels last week. The fall overshadowed an unexpected decline in U.S. distillate and gasoline supplies including heating oil, which fell by 1.2 million barrels compared to a forecast of a rise of 1.0 million barrels. Gasoline stocks also fell by 100,000 barrels.

Oil had held above \$80 for much of the last three weeks despite OPEC's agreement on September 11 to boost output by 500,000 barrels per day (bpd) from November 1st. Oil ministers from Venezuela and Qatar have brushed off the need for a further output rise.

Source: Reuters

## Middle East's largest refinery approved

Kuwait's Supreme Petroleum Council approved plans to build a 615,000 barrels per day refinery after months of delays due to spiraling construction costs. State oil refiner Kuwait National Petroleum Company (KNPC) had increased the budget for the Al-Zour refinery to about \$14bn, more than twice the original cost estimate. KNPC plans to complete construction of the refinery by the end of 2011, a year later than originally scheduled. Al-Zour would be the Middle East's largest refinery, exceeding the capacity of Saudi Arabia's 550,000 bpd Ras Tanoura plant.

Source: Reuters, Kuwait Times

## Iraq and Angola oil output to soar in two years

The International Energy Agency (IEA) said the oil output of Iraq and Angola, two OPEC members that are outside the OPEC-10, is set to rise over the next two years. The agency said the full reactivation of Iraq's idled domestic refining capacity, together with feasible export potential, could take outlets for Iraqi production into a 3.5 million bpd-4 million bpd range, adding that this also represents the Iraqi oil ministry's latest target production level for end-2009. While in July 2007 the Iraqi oil supply hit a three-year peak of 2.18 million bpd, renewed pipeline outages saw output dip in August to 1.97 million bpd. In Angola, the IEA said crude capacity is seen reaching 1.79 million bpd in the fourth quarter of 2007 and 2.1 million bpd by the end of 2008. Despite being OPEC members, Iraq and Angola do not have output quotas.

Source: International Energy Agency

## Turkey to finance Iran gas deal

Turkey plans to finance a \$3.5bn investment in Iranian gas production entirely from a state company of its own, despite objections from the United States, which is urging countries to cut business ties with Iran. The Turkish Petroleum Corporation will start investing in Iran's South Pars gas field project as soon as a comprehensive agreement is signed in the second half of October.

Source: Reuters

## Base metals: Chinese trade data are bearish for most metals

Base metal prices posted solid gains this week. Apart from brief periods of profit taking, prices have now increased almost every day since mid-September. The current price rally is more fragile than many market participants believe. Sentiment toward base metals improved a great deal after the Fed rate cut. In the end, prices are determined by the physical supply/demand balance. In this regard, negative macroeconomic data, particularly from the U.S., could easily trigger a brief correction. One such macroeconomic indicator was released this week, namely detailed data for Chinese metals trade for August: Imports of refined copper into China have declined for the fifth consecutive month. Nickel imports also declined. Base metal prices continued to rise after the data release, mainly due to sentiment. This could turn quickly if more negative macro data are released. A more sustained upward trend in prices is expected only when inventory levels start to decline.

Source: Credit Suisse

## Precious metals: Silver with some catching-up potential

After the price rally of the last two weeks, precious metals have consolidated their gains in recent days. This does not come as a surprise, as the speed of the price rally following the interest rate cut in the U.S. was not sustainable. One consequence of the price rally and the interest rate cut was that speculators have increased their long positions in the gold market again. In the gold market, speculative net long positions have reached a multi-year high in the interim. This not only limits the short-term upside potential for gold, but also increases the risk of profit taking. While higher prices are expected during 2008, gold prices will have some difficulties climbing above the \$740 mark during the remainder of the year. In this regard, silver has some catching-up potential. On the silver market, speculative long positions are still at very low levels, which limit the downside risks relative to gold. A test of the \$14-mark seems possible over the next couple of weeks.

Source: Credit Suisse

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	216.5	202.8	193.9	11.0	25.7
LME metals price index	3981.4	4038.6	3874.2	6.0	7.2
Oil prices USD	82.9	69.8	64.5	15.1	31.6
Oil prices SDRs	53.4	45.8	42.7	13.4	25.3
Gold \$/troy oz	732.0	673.3	652.2	10.6	23.6
Silver cents/troy oz	1351.0	1301.1	1295.7	15.5	16.7
Platinum \$/troy oz	1350.0	1287.5	1222.9	8.9	18.4
Copper \$/MT	8144.8	7645.7	7086.9	11.5	5.7
Nickel \$/MT	32507.5	39395.2	38170.7	22.2	4.4
Aluminium \$/MT	2450.3	2659.3	2708.3	-0.2	-2.1
Zinc \$/MT	3085.5	3446.9	3641.5	-0.3	-9.8
Steel - HR coil dry \$/MT	565.0	547.0	526.2	5.6	-1.7

Source: Credit Suisse



# 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	-	-	-	-	BBB	9.9	19.5	3.8	6.4	1.6	5.0	15.7	0.8
	-	-	-	-	Stable								
Angola	-	-	-	-	B	1.8	16.9	21.6	22.0	11.4	216.9	22.7	4.6
	-	-	-	-	Positive								
Egypt	BB+	Ba1	BB+	BB+	B	-7.5	91.5	24.7	119.2	5.8	118.0	1.4	5.1
	Stable	-	-	Stable	Stable								
Ethiopia	-	-	-	-	CCC	-5.7	77.9	23.7	128.7	2.7	246.1	-16.5	2.2
	-	-	-	-	Stable								
Ghana	B+	-	-	-	B	-3.1	38.6	26.9	86.5	2.7	152.4	-6.7	-
	Stable	-	-	-	Stable								
Ivory Coast	-	-	-	-	CCC	-1.8	69.4	64.3	133.3	4.2	603.3	5.4	-
	-	-	-	-	Stable								
Libya	-	-	-	-	BB	32.2	5.8	10.3	14.5	3.1	7.8	18.5	2.8
	-	-	-	-	Stable								
Mauritania	-	-	-	-	-	-2.3	105.9	78.9	123.4	4.5	-	-2.6	-
	-	-	-	-	-								
Morocco	BB+	Ba1	BBB-	BB+	BB	-2.7	55.9	24.0	130.8	9.6	75.3	4.0	1.9
	Positive	-	-	Stable	Stable								
Nigeria	BB-	-	BB-	-	BB	-1.4	11.1	4.0	8.7	3.7	14.18	9.7	1.4
	Stable	-	-	-	Stable								
Sudan	-	-	-	-	CC	-2.3	51.5	58.4	296.5	3.6	-	-9.8	7.4
	-	-	-	-	Stable								
Tunisia	BBB	Baa2	BBB	BBB	BBB	-2.9	54.8	54.7	134.2	15.2	260.1	-1.6	2.7
	Stable	-	-	Stable	Stable								
<b>Middle East</b>													
Bahrain	A	A2	A-	A-	A	6.1	25.8	129.0	63.1	5.8	750.7	9.9	12.1
	Stable	-	-	Stable	Stable								
Iran	-	-	B+	-	B	-11.1	24.1	5.2	20.3	3.2	25.4	3.1	0.0
	-	-	-	-	Stable								
Iraq	-	-	-	-	D	-0.3	-	111.9	195.7	3.8	-	4.7	-
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	B	-3.4	73.2	89.0	137.0	6.6	221.6	-13.6	12.6
	Stable	-	-	Stable	Stable								
Kuwait	AA-	Aa2	AA-	AA-	A	33.3	9.2	17.9	32.8	2.0	106.2	39.3	-4.5
	Stable	-	-	Stable	Stable								
Lebanon	B-	B3	B-	B-	CCC	-13.1	174.6	101.6	492.5	14.8	242.6	-10.8	4.7
	Negative	-	-	Negative	Stable								
Oman	A	A2	-	BBB+	A	10.1	7.7	17.2	19.8	5.9	113.7	8.6	2.0
	Stable	-	-	Stable	Stable								
Qatar	AA-	Aa2	-	A+	A	6.8	15.5	47.0	96.5	10.9	407.7	27.8	4.3
	Stable	-	-	Stable	Stable								
Saudi Arabia	AA-	A1	A+	A+	A	19.4	4.7	8.4	26.1	2.4	122.9	31.9	0.5
	Stable	-	-	Stable	Stable								
Syria	-	-	-	-	CCC	-5.3	44.1	20.1	49.3	4.1	107.8	-1.1	1.4
	-	-	-	-	Stable								
UAE	-	Aa3	-	AA-	A	23.9	10.6	60.0	29.8	2.0	332.9	18.8	5.2
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	B	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
	-	-	-	Stable	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>Central &amp; Eastern Europe</b>													
Armenia	-	Ba2	BB-	-	-	-3.3	17.6	27.1	210.0	2.6	161.6	-4.1	3.5
Bulgaria	BBB+ Stable	Baa3	BBB	-	BBB	2.6	19.5	80.0	147.3	18.0	228.2	-16.1	11.0
Kazakhstan	BBB Stable	Baa2	BBB	-	BB	0.3	4.4	60.4	225.2	36.0	197.8	2.3	5.1
Romania	BBB- Stable	Baa3	BBB	BBB-	BBB	-2.9	12.8	42.0	178.3	22.3	233.1	-11.9	6.9
Russia	BBB+ Stable	Baa2	BBB+	-	BBB	3.6	8.2	33.5	90.8	12.5	98.5	6.3	1.3
Turkey	BB- Stable	Ba3	BB-	BB-	B	-2.0	60.9	52.3	194.8	37.6	340.6	-7.9	4.6
Ukraine	BB- Negative	B1	BB-	-	BB	-2.6	17.5	44.7	105.6	17.5	207.5	-3.6	4.2

Sources: Moody's Investors Service; EIU - The above figures are estimated for 2007



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	4.75	18-Sep-07	Cut 50bps	31-Oct-07
Eurozone	Refi Rate	4.00	02-Aug-07	No change	04-Oct-07
UK	Base Rate	5.75	02-Aug-07	No change	04-Oct-07
Japan	O/N Call Rate	0.50	19-Sep-07	No change	11-Oct-07
<b>Australia</b>	Cash Rate	6.50	02-Oct-07	No change	06-Nov-07
New Zealand	Cash Rate	8.25	12-Sep-07	No change	24-Oct-07
Switzerland	3 month Libor target	2.75	13-Sep-07	Raise 25bps	13-Dec-07
<b>Emerging Markets</b>					
China	One-year lending rate	7.29	14-Sep-07	Raise 27bps	N/A
<b>Hong Kong</b>	Base Rate	6.25	19-Sep-06	Cut 50bps	N/A
Taiwan	Discount Rate	3.25	20-Sep-07	Raise 12.5bps	Dec-07
South Korea	O/N Call Rate	5.00	07-Sep-07	No change	11-Oct-07
Malaysia	O/N Policy Rate	3.50	24-Aug-07	No change	30-Oct-07
Thailand	1D Repo	3.25	29-Aug-07	No change	10-Oct-07
India	Reverse repo rate	6.00	31-Jul-07	No change	31-Oct-07
UAE	3M EBOR	5.50	N/A	N/A	N/A
Saudi Arabia	Repo Rate	5.20	29-Jun-06	Raise 20bps	N/A
<b>Egypt</b>	overnight lending	10.75	Oct-07	No change	N/A
Turkey	Base Rate	17.25	13-Sep-07	Cut 25bps	16-Oct-07
South Africa	Repo rate	10.00	16-Aug-07	Raise 50bps	11-Oct-07
Kenya	Central Bank Rate	8.75	08-Aug-07	Raise 25bps	3-Oct-07
Nigeria	Monetary Policy Rate	8.00	01-Aug-07	No change	Oct-07
Ghana	Prime Rate	12.50	27-Aug-07	No change	Oct 07
Mexico	Target Rate	7.25	21-Sep-07	No change	26-Oct-07
Brazil	Selic Rate	11.25	05-Sep-07	Cut 25bps	17-Oct-07
Armenia	Repo Rate	4.75	N/A	N/A	N/A
<b>Romania</b>	Policy Rate	7.00	Oct-07	No change	N/A
Bulgaria	Overdraft rate	8.40	N/A	N/A	N/A
Kazakhstan	Reverse repo rate	9.00	01-Jul-06	N/A	N/A

Source: Standard Chartered - Countries in bold updated on October 4, 2007



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