

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Price surges driving some economies to the edge

The International Monetary Fund warned that the impact of surging oil and food prices is being felt globally but is most acute for import-dependent poor and middle-income countries faced with balance of payments problems, higher inflation and worsening poverty. It said many governments will have to adjust policies in response to the price shock while the international community will need to do its share to address this global problem. The Fund cautioned that some countries are at a tipping point, adding that if food prices rise further and oil prices stay the same, some governments will no longer be able to feed their people and at the same time maintain stability in their economies. The IMF called for a broad cooperative approach involving the countries affected, donors and international organizations to cope with the effects of high prices. It said higher food prices have cost a group of 33 poor net food importers \$2.3bn, or 0.5% of 2007 annual GDP, since January 2007, while rising oil prices have cost 59 low-income net oil importers \$35.8bn, or 2.2% of their GDP.

Source: *International Monetary Fund*

MENA

Region's sovereign wealth funds not most transparent

The Linaburg-Maduell Transparency Index of 47 sovereign wealth funds (SWFs) included 12 such funds from the Middle East & North Africa region. The index rates SWFs on a scale of 1 to 10, with 10 being the most transparent and 8 being an adequate level of transparency. The Abu Dhabi Mubadala Development Company, the Kuwait Investment Authority and the Bahrain Mumtalakat Holding Company ranked in 15th place with a score of 6 points each. The Investment Corporation of Dubai ranked in 19th place with 5 points, followed by Saudi Arabia's SAMA Foreign Holdings in 22nd place with 4 points, the Abu Dhabi Investment Authority and Ras Al Khaimah's Investment Authority in 24th place with 3 points each, Iran's Oil Stabilization Fund and Oman's State General Reserve Fund in 30th place with 2 points each, and the Qatar Investment Authority, Libyan Investment Authority and Algeria's Revenue Regulation Fund in 35th place with one point each.

Source: *Sovereign Wealth Fund Institute*

JORDAN

Amman signs nuclear deals with the UK and Canada

The United Kingdom signed a preliminary nuclear cooperation deal with Jordan, paving the way for signing a full agreement between the two countries later this year. The UK and Jordan agreed to cooperate on promoting the establishment of a reliable source of nuclear fuel for future civilian light water nuclear reactors in the kingdom. The two sides also agreed to work together to develop human resources and nuclear safety, as well as generate power and desalinating water through nuclear energy. In parallel, Jordan and Canada signed a nuclear energy cooperation memorandum whereby Canada will help prepare

economic feasibility studies to examine the possibility of introducing the CANDU energy reactor to Jordan. The CANDU is a pressurized heavy water reactor that uses non-enriched uranium as fuel. Jordan imports around 95% of its energy needs and is one of the most water-deprived countries in the world, with a deficit of more than 500 million cubic meters a year. It has been trying to find alternative energy sources. Amman has reached similar agreements with France and the United States aiming to bring its first nuclear plant into operation by 2015 under a multi-billion dollar program, and hopes nuclear power will meet 30% of its energy needs by 2030.

Source: *AFP*

SYRIA

New law regulates real estate ownership by foreigners

President Bashar Assad enacted Law N°11 regulating property ownership for non-Syrians. The law allows the purchase by non-Syrians of real estate property for the purpose of residency, provided that the unit bought has a total area of at least 200 square meters, that it is the permanent residence of its occupiers and that the latter do not resell it within five years from the date of purchase. The act of purchase needs a preliminary approval from the Ministry of Interior. Also, a property owned by a non-Syrian through inheritance will have to be transferred to a Syrian national within a year, or the property will be transferred to the state. The law is considered a step towards facilitating the purchase of residential property by foreigners within the broader objective of encouraging foreign investment in the country.

Source: *Syria Report*

SUDAN

South Sudan and World Bank reach cooperation agreement

The Southern Sudan Reconstruction and Development Fund (SSRDF) and the World Bank signed a Memorandum of Understanding that sets out how to jointly manage donors' funds for development projects in Southern Sudan. The MoU would avoid duplication and parallel operations and maximize the respective strengths and comparative advantages of each side. According to the Comprehensive Peace Agreement (CPA) signed in January 2005, the Multi-Donors Trust Fund (MDTF) was created to manage donors' funds on behalf of the Government of Southern Sudan (GoSS) until the latter develops its capacity and is able to manage such funds by itself. But for the last three years, GoSS institutions that have MDTF-funded projects complained that the World Bank was slow in releasing funds, which resulted in failure to implement a number of development projects in the South. The two institutions agreed that the SSRDF will manage the projects funded by the MDTF and disburse the funds, and that the World Bank would release funds on quarterly basis. Projects that are supposed to be supported by the donors' funds include development of physical infrastructure, promotion of agriculture and private sector development, and institutional development for better governance.

Source: *Sudan Tribune*

POLITICAL RISK OVERVIEW - JUNE 2008

ALGERIA

Al Qaida in the Islamic Maghreb claimed responsibility on June 14 for an attack on an Algerian train station that killed a French engineer on June 8th. It also claimed responsibility for an attack on a military barracks and another at a cafe on June 4 and a road-side bombing on June 5th.

ARMENIA

Former President Levon Ter-Petrosian rallied thousands of supporters in Yerevan on June 20 in what was the first gathering of the opposition since the break-up of its post-election protests. In an effort to fulfill the Parliamentary Assembly Council of Europe (PACE) resolution of April 17, the parliament passed a bill on June 10 allowing the opposition to initiate parliamentary debates. The PACE assembly resolution noted on June 26 an insufficient democratic progress and urged the authorities to release all citizens detained during March events.

EGYPT

Thousands of Egyptian demonstrators clashed with the police to protest a decision by local authorities to end distribution of flour rations in the northern coastal town of Burullus on June 7th. The police arrested 30 protesters. The police arrested 20 people when hundreds of Egyptian Muslims attacked Coptic Christian property after a woman who converted to Islam went missing.

IRAN

A delegation led by EU foreign policy chief Javier Solana proposed on June 13 a package of economic political and security incentives for Iran to give up its uranium enrichment program. The package includes the development of a modern nuclear energy program based on the most modern generation of light-water reactors and a guarantee of fuel supply. The package also includes helping Iran improving its access to international markets, supporting its inclusion in the WTO as well as modernizing its agricultural and telecommunication sectors. Tehran refused to suspend its nuclear activities again but said that it would review the package. The EU froze on June 23 the assets of Bank Melli, Iran's largest bank, and imposed a travel ban on high-level experts dealing with Iran's nuclear program. Iraqi Prime Minister Nuri al-Maliki met President Ahmadinejad on June 8 to reassure Iran over the planned security pact between Baghdad and Washington, promising that Iraq won't be used as a platform to attack the Islamic republic.

IRAQ

A car bomb detonated on June 17 near a Baghdad market killing at least 63 people. Iraqi Prime Minister Nuri al-Maliki rejected on June 13 the U.S. proposals for an ongoing military presence because it violates Iraqi sovereignty, but President Jalal Talabani said on June 24 that there is progress on completing a security pact for the US forces to stay in Iraq after 2008. Muqtada al Sadr announced in mid-June a new strategy including the set up of a specialized armed group to carry out guerrilla attacks on American troops, and to run candidates as independents in the upcoming provincial elections. Australia officially ended its combat role in southern Iraq and about 550 soldiers returned home. Turkmen, Kurds and Arabs rejected the UNAMI proposal presented on June 5 to resolve disputes over a number of areas in the north of Iraq.

KAZAKHSTAN

Kazakhstan's opposition accused the government on June 24 of backtracking on pledges to bring more democracy ahead of the country's OSCE presidency in 2010. Fuel exports halted on June 1 in a further effort to curb prices. The World Bank agreed on June 20 a \$2.5bn Kazak-Russia-Europe transport development program.

NIGERIA

The Movement for the Emancipation of the Niger Delta (MEND) attacked on June 19 the Shell Nigeria Exploration and Production Company operating in Bonga field, leading to the shut of 225,000 bpd in crude oil output. MEND also attacked another crude pipeline belonging to Chevron at Abiteye-Olero in Delta State, shutting off 120,000 bpd in oil output. President Umaru Musa Yar'adua ordered a massive military assault against Niger Delta militants on June 20th. The MEND called for a ceasefire on June 22 but army-militants clashes continued.

SUDAN

The National Congress Party (NCP) and the Sudan People's Liberation Movement (SPLM) agreed on a "Road Map" on June 8th. It consisted of a joint north-south force that took control over the disputed oil-rich Abyei town on June 18 in order to end the conflict that killed 89 people and forced about 50,000 to flee their homes. The U.S. accused U.N. peacekeepers of failing to protect residents in Abyei on June 17th. Leaders of North and South Sudan have agreed on June 21 to submit the disagreement over the Abyei region to international arbitration in The Hague. Sudan's northern and southern armies have both failed to meet an end-June deadline for withdrawal from the region. The European Union has threatened Sudan with new sanctions if the government continues to withhold Darfur war crimes suspects wanted by the International Criminal Court. The Sudanese government is barring all American companies from doing business with the UNAMID because of U.S. sanctions against the country.

SYRIA

Israeli and Syrian negotiators completed the second round of Turkish-mediated talks on June 16th. Israel said that talks were serious, positive and constructive. France invited President Assad on June 15 to the Paris summit of the new European-Mediterranean Union. Israeli PM is also due to attend. Damascus welcomed on June 3 the IAEA's inspection of Al Kibar alleged nuclear site, destroyed by Israeli air strike but it denied access to three other sites. Inspectors completed a 4-day visit on June 25, but claimed that further investigations are needed.

TURKEY

The Constitutional Court ruled on June 5 that the Parliament had violated the principle of secularism when it passed amendments to lift the headscarf ban on university campuses. The amendments were adopted by an overwhelming majority of the Parliament. The PACE urged the Court in a special session held on June 26 to rule according to European principles. Army strikes against the PKK continued. More than 10 PKK militants were reported dead. At least 5 members of security forces were killed in clashes and explosions.

Source: International Crisis Group



OUTLOOK

EMERGING MARKETS

Outlook deteriorating on inflation concerns

Fitch Ratings indicated that the economic and credit outlook for emerging market economies is deteriorating, driven primarily by rapidly rising inflation. It said that the surge in inflation, rather than the direct consequences of the global credit crunch, is the principal threat to macroeconomic and financial stability in many emerging markets. It considered that the risk faced by several central banks is that the failure to contain inflationary pressures will result in downward pressure on exchange rates, especially if the U.S. Federal Reserve raises interest rates. In turn, this would leave policymakers with the difficult choice of either allowing currencies to depreciate, which will stoke inflation further, or intervening in support of their currencies and raising interest rates much more aggressively with negative consequences for growth. The agency noted that economic activity continues to be robust in most emerging markets despite the slowdown in the Group of 7 economies, and expected growth of 6.2% in 2008 compared to 7.2% last year. However, with consumer price inflation in several emerging economies now significantly above official targets and at multi-year highs, along with hikes in public-sector salaries, the risk is increasing of a wage-price spiral as inflation expectations shift upwards.

Fitch warned that inflation can have a negative impact on sovereign creditworthiness by increasing the possibility of macroeconomic volatility, and increases the risk of exchange rate and banking crises. These concerns have been at the forefront of several negative rating actions by Fitch in recent months and the net balance of 'positive' to 'negative' rating outlooks has fallen to just 3 currently from 16 less than a year ago, suggesting that the positive rating momentum of recent years is dissipating. Fitch noted that the global credit crunch has so far not had a noticeable impact on private sector credit growth which remains strong, while rising commodity prices have boosted incomes in resource-rich emerging economies. But it warned that the full impact of the downturn in the U.S. and other advanced economies is yet to be fully felt in terms of reduced export demand. The agency further warned that commodity prices are expected to moderate from current levels and central banks are being forced to tighten monetary policies in response to the upsurge in inflationary pressures.

Source: Fitch Ratings

ROMANIA

Economy still vulnerable to global financial turmoil

The International Monetary Fund expected real GDP to grow by 6.8% in 2008 and 5.8% in 2009, but cautioned that Romania remains vulnerable to additional adverse spillovers from global market turmoil. It considered that the key challenge for the authorities is to strengthen policies and enhance structural reforms to support convergence to EU levels, consistent with the objective of adopting the euro by 2014. This will require a better balance between fiscal and monetary policies to counteract private sector-driven macroeconomic imbalances. It supported targeting a fiscal deficit of about 1.5% of GDP in 2008 and stressed the need to resist pressures to increase social

spending or cut taxes as parliamentary elections approach. The Fund urged the authorities to strengthen fiscal institutions, as a more medium-term-oriented fiscal policy would help Romania maintain sound public finances, increase the efficiency of public spending, and would also enhance its capacity to absorb EU transfers. It considered that improving Romania's budget culture will require increasing fiscal expertise at all government levels, modifying present short-term-oriented budget rules and procedures, and making more use of independent expert panels to mitigate biases in budget forecasts.

The Fund supported the authorities' efforts to manage proactively and contain the present financial stability risks, as evidenced by the rising level of NPLs and shrinking capital and liquidity buffers during a period of rapid credit growth. It welcomed recent measures to raise provisioning for unhedged foreign exchange borrowing and to require banks to improve their liquidity management. But it warned that additional preemptive measures to increase cushions for more risky credit exposures may be needed, particularly in the real estate sector. The IMF recommended the re-launch of structural reforms to support per capita income convergence to EU levels. It said foreign investor interest in Romania remains strong, but looming structural bottlenecks will need to be addressed if this interest is to be preserved or even expanded. Further emphasis will need to be placed on structural reforms with a view to raising energy efficiency, developing public infrastructure, liberalizing further the labor markets, and strengthening the judicial system.

Source: International Monetary Fund

EGYPT

Challenges remain for banks despite reforms

Fitch Ratings said that the Egyptian government's ongoing economic reforms have yielded positive results for banks in terms of transparency and regulation, but there is still room for further improvement. The agency noted that the Central Bank of Egypt's regulatory and supervisory capabilities have been strengthened, with a marked improvement in the quality of bank supervision. It indicated that despite the sector's privatization and consolidation, it remains dominated by the three main state-owned banks, National Bank of Egypt, Banque Misr and Banque du Caire, which together account for around 45% of banking assets. It added that pressure is growing from competitive private-sector banks, many of which are intent on increasing their franchise. Fitch noted that while significant improvement has been made to banks' balance sheets, it remains difficult to determine the exact level of system-wide non-performing loans, adding that poor asset quality has historically been one of the main problems in the Egyptian banking sector, and poor disclosure and lax recognition criteria made it difficult to gauge the full extent of the NPLs problem. Fitch also warned that many banks' capitalization is less than adequate, and that if unreserved NPLs were deducted from banks' capital, ratios would look significantly weaker. The agency believes that authorities remain committed to the privatization of Banque du Caire despite the recent cancellation due to a lower-than-expected response.

Source: Fitch Ratings



ECONOMY & TRADE

SYRIA

Damascus is largest recipient of IMF technical assistance in region

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Syria accounted for 23% of its overall allocation of technical assistance delivery during fiscal year 2008. It was the biggest recipient of such assistance, ranking ahead of 10 countries in the region. Syria received 495 days worth of assistance in 2008, equivalent to 99 Person Weeks, up from 360 days in 2007. It received 160 days in Central Bank accounting support, equivalent to 32.3% of its total assistance. It was followed by revenue administration support with 145 days or 29.3% of the total, banking supervision assistance with 75 days (15%), support for macroeconomic statistics with 70 days (14%), and public financial management assistance with 40 days (8%). METAC's assistance covered technical advice on implementing Basel II, supporting tax and revenues administration reform programs, assisting the Finance Ministry in integrating the current and capital budgets, supporting national accounts statistics, improving balance of payments data collection and assessing foreign trade statistics.

Source: METAC

IRAQ

GDP to double by 2009

Merrill Lynch expected Iraq's nominal GDP to double by the end of 2009 on the strength of high oil prices and an increase in oil production. It put Iraq's nominal GDP at about \$60bn at end-2007, similar to IMF figures, with oil accounting for nearly 70% of GDP. It added that higher oil prices and production will bring significant oil windfall to Iraq. Merrill Lynch's forecast assumes that current levels of global oil prices are maintained, the authorities' expectation for an increase in oil production are realized, and the non-oil sector does not register any real growth for the period. It said the country's nominal GDP would double from its end-2007 level by end-2009 to reach \$120bn under these conservative assumptions, adding that Iraq's current account surplus will reach about 40% of GDP and its budget surplus nearly 30% of GDP in 2009. Merrill Lynch noted that the oil story is the basis for its optimism for the medium-term economic outlook.

Source: Merrill Lynch

EGYPT

IFC to help streamline business start-up procedures

The International Finance Corporation and Egypt's General Authority for Investment and Free Zones (GAFI) signed a memorandum of understanding to help the government attract more investments in Egypt and streamline business registration and licensing through a range of targeted reforms. Over the next year, the project will help create an integrated platform for business start-up procedures at the national level. It will engage the government and the private sector in identifying and resolving issues that hinder processes for obtaining licenses and permits. The IFC said it will share international best practices to help GAFI refine registration and licensing services through one-

stop shops. The project is part of a broader initiative launched in Egypt in 2006 to implement business simplification solutions.

Source: International Finance Corporation

MOROCCO

Unemployment falls to 9.6%

The High Commission for Planning announced that unemployment fell from 13.9% in 1999 to 9.8% in 2007 and 9.6% over the first quarter of 2008. It expected the figure to drop to 9.2% in the second quarter of this year. It said unemployment in urban areas fell from 22% to 15.4% and in rural areas from 9.2% to 3.8% during the 1999-2007 period, adding that the downward trend is tangible in all regions despite some variations. It noted that the trend was accompanied by an average growth of 1.9% in the number of new jobs between 2002 and 2007 compared to 1.2% between 1999 and 2002. It indicated that 151,000 new jobs were created every year on average between 1999 and 2007.

Source: Magharebia News

ARMENIA

Plan to improve business environment approved

The government approved a plan to improve the business environment in the country, with the aim of ranking Armenia within the coming 18 months among the best business environments in the world. The program is based on the World Bank's Ease of Doing Business annual survey where Armenia ranked in 39th place among 187 countries in 2008, up from 46th in 2007. The program aims to rank Armenia among the top 17 countries by 2010. Also, the program aims to improve the country's ranking on the ease of starting a business from 47th in 2007 to third by 2010, and on dealing with licenses from 73rd in 2007 to 7th position over the same period. Also, reforms of employment procedures are expected to move Armenia from the 48th to the 7th position in the employing workers category. Further, Armenia intends to move from the current 36th position in terms of ease of getting credit to 13th place, and to advance from 83rd place currently to 12th in investor protection. The program also provides for reforms in tax payments, international trade, implementation of agreements and closing a business.

Source: ARKA

KAZAKHSTAN

Annual inflation at 20% in June, an 8-year high

Data released by the Statistical Agency of Kazakhstan shows that annual consumer price inflation reached 20% in June compared to 19.5% in May and 18.7% in April. Food prices rose by 29.4% annually in June compared to 28.3% in May and 27.5% in April, while non-food goods and services inflation increased by 13.8% year-on-year in June, unchanged from May and up from 13.7% in April. Food price inflation contributed 11.6 percentage points to the June inflation rate compared to 11.1pp in May and 10.9pp in April. Inflation rose by 1.2% month-to-month in June relative to 1% in May, with food prices increasing by 1.8%, non-food prices by 0.8% and services prices rising 0.8%. The data suggests, in our view, that spillovers from food price inflation to the rest of the economy were limited.

Source: Credit Suisse



BANKING

JORDAN

Foreign reserves drop 12% despite rise in FDI, tourism receipts

Gross official foreign currency reserves reached \$6.05bn at the end of May, a decrease of 11.9% from \$6.87bn at the end of 2007. According to the Central Bank of Jordan, the drop was a result of the government paying off \$2.1bn in debt owed to the Paris Club in an effort to reduce the kingdom's external debt. The drop came despite a rise of 68% in foreign direct investment to JD632m in the first quarter of the year and an increase of 50.3% in tourism revenues to JD549m in the first five months of the year.

Source: *Jordan Times, Al-Ghad Daily*

IRAQ

Central Bank cuts rates on lower inflation

The Central Bank of Iraq reduced interest rates by 100 basis points to 16% starting July 1, 2008. The CBI said the move came after it managed to reduce annual inflation from 15.9% in April to 14.7% in May. This is the third time the bank has reduced its interest rate this year. Last February, the CBI reduced the rate to 19% from 20% and cut the rate further to 17% in the same month. The highest rate of inflation recorded in the past two years was in December 2006 when it reached 66.4%. The CBI added that it will aim to continue reducing the rate of inflation and strengthen the Iraqi currency. Iraq's gross foreign reserves reached \$39bn at the end of May, up from \$31bn in December 2007 and \$20bn in May 2007.

Source: *Dow Jones Newswires*

TUNISIA

System at risk from external shocks

The International Monetary Fund said the Tunisian financial system should be strengthened further to help it withstand potential shocks that Tunisia may face as it pursues its integration in the global economy. It noted the importance of continuously adapting the regulatory and supervisory frameworks to reflect developments in the international financial system. It encouraged authorities in their preparations for the implementation of Basel II, adding that the proactive policy pursued by the authorities helped to further strengthen the soundness of the banking system as reflected in particular by a decrease in NPLs from 19.3% of total loans in 2006 to 17.3% in 2007 and an increase in the provisioning ratio from 49.2% in 2006 to 53.8% in 2007.

Source: *International Monetary Fund*

TURKEY

Basel II implementation indefinitely postponed

The Banking Regulation and Supervision Agency (BDDK) indefinitely delayed the implementation of Basel II rules on credit risk and capital adequacy due to turbulence in global financial markets and after consultation with banks. The BDDK said in a statement that it deemed appropriate to postpone Basel II "to a future date." The BDDK had already deferred the changes to Jan 1, 2009. The BDDK said a delay in passing a new commerce law, which envisages credit ratings for compa-

nies taking out loans, rising securitization, and liquidity risks led to the new postponement in Basel II. The Basel II rules have long been seen by the government, foreign investors, and international institutions as the next major step in raising standards in Turkey's financial sector, where loose regulation helped trigger a crisis in 2001.

Source: *Reuters*

NIGERIA

Central Bank independence questionable

Merrill Lynch said the Central Bank of Nigeria's independence is questionable given its ongoing disagreement with the Ministry of Finance. It said the CBN has adopted a Financial Sector Strategy that has various objectives, including the redenomination of the naira by August 2008, distributing the Excess Crude Account funds in US dollar, full current account convertibility, and inflation-targeting by 2009. But it has faced opposition on all fronts, as President Yar'Adua called off the redenomination of the naira, the CBN has faced growing pressure by state governments to distribute the shared revenues from the ECA in naira, and its aim of adopting inflation-targeting by 2009 seems overly ambitious and is unlikely. It added that the CBN would welcome greater independence, but political appetite seems lacking. It expected the CBN to continue tightening monetary policy via a combination of higher interest rates and a stronger exchange rate.

Source: *Merrill Lynch*

KAZAKHSTAN

Central Bank cuts refinancing rate and reserve requirements

The National Bank of Kazakhstan cut its refinancing rate by 50 basis points to 10.5% effective July 1, 2008. It also reduced the reserve requirements for banks by 100bps on local and external liabilities to 5% and 7%, respectively. The NBK said it decreased the rates in order to support the banking sector's liquidity and to stimulate lending activity. The decisions were unexpected to a large extent, as the inflation problem remains quite significant. The NBK has apparently set the support of banks as its top priority, as they still have to repay \$6.5bn of external debt in the second half of 2008. The reserve requirements were initially supposed to be hiked in January 2008, but the decision has been postponed multiple times. While the measure may free up to \$0.75bn in additional funds to support the banking sector with external debt servicing, it is unlikely to have an immediate effect on inflation due to a weak link between the financial system and the real sector. External bank debt fell to \$45.1bn, or 41% of GDP, in the first quarter of 2008 from \$45.9bn or 44% of GDP at end-2007. Long-term bank debt fell by \$743m and short-term bank debt declined by \$72m.

Source: *Credit Suisse*



ENERGY / COMMODITIES

Oil hits new peak above \$144 on dollar, supply concerns

Oil hit fresh records on July 3 for the fifth time in six sessions, as the dollar hit a two-month low against the euro after a report showed U.S. private employers cut the most jobs in nearly six years and as the U.S. Dow Jones industrial average sank into bear market. Also, a higher than expected fall in U.S. crude stocks raised supply concerns. U.S. crude oil stocks fell by 2 million barrels to 299.8 million barrels, putting commercial inventories below 300 million barrels for the first time since January. U.S. crude rose as much as 87 cents to \$144.44 a barrel, before easing back to \$144.25. The contract touched a previous peak of \$144.32 on July 2nd. London Brent crude rose as much as 85 cents higher at a record \$145.11.

Oil has risen more than 50% this year, helped by inflows of speculative money as investors seek to hedge against the falling dollar and inflation. Oil prices have jumped seven-fold since 2002 as demand from emerging economies like China and India stretch supply growth. In the Middle East, fears of an escalation in the showdown between Iran and the West over Tehran's nuclear program continued to support oil prices.

Source: Reuters

Middle East oil consumption up 4.4% in 2007

According to the 2008 BP Statistical Review of World Energy, the Middle East oil consumption showed above average growth of 4.4% during 2007 as regional and global production fell for the first time since 2002. The rise in Middle East oil consumption to 6.2 million barrels/day reflects the region's continued strong economic growth and mirrors a worldwide trend of increasing demand from emerging markets. In percentage terms, the regional increase in oil demand was the world's third highest after Latin America and Africa.

Source: BP

World oil supplies to stay tight

The International Energy Agency said world oil supply will rise more slowly than expected by 2013, leaving little spare capacity on the market despite weaker demand growth. The IEA said global supply capacity will reach 95.33 million barrels per day by 2012, some 2.7 million bpd less than its previous forecast a year ago.

Source: Reuters

Qatar's natural gas output jumps 17.9%

Qatar's natural gas production totalled 59.8bn cubic meters in 2007 from 50.7bn cubic meters in 2006, an increase of 17.9%. The country's proven reserves were at 25.6 trillion cubic meters at the end of last year, accounting for 14.4% of the world total. The Russian Federation had 25.2% of global proven reserves, followed by Iran with 15.7%.

Source: BP

Base metals: Chinese trade data paint a mixed picture

Base metal prices traded higher amid soaring production costs. The most important data point was the release of Chinese trade data for May. China remained a net importer of primary aluminum. After the hike in domestic energy prices, aluminum producers in China face strong cost pressures. Imports are expected to increase in the next few months. Net imports of copper showed a sharp decline in May suggesting that price support from Chinese buyers is currently limited. China is increasingly dependent on concentrate imports for its copper smelters but due to the tight concentrate market, availability is limited. For nickel, tin and zinc, Chinese trade data were clearly bullish. The fundamental outlook is positive for aluminum, copper and nickel. With monetary policy around the globe becoming more restrictive and with persisting uncertainties regarding the economic outlook, investors are expected to concentrate on the most liquid markets, aluminum and copper.

Source: Credit Suisse

Gold prices: Higher after the FOMC meeting

Prices of gold recovered after the Federal Open Market Committee (FOMC) meeting. The fundamental case for a further recovery of gold prices remains intact. Gold prices are currently mainly driven by the direction of the euro/US dollar exchange rate and US short-term bond yields. Since the European Central Bank will most likely hike interest rates before the Fed, the dollar is expected to weaken further. Moreover bond yields have already priced in several rate hikes by the Fed. So there is little scope for further sharp increases in yields. Higher oil prices were also supportive. As a result, gold prices are likely to rise. However, volatility has been increasing ever since the beginning of the credit crunch. With the turnaround of monetary policy, this volatility is expected to keep rising in the months ahead.

Source: Credit Suisse

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	266.1	250.6	229.9	4.0	31.6
LME metals price index	3967.6	3926.6	3865.2	0.8	0.4
Oil prices USD	140.0	110.0	96.2	6.1	106.5
Oil prices SDRs	85.9	68.3	60.8	6.5	91.9
Gold \$/troy oz	913.4	908.6	819.5	-1.4	41.7
Silver cents/troy oz	1688.0	1730.0	1535.1	-6.7	31.4
Platinum \$/troy oz	2068.0	1932.4	1648.5	-5.2	62.5
Copper \$/MT	8550.5	8057.2	7765.2	3.3	13.7
Nickel \$/MT	21902.5	27339.9	28654.7	-6.2	-42.9
Aluminium \$/MT	3024.3	2817.3	2660.1	2.7	13.6
Zinc \$/MT	1887.5	2276.2	2614.5	-10.6	-45.0
Steel - HR coil dry \$/MT	605.0	605.0	587.0	0.0	8.0

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								
Africa													
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								
Middle East													
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								
Central & Eastern Europe													
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	25-Jun-08	No change	05-Aug-08
Eurozone	Refi Rate	4.00	05-Jun-08	No change	03-Jul-08
UK	Base Rate	5.00	05-Jun-08	No change	10-Jul-08
Japan	O/N Call Rate	0.50	13-Jun-08	No change	15-Jul-08
Australia	Cash Rate	7.25	02-Jul-08	No change	05-Aug-08
New Zealand	Cash Rate	8.25	04-Jun-08	No change	24-Jul-08
Switzerland	3 month Libor target	2.75	19-Jun-08	No change	18-Sep-08
Canada	Overnight rate	3.00	10-Jun-08	No change	15-Jul-08
Emerging Markets					
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	3.63	26-Jun-08	Raise 12.5bps	Sep-08
South Korea	Base Rate	5.00	12-Jun-08	No change	10-Jul-08
Malaysia	O/N Policy Rate	3.50	29-Apr-08	No change	25-Jul-08
Thailand	1D Repo	3.25	21-May-08	No change	16-Jul-08
India	Repo rate	8.00	11-Jun-08	Raise 25bps	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 Deposit	10.50	26-Jun-08	Raise 50bps	07-Aug-08
Turkey	Base Rate	16.00	16-Jun-08	Raise 50bps	15-Jul-08
South Africa	Repo rate	12.00	10-Apr-08	Raise 50bps	14-Aug-08
Kenya	Central Bank Rate	9.00	05-Jun-08	Raise 25bps	Aug-08
Nigeria	Monetary Policy Rate	10.25	03-June-08	Raise 25bps	05-Aug-08
Ghana	Prime Rate	16.00	19-May-08	Raise 12.5bps	Jul-08
Mexico	Target Rate	7.75	20-Jun-08	Raise 25bps	18-Jul-08
Brazil	Selic Rate	12.25	04-Jun-08	Raise 50bps	23-Jul-08
Armenia	Refi Rate	7.00	Jun-08	Raise 25bps	N/A
Romania	Policy Rate	10.00	26-Jun-08	Raise 25bps	31-Jul-08
Bulgaria	BI Rate	4.96	01-Jun-08	No change	Jul-08
Kazakhstan	Refi Rate	10.50	25-Jun-08	Cut 50bps	Sep-08



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