



## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## MENA

**High inflation could hurt sovereign ratings**

Moody's Investors Service indicated that high and accelerating inflation is increasing political and economic risks in the Middle East and North Africa and could potentially hurt the sovereign ratings of some of the region's economies. It said the ratings of poorer, non-oil-exporting countries are more likely to be affected in the short term by high inflation because of their higher social and fiscal vulnerabilities. However, even the ratings of oil-exporting sovereigns could be affected over the long term if high price growth persists. The agency said inflation can affect ratings indirectly through fiscal, political and economic channels, and already noted such trends in the region. It said some governments are finding it difficult to maintain fiscal discipline given increased sensitivities to the risk of social unrest. Also, poorer countries have less room for maneuver, and therefore the political and fiscal consequences of inflation are of greater short-term concern. It added that the ratings of non-oil exporting countries that are already experiencing high rates of inflation are more likely to be affected in the shorter term than those of the more affluent Gulf oil-exporters.

Source: *Moody's Investors Service*

## GCC

**U.S. open to sovereign wealth funds**

U.S. Treasury Secretary Henry Paulson declared that the United States will remain open to sovereign wealth funds (SWFs) from the GCC, adding that the US did not share the "widespread, suspicious view" about such funds as long as they are commercially-driven. However, he expressed the need to codify a set of "best practices" to safeguard SWFs against protectionism and to ensure that certain standards were met, something the International Monetary Fund is developing. The Abu Dhabi Investment Authority injected \$7.5bn in Citigroup last November, becoming one of the bank's biggest shareholders. Also, the Kuwait Investment Authority invested \$5bn in Citigroup and Merrill Lynch. Paulson denied that the IMF initiative to set best practices standards aimed to limit the scope of SWFs' activities or release privileged information.

Source: *AFP*

## UAE

**Abu Dhabi plans new law on foreign ownership**

Abu Dhabi's Department of Planning and Economy confirmed it is working on adopting a law that allows foreign investors 100% ownership in various economic sectors. The current corporate law in the UAE allows foreigners to own 49% of the companies. The new law is expected to be issued this month. Foreign investments in Abu Dhabi rose to AED17.8bn 44.84bn in 2007 from AED16.1bn in 2006.

Source: *Dow Jones Newswires*

## SUDAN

**Launch of first genocide-free stock screening tool**

The Genocide Intervention Network (GIN), a lobbying group for divestment from Sudan, and FOLIO Investments launched the first stock screening tool that allows investors to build investment portfolios free of companies that are considered as supporting conflict in Sudan. The tool enables individual investors and investment advisors to automatically screen out companies on the Genocide Intervention Network's "Highest Offenders" list, defined as companies whose operations negatively impact the political or humanitarian situation in Sudan while offering minimal benefit to Sudan's disadvantaged populations. Further, the Highest Offenders have proven to be largely unresponsive to engagement by shareholders.

Currently, three Highest Offenders trade on major U.S. exchanges and are screened out by the new tool. They are China Petroleum & Chemical Corporation or Sinopec Corporation (SNP), PetroChina (PTR), and Sinopec Shanghai Petrochemical Co. (SHI). The list of securities is expected to change over time as the GIN periodically reviews and updates its Highest Offenders list. The new FOLIO Investing stock screen complements the GIN's mutual fund screening tool. The fund tool identifies whether a mutual fund, based on the most recent fund data available, holds stocks that are on the divestment list.

Source: *Genocide Intervention Network*

## ALGERIA

**Nuclear deal to be signed with France**

Algeria announced it will sign with France a civilian nuclear energy cooperation pact later this month. The agreement calls for the exchange of technology between the two countries as well as technical and financial assistance from France. The partnership will allow Algeria to take part in nuclear energy research, training and to exploit its uranium reserves. The deal, covering power generation and applications of nuclear technology in agriculture, biology and water resources must be endorsed by the European Union, which has to verify it conforms with the Euratom treaty that seeks to protect the population from harmful radioactive effects. Algeria has already signed similar agreements with the United States and Russia.

Source: *AFP*

## WORLD

**\$3bn in emergency aid to face food crisis**

The United Nations announced almost \$3bn in new emergency aid to help ease the global food crisis. The Islamic Development Bank led all donors by pledging \$1.5bn to be spent on agriculture in the poorest countries. But the U.N. warned that up to \$20bn a year could be needed to face the food crisis.

Source: *Reuters*

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# POLITICAL RISK OVERVIEW - MAY 2008

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## ALGERIA

Six soldiers were killed in an Al-Qaeda in the Islamic Maghreb attack in the Medea province on May 17th. Hundreds of Algerian security forces were deployed in the town of Beriane to end three nights of clashes between Arabs and minority Berbers. Clashes were halted on May 17th.

## ARMENIA

EU's special representative to the South Caucasus said on May 7 that the European Union has been keeping a close eye on Armenia fulfilling the PACE resolution that urged the authorities in Yerevan to release political prisoners, drop restrictions on freedom of assembly and allow an independent inquiry into the March 1 street fighting in Yerevan. The opposition candidate Ter-Petrosian claimed on May 5 that more than 100 of his supporters are still in custody. Armenia's Defense Ministry announced a significant military budget increase on May 12 to counterbalance Azerbaijan's military spending.

## EGYPT

Clashes in bread queues resumed on May 18 after April violent protests. The government responded with a 30% increase in government workers' salaries, but raised fuel prices by 40%. Due to the rising dissatisfaction, the ruling National Democratic Party is expected to withdraw its backing for President Mubarak's son Gamal in 2011 presidential elections.

## IRAN

The IAEA report of May 26 insisted that "substantive explanations are required from Iran" and that the alleged weapons studies remain a matter of serious concern. Former nuclear negotiator and Iran's new Parliament Speaker Ali Larijani said on May 28 that the attitude of the IAEA is unwelcome and threatened to limit cooperation with the agency. The European Union's Foreign Policy Representative, Javier Solana, announced on early May preparations to offer a new package of economic incentives to Iran in exchange of a prolonged suspension of its enrichment activities. Tehran sent its own proposals to the UNSC on May 13 calling for new international talks. Iran officials accused the U.S and the U.K of training and financing the terrorists behind the April 12 bombing at a mosque in the southern city of Shiraz.

## IRAQ

Iraqi forces, assisted by the U.S., continued to battle Shiite militants in Baghdad's Sadr City in early May. The conflict between Muqtada al Sadr and the Iraqi government came to a halt on May 10 after Mr. Sadr agreed to a truce brokered by Iran. Prime Minister Nouri al-Maliki took personal charge of a military operation in Mosul on May 14 to rout al Qaeda in Iraq in what is considered as the group's last major stronghold. A Pentagon audit of \$8.2bn in American taxpayer money spent by the United States Army on contractors in Iraq has found that almost none of the payments followed federal rules. Iraqi officials called on GCC states to cancel or waive at least part of their share of the country's foreign debt. Baghdad's request was made at the first annual review of the International Compact with Iraq, a five-year economic and political reform package that the UN helped broker last May.

## KAZAKHSTAN

New Russian President Medvedev, making his first foreign visit as president, visited Kazakhstan on May 22 to emphasize the importance of energy issues in the Kremlin's geopolitical mindset and to discuss bilateral ties.

## MOROCCO

Rabat continued its campaign to dismantle the suspected al-Qaeda-linked cells. The authorities arrested 11 suspects in Nador and Fez on May 19 for supporting al-Qaeda attacks abroad. The major labor unions held strikes in the middle of the month, protesting rising living costs.

## SUDAN

Tension rose between the Northern National Congress and the SPLM. A week of clashes between northern government soldiers and former southern rebels left at least 22 soldiers dead and up to 90,000 displaced. The Darfur rebels from the Justice and Equality Movement (JEM) attacked Khartoum on May 10-11, in a first attempt on the capital for 30 years, and 200 were reportedly killed. Sudan announced on May 11 it will cut its diplomatic ties with Chad, accusing its neighbor of backing the JEM for the attack on the capital. The U.S. decided on June 3 to suspend the talks to normalize relations with Sudan because of the failure of northern and southern leaders to find a solution to the conflict.

## SYRIA

Israel and Syria confirmed on May 21 that they were holding peace talks through Turkish mediation. The Syrians asked Israel to withdraw from the Golan Heights while Israel wanted Syria to abandon relations with Iran and to distance itself from Lebanon's Hezbollah movement and the Palestinian group Hamas. The corruption accusation on Israeli Prime Minister Ehud was seen as a potential obstacle to the success of the negotiations. Syrian President Bashar al-Assad dismissed Israeli demands on May 27th. Also, Israeli Deputy Prime Minister Shaul Mofaz, who hopes to replace the embattled premier, said on June 2 that he's against any withdrawal from the annexed Golan Heights as part of a peace deal with Syria. French President Nicolas Sarkozy praised Damascus' efforts regarding Lebanon during a phone call with President Bashar al-Assad on May 29th. After U.S. officials asked the IAEA inspectors to expand their search for the alleged nuclear program on May 29, Syrian officials agreed to allow inspectors to enter the country.

## TURKEY

Turkish special envoy for Iraq met Kurdish regional Prime Minister Barzani in Baghdad on May 2 to improve relations. A new series of strikes against Kurdish bases in northern Iraq killed more than 150 PKK militants during the month. Prime Minister Erdogan announced aid packages for Kurdish regions on May 27th. The U.S. imposed financial sanctions on the PKK on May 30th.

## UKRAINE

Authorities banned Moscow's mayor Luzhkov from entering the country on May 12 after he called for Russia to take ownership of the Black Sea naval port of Sevastopol.

*Source: International Crisis Group*



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# OUTLOOK

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## EMERGING MARKETS

### **Sovereign ratings could be vulnerable to a hard landing**

Moody's Investor Services indicated that macroeconomic stress has been gradually building across Emerging Europe and is starting to reach critical levels, as several years of current account deficits and rapid credit growth have left a number of countries vulnerable to a rapid and difficult economic adjustment. It noted that despite increasing levels of macroeconomic stress in recent years, sovereign ratings in Emerging Europe have remained broadly unchanged. Moody's expressed concern that some of the region's economies would contract substantially, and the current account deficit would sharply decline or even reverse. It also expected problems in the financial sector, and possibly a decline in the value of the currency. It noted that rising imbalances are reflected in the fixed income and credit default swap (CDS) markets, where CDS prices have risen and bond spreads have widened significantly since July 2007 and some of these markets are now factoring a material risk of default. It noted that although capital flows to the region have been maintained so far, international banks and investors have become more risk averse and capital constrained.

Moody's identified three groups of countries based on the potential impact of a hard landing on their respective sovereign ratings. The first group contains the countries whose rating would, in all likelihood, be resilient to a severe but unlikely hard landing such as Iceland, Estonia, Bulgaria, Kazakhstan and the Czech Republic. The second group includes the countries whose ratings may come under moderate pressure such as Romania, Poland and Croatia. The third group covers countries whose ratings would be under significant pressure such as Hungary, Latvia and Lithuania.

*Source: Moody's Investor Services*

## MAURITANIA

### **Higher private sector growth and impact of food and oil prices are key priorities**

The International Monetary Fund expected Mauritania's real GDP growth at 5% in 2008, up from 1% in 2007 and non-oil GDP to grow by 5.7% this year compared to 5.9% in 2007. It forecast inflation to average 12.5% in 2008, up from 7.3% in 2007. The Fund said non-oil GDP growth has been strong, and sound macroeconomic management has led to containing inflation, improving the fiscal stance, and increasing the country's foreign exchange reserves despite a difficult external environment. But it warned that the country's near-term prospects have become more challenging. According to the Fund, Mauritania's immediate priority is to address the social and economic impact of higher food and oil prices, while its medium-term challenge is to solidify macroeconomic stability, reduce the economy's vulnerability to limited oil revenue prospects, and accelerate private sector-led growth to reduce unemployment and raise living standards.

The IMF said ongoing banking sector reform is critical to higher private sector-led growth. It stressed the importance of bolstering the weak banks and reducing the large stock of nonperforming loans, adding that the increased presence of foreign

banks is likely to boost competition and, along with improved banking supervision, should strengthen the financial sector. The Fund encouraged the new government to pursue a prudent debt strategy and debt management framework aimed at further mobilizing concessional loans to finance its poverty reduction strategy, including the delivery of pledges made by donors last year. It expected the country's external debt to decline from \$2.7bn, or 96% of GDP, at end-2007 to \$2bn or 56.4% of GDP at end-2008. It also forecast official foreign currency reserves at \$330m at end-2008, equivalent to 2.8 months of import cover.

*Source: International Monetary Fund*

## IRAN

### **Inflation, phasing out energy subsidies are main challenges**

The International Monetary Fund said Iran's economic growth has been robust and its external position has strengthened in recent years on the back of rising oil prices. Real GDP growth averaged 6.2% a year during the 2005/06-2007/08 fiscal years and gross official reserves reached \$82bn, equivalent to 11.5 months of imports by end-2007/08. Inflation, however, has risen markedly, owing to strong domestic demand growth. Progress on structural reforms has been mixed. Implicit energy subsidies have been reduced, the preparatory work for implementing the VAT is close to completion, and tax collection agencies have been upgraded with new IT technology. It noted that weaknesses in the business environment represent an obstacle to private sector development. The Fund said Iran's key short-term challenge is to reduce inflation, and recommended strengthening the fiscal stance, increasing banking rates of return that are becoming increasingly negative in real terms, and allowing for greater exchange rate flexibility. The IMF considered that the medium-term priority should be to further strengthening public finances and improving the overall efficiency of the economy, including the phasing out of large energy subsidies and replacing them with targeted social assistance. It also encouraged deepening financial intermediation and improving the business climate in order to generate faster economic growth and create jobs.

*Source: International Monetary Fund*

## TUNISIA

### **Economic growth at 5.5% in 2008**

The International Monetary Fund projected Tunisia's real GDP growth at 5.5% for 2008, down from 6.3% last year. It expected the country's nominal GDP to reach \$39.2bn this year, up from \$35bn in 2007. The IMF forecast Tunisia's annual average inflation rate at 4.7% in 2008, up from 3.1% in 2007. Also, it expected the growth of broad money to be at 9.4% this year down from 12.5% last year. The Fund projected the central government's fiscal balance to post a deficit of 2.7% of GDP in 2008, down from 2.9% in 2007. The IMF expected Tunisia's public debt to continue its downward trend and to reach 50.3% of GDP at end-2008 from 51.5% at end-2007. It also forecast total gross external debt at 53.1% of GDP this year down from 58% last year. Further, the country's current account balance is projected to post a deficit of 2.7% of GDP this year up from 2.5% in 2007. The Fund expects the country's gross official reserves to reach \$9.2bn in 2008 up from \$8bn in 2007.

*Source: International Monetary Fund*

# ECONOMY & TRADE

## SYRIA

### Islamic insurer gets final approval

The Dubai Islamic Insurance and Reinsurance Co., or Aman, received the final approval from the Syrian Insurance Supervisory Authority to operate in Syria. The new firm, named Aman Syria for Takaful, would be the second Islamic insurer to enter the Syrian insurance market after the Akila Insurance company. There are currently nine private insurance firms operating in Syria in addition to the state-owned Syrian Insurance Company. Total insurance premiums generated in Syria reached \$193.5m in 2007, up 25% from the previous year.

Source: *Dow Jones Newswires, Syria News*

### Informal economy equivalent to 40% of economic activity

Deputy Prime Minister for Economic Affairs Abdullah Al Dardari estimated the informal economy to be equivalent to 40% of the Syrian economy, adding that the size of the gross domestic product will expand correspondingly once the sector is regulated and integrated. He declared that the informal economy is interconnected with fighting poverty and modernizing small and medium-size enterprises. He added that authorities will have a clear vision by the start of 2009 on how to deal with the informal economy and regulate it properly.

Source: *Syria News*

## KUWAIT

### Political tension unlikely to affect ratings

Moody's Investors Service indicated that Kuwait's ratings of 'Aa2' are constrained mainly by political and institutional factors, as the quality of governance tends to be weaker and the regional geopolitical environment more hazardous than in similarly-rated countries. It said that although the country's foreign assets provide an increasingly important source of capital diversification, the economy remains highly dependent on hydrocarbons and its performance is far more volatile than larger, more diversified economies. It noted that the most important short-term economic challenge is inflation, which threatens competitiveness, creates market distortions and could raise social tensions.

Also, Moody's expressed concerns about the banks' aggressive growth in lending, particularly for purchases of local real estate or equities, as well as the moral hazard that could ensue from the recent establishment of a government fund to assist overextended debtors. It noted the negative consequences of the fractious relationship between the government and the parliament in terms of the very slow legislative process, the constant change of Cabinet members, and the constraints this places on economic development. However, it considered it highly unlikely that such tensions could escalate into a disruptive crisis that seriously threatened the core pillars of the country's sovereign ratings.

Source: *Moody's Investors Service*

## SUDAN

### Public debt at \$28bn at end-2007, non-concessional borrowing to be limited to \$700m in 2008

The Ministry of Finance estimated public and publicly-guaranteed debt at over \$28bn at end-2007, up by 40% since end-2000. It said Sudan's debt service capacity will be constrained in 2008 by the burden of implementing the various peace agreements, addressing the damage of the 2007 floods, paying off domestic arrears, rebuilding foreign exchange reserves, and addressing critical poverty and reconstruction requirements. It noted that additional shortfalls or delays in donor assistance or a negative shock to oil prices would further limit the government's capacity to service debt obligations. The ministry noted that Sudan continues to suffer from limited access to concessional loans because of the difficulties in resolving its debt and arrears situation. As such, it had to tap non-concessional borrowing in recent years in order to finance key infrastructure, reconstruction, and social development projects. It plans to limit such borrowing to \$700m in 2008 due to concerns of other creditors and to the risks it may pose over the medium- and long-term.

Source: *Ministry of Finance*

## ARMENIA

### External debt accounts for 86% of public debt

Figures released by the National Statistical Service show that Armenia's public debt totaled \$1.81bn at the end of March 2008, constituting an increase of 9.1% from end-2007. External debt reached \$1.55bn, accounting for about 86% of total debt at the end of the first quarter of the year. External debt rose by nearly 27% from end-2007. Debt to multilateral creditors totaled \$1.28bn, or 82.5% of foreign debt. World Bank lending rose by 21% year-on-year to \$1.5bn and accounted for 82% of multilateral debt. It was followed by the IMF with \$161.5m, or 15.4%, of multilateral debt, the UN's International Fund for Agricultural Development with 5.6% of the total and OPEC with 1.3%. Bilateral debt totaled \$270.8m at end-March, equivalent to 17.5% of total external debt. Germany accounted for 46% of bilateral debt, followed by Japan with 38%, the U.S. with 14% and France with 2%. The IMF forecast Armenia's total public debt at 16.4% of GDP at end-2008.

Source: *National Statistical Service*

## KAZAKHSTAN

### Annual inflation at 19.5% in May

Data released by the Statistical Agency of Kazakhstan shows that annual consumer price inflation reached 19.5% in May compared to 19.1% in April and 18.7% in March. Food prices rose by 28.3% annually in May, compared to 27.5% in April and 27.1% in March, while non-food goods and services inflation increased by 13.8% year-on-year in May from 13.7% in April and 13.1% in March. Non-food inflation contributed 8.4 percentage points to the May inflation rate compared to 8.3pp in April, whereas food price inflation contributed 11.1pp relative to 10.8pp in April. Inflation rose by 1% month-to-month in May, with food prices increasing 1.4%, non-food prices rising 0.6% and services prices rising 0.9%.

Source: *Credit Suisse*



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# BANKING

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## SYRIA

### **Kuwaiti shareholder sells stake in Cham Bank**

The Kuwait-based Investment Dar agreed to sell its 12.5% stake in Cham Bank to the Commercial Bank of Kuwait for \$7m. Following the deal, the CBK will become the largest shareholder in Cham Bank with a 22.5% stake. Both parties are currently awaiting the approval of monetary authorities in Kuwait and Syria. Cham Bank's assets reached SP7.2bn and its deposits totaled SP7.2bn at the end of 2007. Cham Bank is the first Islamic bank to operate in Syria. It started operations in the second half of 2007 and has four branches in the country.

*Source: Dow Jones Newswires*

## EGYPT

### **Central Bank asks financial institutions to use new credit bureau**

The Central Bank of Egypt (CBE) required banks and mortgage companies to rely on the newly formed Egyptian Credit Bureau, I.Score, to investigate the credit history of their clients without resorting to the credit database at the CBE. The bureau, owned by about 25 private and state banks and the Social Fund for Development, received a license from the CBE in January. It exchanges credit information on borrowers with banks, mortgage finance firms and leasing companies. The CBE said it will monitor banks and mortgage companies' degree of reliance on the new system to ensure credit quality, and will continue to receive data from banks on their clients as usual to rule out the possibility of any disruptions. The Egyptian Credit Bureau said it has a database of 2.2 million customers, including 27,500 small and medium-size enterprises.

*Source: Al Mal, EFG Hermes*

## SUDAN

### **Central Bank to take measures to reduce NPLs**

The Central Bank of Sudan said non-performing loans (NPLs) net of provisions in the banking sector rose from 17% at end-2006 to an estimated 23% by end-2007 mainly due to the accumulation of government arrears, adding that continued weakness at Omdurman National Bank (ONB) and Bank of Khartoum remain at the heart of the problem. The Central Bank said it has taken steady action to improve supervision and move ONB back to financial health, as an independent audit of the bank consistent with international good practices has already begun. On the basis of this audit, authorities intend to formulate by end-September a strategy for restructuring or privatizing ONB. In parallel, Bank of Khartoum has taken steps to merge with a strategic partner, which should help to address deficiencies in the bank's balance sheet. It added that the remaining commercial banks have made steady progress in reducing their outstanding stock of NPLs and strengthening their balance sheet. It expected this process to accelerate as the government moves to address overdue payment obligations. The Central Bank said it will require remaining problem banks to submit a time-bound action plan to accumulate sufficient provisions to reduce NPLs and to raise their capital adequacy ratio to meet existing prudential standards.

*Source: Central Bank of Sudan*

## QATAR

### **Bank Saderat Iran opens branch**

Bank Saderat Iran, one of Iran's largest state-owned banks, opened a branch in Qatar and plans to open additional branches in the country. In September 2006, the U.S. administration cut off Bank Saderat from the U.S. financial system because of alleged financing of nuclear proliferation and terrorism activities. It also designated the bank as a supporter of terrorism in October 2007, accusing it of transferring money to militant groups in the region. An estimated 200 financial institutions cut off dealings with the bank since it was blacklisted by the U.S.

*Source: Al-Sharq*

## ARMENIA

### **Central Bank increases policy rate**

The Central Bank of Armenia increased its annual refinancing rate by 0.25% to 7%, the fourth such rise this year, and kept all other key policy rates unchanged. It attributed the decision to inflationary pressures from continuing high oil prices, despite a reduction in global food prices. It said that imported inflation and high domestic demand are the key drivers of overall inflation. The CBA stated that its priority is to mitigate inflationary expectations and neutralize the secondary effects of imported inflation. It added that further changes in the refinancing rate will depend on the scale and rate of response of domestic prices to the movement in global prices of foodstuffs. Inflation in May rose by 1.3% month-to-month and by 9.9% year-on-year. The fiscal 2008 budget has inflation forecast at between 2.5% and 5.5% at end-2008.

*Source: Central Bank of Armenia*

## NIGERIA

### **Central Bank raises policy rate and banks' reserve requirements**

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) increased the monetary policy rate by 25 basis points to 10.25%, constituting the first raise since the 50bp hike last April. The MPC also announced an increase in banks' cash reserve ratio from 3% to 4%, effective June 9th. The raise in the cash reserve ratio is the first since the consolidation of Nigeria's banking sector at the end of 2005. The tightening measures were broadly expected given the scale of the inflation pressures Nigeria is currently facing. Food inflation increased to 13.1% year-on-year in April 2008 from 12.6% in March and 8.2% at the end of 2007, while annual headline inflation rose to 8.2% in April from 7.8% in March. Also, credit to the private sector increased by 96% year-on-year in March along with annual money supply growth of 62% in March. Additionally, non-food inflation remains a key concern, as the CBN noted that threats of a resurgence of inflation are very elevated with fiscal expansion at an all-time high. The government will disburse \$3.4bn from the Excess Crude Account to the three tiers of government in June.

*Source: Standard Chartered*



# ENERGY / COMMODITIES

## Oil steadies after falling on demand concerns

Oil held above \$122 a barrel on June 5, steadying after two sessions of losses that were prompted by growing concern about a slowdown in global demand. Crude ticked up on an explosion at a petrochemical plant in Kuwait, but it lost gains after a Kuwait official announced that the blast did not affect oil exports. U.S. crude was up 25 cents to \$122.55 a barrel having settled down \$2.01 on June 4 at \$122.30, its lowest settlement in almost a month. London Brent added 21 cents to \$122.31. Downward pressure could still come from the waning prospects for demand, as a growing number of Asian nations struggle to sustain the cost of shielding consumers from record oil prices.

The U.S. Energy Information Administration reported gasoline inventories rose 2.9 million barrels last week while gasoline demand over the past four weeks slumped 1.4% versus last year. Distillate stocks jumped by 2.3 million barrels, while crude stocks fell 4.8 million barrels. Dealers were keeping an eye on the U.S. dollar, which hit a three-month high versus the yen on June 5, boosted by a view that U.S. interest rates will not be cut further.

Source: Reuters

## Syria's daily production of crude oil averaged 366,000 in the first quarter of 2008

Syria's production of crude oil reached an average of 366,329 barrels a day (b/d) during the first quarter of 2008. The Syrian Petroleum Company (SPC) produced 195,516 b/d, including 184,670 b/d of heavy crude and 10,846 b/d of light crude. SPC's production recorded an increase of 3% compared to the same period of last year when daily average production stood at 189,626 b/d. These figures refer to the oil extracted from fields operated directly by SPC, most of which are located in the extreme north-east part of the country. Meanwhile, the combined production of the private operators reached 170,813 b/d. This output is above the planned production rate of 158,483 b/d. Five joint-ventures between SPC and foreign oil operators are active in Syria. The value of SPC's production at world market prices reached SYP86bn (\$1.8bn) during the first quarter of 2008, well above the budgeted value of SYP41bn, because of the surge in the world price of crude oil.

Source: Syria Report

## Plan to introduce extraction tax and export tax on oil, gas and mining companies

Prime Minister Karim Masimov is planning to introduce a new tax code, which will impose a mineral extraction tax and an export tax on most oil, gas and mining companies, unless they have received special permission from parliament. Last month, Kazakhstan introduced an oil export tax of about \$15/bbl, which covered most domestic producers, but which exempted mostly foreign companies working under production sharing agreements or whose contracts prevented adverse tax changes. The new tax code, which is due to come into force on January 2009, will regulate all taxation rather than contracts signed earlier, and will, therefore, include those previously exempted companies, such as the participants of the Kashagan project and the Karachaganak and Tengiz oil and gas fields.

Source: Interfax

## Base metals: Continued to trade in a mixed fashion

Base metals continued to trade in a mixed fashion. While the sector has been holding up quite well during the first half of the week, prices came under pressure during the second half. At the moment aluminum prices trade at just under \$3,000. Copper prices stand at roughly \$8,100. Lead prices extended their losses amid rising supply from the San Cristobal mine in Bolivia. Now prices stand at \$2,000. Zinc and tin prices are largely unchanged at \$2100 and \$24,000, respectively. During the last couple of days nickel prices have broken the \$25,000 to \$30,000 price range to the downside and currently stand below \$23,000.

Source: Credit Suisse

## Precious metals: Prices fall as dollar strengthens

Precious metals prices have seen significant profit-taking this week. Gold prices fell below the \$900 mark and are currently trading at \$895. Silver prices followed suit, although the price drop was a bit large in percentage terms. At the moment silver is trading roughly at \$17.30. A similar picture can also be seen in the platinum group metals, with platinum prices retreating to \$2,050 and palladium prices falling to \$430. Longer term rising production costs, lower central bank sales and robust jewelry demand are expected to prevent gold prices from declining sharply.

Source: Credit Suisse

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	254.8	244.0	225.7	-1.2	26.3
LME metals price index	3750.8	3865.3	3882.4	-9.5	-9.3
Oil prices USD	126.6	103.7	91.1	9.5	100.1
Oil prices SDRs	78.1	64.6	57.9	10.0	86.9
Gold \$/troy oz	883.5	896.3	802.0	0.6	34.3
Silver cents/troy oz	1717.0	1691.2	1507.2	2.3	31.8
Platinum \$/troy oz	1987.0	1850.9	1591.3	1.9	56.8
Copper \$/MT	8109.5	7819.4	7707.9	-7.2	10.2
Nickel \$/MT	22047.5	27874.4	30238.7	-22.5	-56.8
Aluminium \$/MT	2860.5	2735.0	2640.3	-2.6	4.4
Zinc \$/MT	2014.8	2346.7	2748.1	-9.7	-43.7
Steel - HR coil dry \$/MT	605.0	605.0	583.3	0.0	12.0

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	9.4	14.0	3.1	5.4	1.9	3.7	14.4	0.8
	-	-	-	-	Stable								
Angola	-	-	-	-	BB	3.8	10.9	13.8	14.5	5.3	41.2	31.6	2.4
	-	-	-	-	Stable								
Egypt	BB+	Ba1	BB+	BBB-	B	-6.9	82.5	21.9	55.2	6.0	109.2	1.4	4.6
	Stable	-	Positive	Stable	Stable								
Ethiopia	-	-	-	-	CCC	-4.8	-	20.5	327.7	2.9	458.7	-8.7	2.2
	-	-	-	-	Stable								
Ghana	B+	-	B+	-	B	-8.0	-	35.3	120.0	3.3	219.3	-9.8	-
	Stable	-	Stable	-	Stable								
Ivory Coast	-	-	-	-	CCC	-3.4	-	47.6	97.4	4.2	339.0	6.9	-
	-	-	-	-	Stable								
Libya	-	-	-	-	BB	31.4	4.3	8.9	11.4	2.8	5.6	16.8	2.4
	-	-	-	-	Stable								
Mauritania	-	-	-	-	-	-2.3	105.9	78.9	123.4	4.5	-	-2.6	-
	-	-	-	-	-								
Morocco	BB+	Ba1	BBB-	BBB-	BB	-1.8	54.3	22.2	115.7	7.9	63.3	1.0	4.0
	Stable	-	Stable	Stable	Stable								
Nigeria	BB-	-	BB-	-	BB	-1.2	14.4	4.2	8.6	0.5	-	9.6	1.2
	Stable	-	Stable	-	Stable								
Sudan	-	-	-	-	CC	-3.1	83.6	51.3	205.9	2.1	-	-5.6	3.8
	-	-	-	-	Negative								
Tunisia	BBB	Baa2	BBB	BBB	BBB	-1.5	49.1	52.7	90.5	12.3	232.1	-1.9	2.8
	Stable	-	Stable	Stable	Stable								
<b>Middle East</b>													
Bahrain	A	A2	A	A	A	8.3	25.6	112.1	140.2	5.1	680.5	12.6	10.5
	Stable	-	Stable	Stable	Stable								
Iran	-	-	B+	BB-	B	-9.3	22.7	4.4	16.5	2.8	19.2	7.7	2.4
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	C	26.5	-	90.6	137.1	2.9	267.8	18.2	-
	-	-	-	-	Positive								
Jordan	BB	Ba2	-	BB	B	-4.6	72.6	87.6	237.8	6.1	220.6	-13.2	11.5
	Stable	-	-	Stable	Stable								
Kuwait	AA-	Aa2	AA-	AA-	A	33.0	6.9	15.2	3.1	3.5	83.2	47.9	-7.3
	Stable	-	Stable	Stable	Stable								
Lebanon	CCC+	B3	B-	B-	CCC	-13.2	176.1	100.0	767.3	22.8	255.8	-11.2	5.1
	Stable	-	Stable	Negative	Stable								
Oman	A	A2	-	A	A	10.4	5.6	11.4	20.5	5.9	79.6	13.6	2.0
	Stable	-	-	Stable	Stable								
Qatar	AA-	Aa2	-	AA-	A	12.0	11.4	59.3	104.0	11.0	565.3	35.8	2.2
	Stable	-	-	Stable	Stable								
Saudi Arabia	AA-	A1	A+	AA-	A	17.6	3.8	7.8	15.2	2.0	154.9	29.3	0.2
	Stable	-	Positive	Stable	Stable								
Syria	-	-	-	-	CCC	-5.5	40.3	13.7	39.8	3.2	100.7	2.2	1.6
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	A	28.5	11.8	55.6	64.5	2.5	303.9	20.9	1.8
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	B	-5.2	-	25.8	97.0	3.1	80.6	-3.9	
	-	-	-	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-	-	-	-2.4	14.6	22.2	227.3	2.6	126.2	-4.0	2.8
	-	-	Positive	-	-								
Bulgaria	BBB+	Baa3	BBB	-	BBB	3.1	16.2	106.9	174.3	18.1	299.8	-19.3	13.7
	Stable	-	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB	-	BB	3.4	4.6	88.9	201.9	48.5	578.4	-5.0	5.6
	Negative	-	Stable	-	Stable								
Romania	BBB-	Baa3	BBB	BBB-	BB	-3.4	12.8	45.3	193.5	24.0	238.0	-15.6	6.4
	Negative	-	Stable	Stable	Stable								
Russia	BBB+	Baa2	BBB+	-	BBB	3.5	5.3	29.4	112.5	17.1	82.4	3.7	0.9
	Positive	-	Stable	-	Stable								
Turkey	BB-	Ba3	BB-	BB-	B	-0.7	50.2	44.5	200.2	37.5	249.5	-5.2	3.1
	Negative	-	Stable	Stable	Stable								
Ukraine	BB-	B1	BB-	-	BB	-2.5	14.5	48.4	143.3	16.4	193.4	-4.4	3.8
	Negative	-	Positive	-	Stable								

Sources: Moody's Investors Service; Economist Intelligence Unit - The above figures are estimated for 2008



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.00	30-Apr-08	Cut 25bps	25-Jun-08
Eurozone	Refi Rate	4.00	08-May-08	No change	03-Jul-08
UK	Base Rate	5.00	08-May-08	No change	10-Jul-08
Japan	O/N Call Rate	0.50	30-Apr-08	No change	13-Jun-08
Australia	Cash Rate	7.25	06-May-08	No change	02-Jul-08
New Zealand	Cash Rate	8.25	24-Apr-08	No change	04-Jun-08
Switzerland	3 month Libor target	2.75	13-Mar-08	No change	19-Jun-08
Canada	Overnight rate	3.00	22-Apr-08	Cut 50bps	10-Jun-08
<b>Emerging Markets</b>					
China	One-year lending rate	7.47	20-Dec-07	Raise 18bps	N/A
Hong Kong	Base Rate	3.50	02-May-08	Cut 25bps	N/A
Taiwan	Discount Rate	3.50	28-Mar-08	Raise 12.5bps	N/A
South Korea	Target Rate	5.00	09-Apr-08	Raise 25bps	12-Jun-08
Malaysia	O/N Policy Rate	3.50	29-Apr-08	No change	N/A
Thailand	1D Repo	3.25	09-Apr-08	No change	16-Jul-08
India	Repo rate	7.75	29-Apr-08	No change	29-Jul-08
UAE	Overnight repo rate	2.00	May-08	Cut 25bps	26-Jun-08
Saudi Arabia	Repo rate	2.00	May-08	No change	N/A
Egypt	overnight lending	12.00	May-08	Raise 50bps	26-Jun-08
Turkey	Base Rate	15.75	16-May-08	Raise 50bps	16-Jun-08
South Africa	Repo rate	11.50	10-Apr-08	Raise 50bps	12-Jun-08
Kenya	Central Bank Rate	8.75	Apr 08	No change	June-08
Nigeria	Monetary Policy Rate	10.25	June-08	Raise 25bps	N/A
Ghana	Prime Rate	16.00	19-May-08	Raise 125bps	N/A
Mexico	Target Rate	7.50	18-Apr-08	No change	20-Jun-08
Brazil	Selic Rate	11.75	16-Apr-08	Raise 50bps	04-Jun-08
Armenia	Refi Rate	7.00	Jun-08	Raise 25bps	N/A
Romania	Policy Rate	9.75	May-08	Raise 25bps	26-Jun-08
Bulgaria	BI Rate	4.96	May-08	N/A	N/A
Kazakhstan	Refi Rate	11.00	Mar-08	N/A	N/A



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