



## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## GCC

**Doubts about GCC monetary union**

The crown prince of Bahrain, Sheikh Salman bin Hamad al-Khalifa, cast further doubt on the 2010 deadline for the GCC monetary union. He indicated that the Gulf States are still debating the convergence criteria, including inflation, public debt and interest rates. The GCC Secretariat has indicated the Eurozone's entry criteria, or Maastricht criteria, will form the basis of its deliberations, although the GCC's criteria have not been finalized. Oman, which will not join the union in 2010, has raised concerns over the capping of the budget deficits at 3% of GDP as it is aiming to diversify its economy away from dwindling oil revenues. According to Standard Chartered, the probability of a single currency being formed in 2010 is now only 30%.

Source: Standard Chartered Bank

## IRAN

**Iran to test nuclear device?**

Two new cascades, each featuring 164 centrifuges, are in place in Iran's vast Natanz underground nuclear facility and will be tested "within days," knowledgeable sources said earlier this week. The centrifuges are used to purify uranium, making it usable for nuclear weapons, although Iran's leaders insist they are enriching uranium solely for civilian purposes. Ultimately, Iran plans to have 54,000 working centrifuges, reports say. Natanz is deep under the desert in central Iran, surrounded by antiaircraft batteries, but UN inspectors still have access to it.

Source: CS Monitor

## NIGERIA

**Kidnapped foreign oil workers set free**

Militants in southern Nigeria freed nine foreign oil-industry employees Sunday, 11 days after seizing them in a raid on their employer, the China National Petroleum Co. All were said to be in good health. China's Foreign Ministry called the efforts to win their freedom "complex," but local authorities said no ransom was paid. Militants in the region are still holding hostages from the US, Britain, Italy, Lebanon, and the Philippines.

Source: CS Monitor

## NORTH KOREA

**North Korea sets conditions to close nuclear reactor**

North Korea wants more than a half-million tons of fuel oil a year in return for shutting down its Yongbyon nuclear reactor, a published report said. The Tokyo newspaper Asahi Shimbun said North Korea also wants the US to end financial sanctions against it and to remove it from the list of nations that sponsor terrorism. Asked about the report, US envoy to the six-sided talks on North Korea Christopher Hill said nothing less than "100 percent" dismantling of the North's nuclear program is acceptable to the other participants.

Source: CS Monitor

## LEBANON

**UN endorses international tribunal**

The UN endorsed the proposed international tribunal for the Hariri murder trial but asked for its ratification by the Lebanese parliament. Late on Tuesday, the UN chief legal counsel Nicolas Michel signed the document, which had previously been signed by an official in Lebanon's Justice Ministry. In giving its final approval of the document, the UN effectively ignored President Lahoud's objection to the government's decision to submit the document to the UN, after two-thirds of cabinet members offered their support. However, the UN also chose to leave the final approval of the tribunal to the Lebanese parliament by requesting a formal vote by legislators. The latter requirement means the process would not be able to proceed further without cooperation from the parliamentary speaker Berri, who until now has been resisting pressure from the government to call a vote on the tribunal.

Source: Credit Suisse

## SYRIA

**MENAFATF releases report on Syria's fight against money-laundering**

The Middle East and North Africa Financial Action Task Force (MENAFATF) has released the evaluation report it conducted last year on Syria's efforts to combat money laundering and the financing of terrorism (ML/FT). The report provides a summary of the measures in place in Syria to combat ML/FT, describes and analyzes these measures, sets out Syria's level of compliance with 49 standard recommendations devised by MENAFATF and provides recommendations on how certain aspects of the system could be strengthened. Out of the 49 recommendations, the report finds Syria non-compliant on 8 of them, partially compliant on 26, largely compliant on 8 and fully compliant on 5. On 2 items the recommendations were not applicable. The report also provides a series of recommendations that Syria should take to improve its capacity to combat ML/FT. They include new legislative procedures, improve human, technical and financial resources dedicated to combat ML/FT, improve data collection, etc.

Source: The Syria Report

## KAZAKHSTAN

**Tightening Rules for Foreign Investors**

Kazakhstan has introduced new rules, enabling the government to bar a company from taking part in a tender if "giving it the right to develop a deposit would lead to its non-compliance with enforcing national security." This follows last month's amendments to the oil law, which prevents foreign oil investors from selling stakes in Kazakh assets to third parties for two years after purchase. While these regulations may seem negative at the margin, the country is expected to continue to attract significant foreign direct investment into its resource sector. Canada-based Nations Energy has recently sold the Karazhanbas oilfield to China's CITIC group for US\$1.9bn.

Source: Merrill Lynch

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# JANUARY POLITICAL RISK OVERVIEW

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## ALGERIA

Leader of Salafi Group for Preaching and Combat (GSPC) Abu Musab Abdulwadood issued an internet call for orders from al-Qaeda to attack foreign and government targets. GSPC attack on Batna province military checkpoint left 10 rebels, 4 soldiers and one guard dead on January 29.

## EGYPT

Clampdown on Muslim Brothers continued: at least 21 arrested and 6 senior members accused of money laundering "for terrorist purposes". 16 senior members, including several held on money laundering charge, were released on January 29. New charges against jailed opposition leader Ayman Nour dismissed by Cairo Court; U.S. and rights groups appealed for his release. Case against blogger Abdel Kareem Nabil, accused of sedition and insulting Islam and president, began on January 18. Al-Jazeera journalist released on bail after detention for "fabricated" footage of police torture. Parliament voted in favor of presidential reform package to amend 34 constitutional articles; Muslim Brothers voted against, saying changes "superficial".

## ETHIOPIA

PM Meles Zenawi announced withdrawal of one third of troops from Somalia by January 28, as part of 3-phase withdrawal to be completed in February; said would continue supporting Somali Transitional Federal Government but not indefinitely.

## IRAN

Increasing signs of disaffection with President Ahmadi-Nejad's domestic and foreign policies: newspapers, including one closely affiliated with Iran's supreme leader, Ayatollah Ali Khamenei, warned Ahmadi-Nejad to stay out of nuclear diplomacy, and at least 150 members of Iran's 290-member parliament signed petition summoning him to explain his policies. Tehran's nuclear stance remained confrontational; announced missile tests and barred 38 of almost 200 people listed by IAEA as potential inspectors. U.S. increased pressure, announcing deployment of second aircraft carrier in Persian Gulf, detaining 5 Iranians in northern Iraq alleged to be associated with Revolutionary Guard, and placing restrictions on Iranian financial institutions. Iranian authorities hanged 4 Arab separatists convicted of bombings in south, defying calls by UN and NGOs to rescind death sentences and conduct fair trials.

## IRAQ

U.S. President Bush outlined his new Iraq Strategy on January 11 amid continuing widespread violence. The plan sees "surge" of 21,500 troops mostly to Baghdad but also in restive Anbar province. U.S. Senate Foreign Relations Committee rejected new policy as "not in the national interest" in a non-binding vote on January 24. U.S. suffered worst single-day losses January 20 with 25 killed, just as additional 3,000 troops arrived in Baghdad. Iraqi and U.S. troops engaged militants belonging to previously unknown Islamic cult on January 28-29 near Najaf; Interior Ministry claimed over 200 members killed including group's leader. Botched executions of Saddam Hussein late December and former head of secret police Barzan al-Tikriti on January 15 led to further anger from former regime's followers and Sunni community. PM Nouri Maliki received boost as parliament, including MPs allied to radical Shiite cleric Moqtada Sadr, voted for his new Baghdad security plan; aims to disarm militias and insurgents regardless of religious or political affiliation.

## NIGERIA

Attacks on oil workers in Niger Delta surged while political violence escalated throughout the country ahead of April's presidential election. In Delta region, 2 killed in January 16 attack on oil vessel near Bonny Island while 12, including several local chiefs, killed in attack in Rivers state same day. Over 40 foreign oil workers taken hostage.

## SUDAN

Sudanese air force escalated bombing campaign in northern Darfur; government targeted possible sites of planned SLA field commanders' conference after promising AU and UN to let conference go forward. Little progress with AU/UN 3-phase plan for Darfur: discussions on phase II, heavy assistance package, delayed due to lack of enthusiasm amongst troop-contributing countries and delays for tripartite AU/UN/Sudan meeting; no progress with phase III (AU/UN hybrid force). UNSG Ban Ki-moon called on Khartoum to admit UN troops as part of hybrid force at AU summit. Relations between Khartoum and government of Southern Sudan at all-time low, with SPLM first Vice-President Salva Kiir and President Bashir trading blame for delays in CPA implementation. For second consecutive year, AU members rejected Sudan's bid to chair organization.

## SYRIA

Iraqi President Jalal Talabani met President Bashar al-Assad in Damascus, his first high-level visit since diplomatic relations were reestablished November 2006. U.S. President Bush again accused Syria of allowing terrorists and insurgents to move in and out of Iraq, while U.S. Treasury imposed financial restrictions on 3 Syrian government entities allegedly involved in developing "non-conventional weapons and the missiles to deliver them". Israeli newspapers reported unofficial peace talks between Israel and Syria between 2004 and 2006.

## TUNISIA

At least 2 security force members and 12 Islamist militants killed in 2 clashes in December and January; government said operations had smashed "Salafi terrorist group" planning embassy attacks.

## TURKEY

Editor of Turkish-Armenian weekly Agos Hrant Dink was shot dead in Istanbul January 19. Arrested suspects reportedly identified as motive Dink's insulting of "Turkishness" for which he was indicted in 2006 under penal code article 301 - for piece calling for Armenian-Turkish reconciliation. PM Erdogan and most party leaders did not attend public funeral march in which tens of thousands participated, though government signalled possible change to article 301 following domestic and international pressure. Allegations that police ignored intelligence on plot being investigated. Clashes in Southeast left 1 soldier and 3 PKK rebels dead. Erdogan called for concrete measures against PKK in Northern Iraq, and again asserted Turkey's right to combat terrorism. Suspected leader of al-Qaeda national operations among 48 arrested in raids.

## YEMEN

Police killed al-Qaeda suspect in shoot out on January 15. Government said it increased security measures against infiltration of Islamists from Somalia.

Source: *International Crisis Group*

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# OUTLOOK 2007

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## ALGERIA

### IMF praises Algeria's economic policies

In its Article IV consultation with Algeria, the IMF commended the authorities for their prudent macroeconomic policies and welcomed the country's encouraging economic performance in recent years, noting the decline in the unemployment rate, sustained economic growth, low inflation, and comfortable external and fiscal positions in the wake of high world energy prices.

It emphasized the importance of ensuring sound management of energy resources and pressing ahead with structural reforms. It also noted the authorities' prudent monetary policy and their intention to maintain fiscal sustainability over the medium term. The IMF expects the current account surplus to increase to 24.5% of GDP in 2006 from almost 21% in 2005. Gross external reserves reached \$70bn at end-September 2006, equivalent to 2 years of import cover. After early debt repayment, the external debt-to-GDP ratio has declined from 17% in 2005 to below 4.5% in 2006. The IMF praised the authorities' policy to prepay external debt and encouraged Algeria to obtain a sovereign rating.

It said the governance of the remaining state-owned banks is being strengthened and supervision has become more active. However, nonperforming loans of public banks remained high. Privatization of public enterprises is proceeding and an anticorruption law was adopted in January 2006. The IMF considered that financial sector reform and a significant deepening of financial intermediation will be necessary to foster private sector activity. In this respect, it pointed to the need to push ahead decisively with the privatization of public banks, strengthen the governance of the remaining public banks, and promote competition in the banking sector, while avoiding bank lending to non-viable public enterprises.

Source: IMF

## OIL

### Oil outlook for 2007-08

Crude oil prices have recently hit 19-month lows and are 35% below the record of US\$79/barrel set in early August 2006 for dated Brent Blend. According to the Economist Intelligence Unit, the price of a barrel of Brent crude is expected to average \$58.75 in 2007 and \$57.38 in 2008. This forecast assumes that the price will firm up somewhat later this year on the back of strong demand, some modest cuts in production by OPEC and the return of the premium related to geopolitical risks. This will push oil prices to around \$60/b in the second half of 2007. Spikes are still likely, but overall the price will be considerably weaker than the average for 2006. Prices will decline in 2008 as new crude capacity comes on stream in Africa and several OPEC countries. The small amount of spare capacity, combined with colder weather in the Northern Hemisphere, modest OPEC production cuts and the return of the dormant risk premium should put a floor under the oil price in 2007-08 of around \$50/barrel for Brent crude, which will be seen as a buying opportunity for hedge funds and countries like China. Oil exporters should enjoy another couple of good years.

But the risks of a sharp correction in oil prices are increasing substantially. The industrialized world has been cutting back on its demand for oil in response to high prices and hedge fund activity is definitely moving the market, with the number of short positions rising substantially. Geopolitical concerns could also play a role in driving the price down. Prices that approach \$40/barrel and remain close to this level in the medium term would have an impact on oil-exporters' fiscal plans, particularly in the Middle East, and damage the region's currently good economic prospects. Russia would be similarly affected.

Source: *The Economist Intelligence Unit*

## AFRICA / MIDDLE EAST

### Net private capital flows to Africa/Middle East to drop to \$31bn in 2007

After reaching a record level of over \$40 billion in 2006, net private capital flows to the Africa/Middle East region are expected to decline to \$31 billion in 2007, according to the Institute of International Finance. A projected reversal in commercial bank lending and a slowing of non-bank creditor flows account for a large portion of this decline. The figures cover Algeria, Egypt, Morocco, Tunisia and South Africa.

**Net equity investment** is projected to reach a record high \$26.4 billion this year mostly due to an expected increase in direct investment. Net direct equity investment is projected to reach a record level of more than \$19 billion this year, following net inflows of nearly \$13 billion last year. Egypt is expected to eclipse South Africa as the recipient of the largest amount of direct investment in the region, taking in \$6.5 billion of net flows this year. A surge in direct investment has been driven by a boom in privatization and strong regional liquidity.

**Net portfolio equity** flows could drop below \$7 billion after reaching \$12 billion in 2006. South Africa will account for most of the flows to the region with net portfolio equity investment this year of \$6.5 billion, down from a record high \$12.5 billion in 2006. The region, together with Latin America, is likely to record the least amount of net portfolio equity this year.

Following **net commercial bank inflows** of more than \$4 billion last year, Africa/Middle East is the only region in the world projected to experience net outflows this year of about \$0.3 billion.

The region is projected to make **net repayments to official creditors** in 2007 of \$2 billion, up from \$1.7 billion last year. Algeria will account for most of the net repayments from the region to official creditors this year as it works to complete payments to Paris Club creditors. Egypt is likely to receive the largest amount of net disbursements in the region this year with net inflows of \$0.6 billion, similar to the amount received in 2006. International financial institutions will account for nearly all of the inflows.

Source: *Institute of International Finance*



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# ECONOMY & TRADE

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## EGYPT

### **CBE Leaves Policy Rates Unchanged**

The Central Bank of Egypt (CBE) left its overnight deposit and lending rates unchanged at 8.75% and 10.75%, respectively. In the statement released after the policy meeting, the Central Bank appears to acknowledge risks to its inflation outlook, citing "a tentative moderation" in recent inflation data, but it has decided not to act for now. A small rate hike would have gone a long way in enhancing the Bank's anti-inflation credentials. Egypt's macroeconomic outlook remains positive and inflation is not expected to get out of control. However, the case for significantly lower inflation by June appears somewhat less strong, considering the brisk pace of growth and the CBE's reluctance to further tighten monetary policy.

*Source: Credit Suisse*

### **Customs tariffs in Egypt to be cut by 25%**

Customs tariffs in Egypt will be cut by 25% for select areas such as investments and intermediary and durable consumption commodities such as TV sets, refrigerators, air conditioners, ovens, and ready-to-wear clothes, though cars will not benefit from this new incentive. The announcement was made jointly by the ministers of Trade and Finance. They also said that the custom tariffs on all kinds of foods, raw materials and intermediary substances will be removed entirely, and that agricultural and pharmaceutical products will also enjoy substantial tariff reductions.

*Source: Credit Suisse, Merrill Lynch*

### **Revenues from Egypt's Suez Canal reached \$3.82bn in 2006**

Revenues from Egypt's Suez Canal reached \$3.82bn in 2006, with a record of \$1.03bn in the last quarter of the year. This is the largest amount ever recorded, according to canal officials. The Suez Canal is one of several key sources of foreign currency to the Egyptian state, along with tourism, remittances from expatriates, and oil and gas sales. Egypt's foreign reserves stood at \$26.08bn at the end of January 2007 compared to \$26.04bn at the end of 2006, and \$22.13bn in January 2006.

*Source: Credit Suisse*

## UAE

### **Firms to get credit ratings**

The government of Dubai is currently studying a plan that would make it mandatory for private companies to get credit ratings, according to a government official. About 75% of Dubai's 80,000 private companies have already been brought under a credit rating mechanism by the Dubai Chamber of Commerce and Industry.

*Source: Shuaa Capital*

## UKRAINE

### **Central Bank concerned about level of FX lending**

The Central Bank is planning to discuss the high share of bank lending in foreign currency with representatives of the banking sector later this month. Mr Sugoniako, the head of Ukraine's Banking Association, said that bank managers share the NBU's concern about the high and rising share of FX lending in the country. Sugoniako reported that the share of FX loans of total loans rose to 49% in 2006, from 43% in 2005. He did not expect the forthcoming meeting to lead to any administrative restrictions from the central bank but expected it to find a way to reiterate its preference for a decline in the share of lending in FX in the country. The risks associated with a currency mismatch between assets and liabilities of Ukrainian borrowers has been highlighted recently both by the IMF and representatives of rating agencies.

*Source: Credit Suisse*

### **Forex reserves at \$22.4bn**

The Central Bank's gross foreign reserves reached \$22.4bn as of end-January, an all-time high. The overall balance of payments stayed in surplus in January, despite the impact on energy imports of higher gas prices and evidence of FX interventions by the Central Bank in late January (as reflected in the exchange rate testing the weaker end of the narrow 5.00-5.06 trading range on several occasions). In February, reserves are likely to decline modestly, and their accumulation will probably resume only in the second quarter of the year, once the seasonal peak in energy imports has passed.

*Source: Credit Suisse*

## RUSSIA

### **Economy grew by 6.7% in 2006**

Real GDP grew 6.7% in 2006, according to the initial estimate published by Rosstat, the Russian statistical agency. This was below the market consensus of 6.8% and the government's most recent range of estimates of 6.9-7%. The data suggest that the relatively modest acceleration in growth compared to 6.4% in 2005 occurred due to very robust construction performance (14% yoy, after 10.6% in 2005), various services (12.7% versus 7.5% in 2005) and indirect financial intermediation (11% in 2006, after 6.9% in 2005). The pick-up was more modest in the telecommunications sector (to 9.4%, after 6.8% in 2005), hotel and catering (11.2%, after 8.8% in 2005), utilities output (2.6% vs. 1.3%), and the mineral extraction (2.1% after 0.9%). However, growth in the two largest sectors - the retail trade and processing sectors - decelerated modestly, reflecting the slowdown in manufacturing in late 2006 and various administrative problems that affected domestic trade this year. Subsequent revisions to full-year 2006 GDP data may still bring the final growth estimate closer to 7%.

*Source: Credit Suisse*



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# BANKING

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## KAZAKHSTAN

### Agency to strengthen bank regulations

Kazakhstan's Financial Supervision Agency (AFN) plans to introduce new non-resident liabilities to capital ratio in order to force banks to increase their capital. The precise definition is currently being debated but the agency would like to make the new ratios as inclusive as possible. It explained that an all-inclusive limit is easier to manage and it will give less scope for finding various loopholes and create distortions. As a compromise with the banking community, the final allowable maximum limits may be higher or implementation may be pushed back slightly. The new ratios pertain to liabilities of longer than one year.

Besides enhancing banking sector stability, the new measures may push banks to diversify funding sources to include securities markets through initial public offerings, which, in turn, is seen as a key way to aid the development of securities markets and to improve corporate governance and transparency. The Central Bank expressed its support for the measures because of the sharp rise in external private sector debt due to banks' borrowing, which is partially used to finance rapid domestic credit expansion and, in turn, to fuel the inflation uptrend.

In parallel, Central Bank Governor Saidenov noted that monetary policy will remain tight, as the inflation trend continues to be a concern, and the exchange rate will probably continue to appreciate in real and nominal terms this year. Kazakhstan's currency, the tenge, is a managed float but that there are no specific targets. Mr Saidenov also noted that the central bank will continue to intervene in the foreign exchange market.

Source: *Financial Times*

## BAHRAIN

### Bahrain to set up microcredit bank

Bahrain plans to sign a memorandum of understanding (MOU) with the Grameen Bank in a bid to set up a grassroots "Family Bank" to help poor families. Minister of Social Development Dr Fatima Al Balooshi said Grameen Bank's experience can be taken as a model to improve financial support systems for every family. "We will be signing an MOU with the Grameen Bank to look on ways as to how to implement the same set-up in Bahrain through the establishment of a family bank," said Dr Balooshi.

Source: *Bahrain Tribune*

## RUSSIA

### Approval of \$300m syndicated loan

The European Bank for Reconstruction and Development, the Bank of Tokyo-Mitsubishi UFJ, Ltd., Calyon and Sumitomo Mitsui Banking Corporation Europe Limited have completed the syndication of a \$300 million loan to MDM Bank. The loan will be used to expand the bank's retail activities, extend longer-term funding and increase small business lending.

Source: *MDM Bank*

## SAUDI ARABIA

### Goldman Sachs and NCB form Saudi venture

Global investment bank Goldman Sachs International and the National Commercial Bank of Saudi Arabia (NCB) signed a memorandum of understanding to pursue a strategic cooperation agreement between Goldman Sachs and NCB Capital, a company under formation.

NCB Capital is being created pursuant to the 2004 Capital Market Authority directive, which mandates the separation of investment banking activities from commercial banking operations. When formed, NCB Capital will acquire NCB's securities, investment management and investment banking operations. NCB Capital is the first subsidiary of a local bank to be licensed by the Capital Markets Authority.

Goldman Sachs and NCB Capital intend to cooperate across a broad range of business areas in or relating to Saudi Arabia, including investment management, securities, investment banking and principal investing. Goldman Sachs is expected to make an equity investment in NCB Capital.

Source: *Goldman Sachs*

## TURKEY

### Losing privatization momentum

The government has decided to sell 25% of the state-owned Halkbank through an initial public offering (IPO) by May 22, instead of the previous decision to sell a 51% block. This is either because the government is reluctant to sell big-ticket items in an election year or the company has failed to attract significant investor interest, although the chairman of the privatization administration said that the decision was motivated by market conditions. The 25% IPO leaves the ownership in the state's hands, making it less of an effective privatization; is likely to bring in much less revenue for the Treasury and put downward pressure on the country's stock market; and is unlikely to produce much FDI. Additionally, the government is not moving ahead with the planned sale of the state-owned tobacco company TEKEL, suggesting that the government is not willing to make much progress on the privatization front ahead of the parliamentary elections later this year.

Source: *Credit Suisse, Merrill Lynch*

## UKRAINE

### Swedish investor acquires local bank

Sweden's Swedbank announced its acquisition of a second-tier bank, TAS-Kommerzbank, for \$735m. The announcement means that the inflow of foreign capital into the sector continues at a strong pace. According to Central Bank data, the share of foreign capital in the sector's total reached 28% as of end-2006. The principal shareholder of TAS-Kommerzbank is Serhiy Tyhytko, the former central bank governor and a prominent politician.

Source: *Credit Suisse*



# ENERGY

## Big crude, gasoline builds

This week the US Department of Energy reported a larger-than-expected 2.7m bpd crude build, a larger-than expected 3.8m bpd gasoline build, and a 2.6m bpd distillate draw. Higher imports are the main reason behind the large increase in crude inventories, especially because consumption is currently quite strong for the season. The high imports could cause rising concerns about OPEC production cuts in the market. Oil prices could therefore come under pressure somewhat in the days ahead. Nevertheless, OPEC cuts, that are already implemented, are already working their way through OECD inventories, which should lead to a recovery of crude oil prices later in the year. The forecast is for an average WTI price of \$62.50 for 2007.

Source: Credit Suisse

## Oil prices close to \$60 per barrel

Oil prices have risen during the week to nearly \$60p/b ahead of US inventory data release. The market is expecting a sharp drop in distillate stocks as a result of the cold weather in the US, which has increased fuel demand. Moreover, the US national weather service is forecasting the colder than-normal temperatures to remain until February 18 in the Northeast and Midwest. OPEC output cuts, stronger-than-expected US economic growth and geopolitical concerns are also contributing to the strengthening in oil prices from early January lows. The second round of OPEC cuts, of 500,000 bpd, took effect from February 1. Meanwhile, on the geopolitical front, Israeli Prime Minister Ehud Olmert said that Iran's nuclear program was not as advanced as Tehran claimed and it was still possible to put pressure on Iran without resorting to violence. This may limit oil price gains.

Source: Credit Suisse

## Turkey warns about gas deals with Cyprus

The Turkish Foreign Ministry warned Lebanon and Egypt not to move forward with oil and gas exploration deals they have signed with Cyprus. A statement by the Turkish Foreign Ministry said, "Turkey is determined to protect its rights and interests in the Eastern Mediterranean and will not allow attempts that would erode them. Cyprus does not represent the whole of the island." The escalation between Turkey and Cyprus follows the Cypriot government's announcement that it will launch an international tender in February for offshore oil and gas exploration rights. The dispute is unlikely to be resolved anytime soon.

Source: Merrill Lynch, Credit Suisse

## KSA's oil exports to Asia down 5.4%

Saudi Arabia cut its oil exports to China, South Korea and Japan, its three leading Asian customers, by 4% in the last quarter of 2006 from the third quarter of the year, while Iran increased its exports to near year-ago levels, according to OPEC data. Iran's increased exports, which were rejected by Japan, were bought instead by South Korea and China. The three Asian countries imported 2.632 million barrels from Saudi Arabia in the fourth quarter of 2006, amounting to nearly a quarter of Saudi's total exports for the period. This is 5.4% less than for the same period of the previous year.

Source: Credit Suisse

## Aramco to spend \$45bn on expansion plan

Saudi Arabian Oil Company (ARAMCO), the world's largest oil company by production, announced it will spend about \$45.3bn during 2007 and 2011 as part of an investment program that will see crude oil production capacity increase by almost a third and refining capacity by about 35%. State-owned Saudi Aramco will spend \$26.6bn on expanding crude production capacity by 2.95 million barrels a day to more than 12 million bpd by the end of 2011, according to Nabilah Al Tunisia, manager at Aramco's project support-and-controls department. The remaining \$18.7bn, will flow into the development of natural gas, natural gas liquids and ethane resources, and into refining, exploration, shipping and support. Under the investment program, Aramco will add crude capacity from five fields which will add a total of 2.95 million bpd over the next four years, "which is larger than the production of most countries," Al Tunisia said. Further, Aramco's worldwide refining capacity will increase by more than a third to six million barrels in the next five years.

Source: Dow Jones Newswires

## Syria's oil production to decrease to 300,000 barrels per day by 2020

Oil Minister Sufian Al-Allao expected Syria's oil production to decrease to 300,000 barrels per day (bpd) by 2020, as the country's current production stands at around 400,000 bpd, down from a peak of 590,000 bpd in 1996. Syria's recoverable oil reserves are estimated at 2.5 billion barrels including 2.1 billion barrels within the fields operated by the Syrian Petroleum Company, with the rest shared among three joint ventures between SPC and foreign players. Further, six new onshore blocks and four offshore blocks will be offered in the coming two months. The offshore concession round will be the first ever conducted in Syria.

In parallel, Syria's recoverable gas reserves reached 297 billion cubic meters at the end of 2006, up from 240 billion cbm at year-end 2005. Natural gas production stands at 8.2 billion cbm a year. Most gas produced (3.5 billion cbm) goes to feed power plants. Mr Al-Allao also said that Hayan Petroleum Company, a joint venture between SPC and INA Naftaplın, planned to build a gas processing plant with a daily capacity of 4 million cbm a day. The plant should be ready in 2009.

Source: The Syria Report

## Ukraine bans sale of gas transit pipeline

Ukraine's parliament voted unanimously to ban privatization, sale or lease of Ukraine's gas transit pipeline system. Any disposal of the pipelines had already been prohibited by other laws, so the new restriction is the inclusion of lease arrangements involving the pipeline. It is not clear how this would affect any proposal that the government might have made to Russia recently.

Source: Credit Suisse

Oil Market		Closing of February 7	Previous Price	Daily Δ
OPEC Basket	▼	54.48	54.54	-0.1
Brent	▲	58.66	58.36	0.6
Dubai	▲	55.96	56.46	0.9
WTI	▲	59.37	58.90	1.0

Source: SHUAA Capital



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. 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	10.3	17.4	12.0	9.1	8.4	19.4	18.0	0.8
	-	-	-	-	Positive								
Angola	-	-	-	-	CCC	2.3	43.7	49.5	22.3	4.6	216.9	21.1	7.3
	-	-	-	-	Stable								
Egypt	BB+	Baa2	BB+	BB+	B	-6.9	99.0	29.7	68.0	6.6	150.3	1.6	5.6
	Stable	-	-	Stable	Stable								
Libya	-	-	-	-	BB	26.6	6.0	9.7	-130.9	2.7	7.8	31.4	2.8
	-	-	-	-	Stable								
Morocco	BB+	Baa2	-	BB	BB	-4.1	67.1	29.8	68.1	8.0	91.2	1.7	2.0
	Stable	-	-	Stable	Stable								
Nigeria	BB-	-	BB-	-	BB	-1.0	10.7	5.2	9.7	1.9	14.18	9.7	1.6
	Stable	-	-	-	Stable								
Tunisia	BBB	A3	BBB	BBB	BB	-3.3	59.6	57.7	77.1	15.3	275.3	-2.6	6.6
	Stable	-	-	Stable	Stable								
Sudan	-	-	-	-	CC	-3.8	58.7	71.2	355.0	4.0	-	-13.8	5.8
	-	-	-	-	Stable								
<b>Middle East</b>													
Bahrain	A	A1	A-	BBB+	A	10.1	28.8	58.7	23.9	13.4	343.5	13.9	0.1
	Stable	-	-	Stable	Stable								
Iran	-	-	B+	-	BB	7.3	26.2	9.9	31.0	4.5	25.4	5.7	0.0
	-	-	-	-	Negative								
Iraq	-	-	-	-	D								
	-	-	-	-	Stable								
Jordan	BBB	Baa3	-	BB	B	-4.8	73.4	91.1	18.5	13.7	266.6	-21.5	10.7
	Stable	-	-	Stable	Stable								
Kuwait	A+	Aa2	AA-	A+	A	38.8	10.8	13.7	8.9	2.7	129.3	44.5	-4.5
	Stable	-	-	Stable	Stable								
Oman	BBB+	A1	-	BBB+	A	16.0	6.5	14.1	18.0	5.0	101.6	19.4	1.9
	Stable	-	-	Stable	Stable								
Lebanon	B-	B2	B-	B-	CCC	-12.5	178.1	105.2	179.5	30.4	209.2	-15.6	4.5
	Negative	-	-	Negative	Stable								
Qatar	A+	Aa2	-	A+	A	17.6	19.1	46.5	55.3	8.4	440.6	35.8	4.3
	Stable	-	-	Stable	Stable								
Saudi Arabia	A+	Aa3	A+	A+	A	18.0	10.8	8.4	21.1	3.7	130.0	30.8	0.3
	Stable	-	-	Stable	Stable								
Syria	-	-	-	-	CCC	-3.6	41.9	30.8	68.0	5.6	146.9	2.0	1.6
	-	-	-	-	Stable								
UAE	-	Aa2	-	A+	A	30.4	10.7	38.2	10.0	1.8	248.7	25.8	5.1
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	B	-	38.8	28.9	69.2	2.8	73.9	-5.2	-
	-	-	-	Stable	Stable								
<b>Central &amp; Eastern Europe</b>													
Ukraine	BB-	Ba3	BB-	-	BB	-2.5	19.6	42.8	58.7	2.8	188.4	-0.9	5.5
	Stable	-	-	-	Stable								
Russia	BBB+	A2	BBB+	-	BBB	7.2	10.9	30.4	81.3	3.6	96.9	14.4	0.8
	Stable	-	-	-	Stable								
Turkey	BB-	Ba1	BB-	BB-	B	-1.6	64.9	49.2	117.5	25.2	343.5	-8.2	4.5
	Stable	-	-	Stable	Stable								
<b>Latin America</b>													
Brazil	BB	Ba1	BB	-	BB	-3.2	72.7	17.2	56.3	29.3	205.1	1.2	1.6
	Stable	-	-	-	Stable								

Sources: Moody's; EIU

