



COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

MENA

Investment climate regresses in Arab world

The investment climate in the Arab world regressed in 2007, according to the Composite Investment Climate Index issued by the Arab Investment and Export & Guarantee Corporation (AIEGC). The value of the index reached 0.93 points in 2007, down 37.6% from 1.49 points in 2006, and compared to 0.91 points in 2005, 1.08 points in 2004 and 1.01 points in 2003. The index is composed of four sub-indices that reflect economic growth, public finances, the external balance, and inflation rates. The AIEGC attributed the decline in the composite index to decreases in three of its sub-indices, as the External Balance Sub-Index regressed by 46.5% to 1.21 points from 2.26 points; the Internal Balance Sub-Index decreased by 30% to 1.26 points, and the Monetary Policy Sub-Index declined by 24% to 0.32 points, while aggregate GDP growth was unchanged at 5.8%. It indicated that real GDP growth improved in 9 Arab countries and regressed in 10 others, the fiscal deficit-to-GDP ratio improved in 8 Arab economies and regressed in 11 countries, while the current account balance-to-GDP ratio improved in 7 countries and regressed in 12 economies; and the inflation rate declined in 7 countries and rose in 12 others.

Source: AIEGC, Byblos Research

EMERGING MARKETS

Private equity fund raising up 68% in first half of 2008

The Emerging Markets Private Equity Association indicated that 104 funds raised \$35bn in the first half of 2008, up 68% from the same period last year and exceeding the \$33bn raised during all of 2006. It said economic conditions in the U.S. and Europe had a lesser impact on fund raising in emerging markets compared to mature private equity markets. Funds focused on emerging Asian markets raised \$26bn, or 75% of total capital raised, while funds raised for investment in Africa doubled to \$1.2bn compared to \$592m in the first half of 2007. Fund raising for investments in Russia and Central Europe fell by 30.6% to \$2.5bn over the same period. Private equity fund raising in the Middle East fell by 37% to \$1.1bn from \$1.8bn in the same period last year. The Association said investors are looking to see if there were enough opportunities to absorb their capital, as the high liquidity levels in the region leaves less room for private equity.

Source: Emerging Markets Private Equity Association

TURKEY

Risks remain high despite court decision

Moody's Investors Service indicated that the Constitutional Court's decision not to close the ruling Justice & Development Party (AKP) removes the near-term risk of a chaotic political scene, but added that the challenges that the country faced when the case was filed in March have not changed. The agency cited the large current account deficit, relatively compressed public debt burden and privatization as some of the areas where reforms have largely stalled due to domestic reasons such as last

year's elections and unfavorable external circumstances. So the catch-up will be much harder because of the delays, and the road will not be entirely smooth for the government, as reflected by both the global economic backdrop and the local political scene. It said while Turkey's institutions have demonstrated increased independence and maturity with the decision of the Constitutional Court, political uncertainty and even volatility have not disappeared, with negative financial and economic consequences always a risk.

Source: Moody's Investors Service

IRAQ

Government surplus could reach \$79bn

The U.S. Government Accountability Office said the Iraqi government could end the year with as much as a \$79bn budget surplus from high oil revenues and from income still not spent on national rebuilding effort. The GAO said Iraq had an estimated cumulative budget surplus of about \$29bn from 2005 to 2007 and could have another surplus of up to \$50bn this year. It said the surpluses have been building because of rising world oil prices, increasing Iraqi oil production, the government's inability to execute budgets for spending its money and persistent violence in the country. It noted that the expected surplus could be lower if Parliament passes stalled legislation for a \$22bn supplemental budget for 2008 and if the government then executes the budget. The GAO cited a relative shortage of trained budgetary, procurement and other staff with the technical skills to plan and execute capital spending; the government's weak accounting systems; and violence and sectarian strife as major obstacles to developing Iraqi government capacity. It also estimated that Iraq could generate \$67bn to \$79bn in oil revenues this year.

Source: Associated Press

SUDAN

Political risk rating downgraded

The Economist Intelligence Unit downgraded its political risk rating for Sudan from 'CCC' to 'D' following the decision by the chief prosecutor of the International Criminal Court (ICC) to seek a warrant to arrest President Omar al-Bashir on charges of genocide and crimes against humanity. It attributed the downgrade to the likelihood that the ICC decision will increase political tensions and weaken government authority, but ruled out an immediate crisis. It said the decision could exacerbate disputes over power sharing between the northern and southern ruling parties, potentially endangering the 2005 Comprehensive Peace Agreement. The EIU added that if the charges force a withdrawal of the international relief operation or encourage a resurgence of the rebel groups in Darfur, there could be a sharp increase in violence. The EIU kept Sudan's overall country risk rating at 'CC'. The EIU rates countries on a scale of 10 rating levels, with the lowest rating at 'D' and the highest at 'AAA'. The country risk rating for Sudan put it in the third lowest rating category.

Source: Economist Intelligence Unit

POLITICAL RISK OVERVIEW - JULY 2008

ALGERIA

A suicide bomber targeting a convoy of Algerian government forces injured 13 soldiers on July 23rd. Military experts gathered on July 21, 22 to discuss cooperation with the UN to fight armed Islamic groups.

ARMENIA

Thousands of Armenians protested in Yerevan on July 4 against the policies of the President, asking for the immediate release of supporters detained during the demonstrations last March. The opposition announced at the rally that the protesters would begin a 28-day sit-down. President Serzh Sarkisian met his Turkish counterpart Abdullah Gul in Astana on July 6 on the sidelines of an international celebration marking the 10th anniversary of the Kazakh capital.

EGYPT

Fierce political debate continued over the new child protection law passed by the parliament and highly criticized by the Muslim Brotherhood group arguing that the law violates Islamic law and imposes foreign values on Egyptians. The police arrested 39 members of the Muslim Brotherhood including 3 leaders on July 21 during a raid on a camp north of Cairo.

IRAN

Tensions with the U.S. and Israel increased after Iran test-fired a long range missile capable of reaching Tel Aviv on July 9, 10th. Tehran warned it would close the Strait of Hormuz which is a vital conduit for energy supplies if its interests were threatened. EU foreign policy chief Solana said Iran did not respond clearly during the July 19 Geneva meeting concerning the UNSC P5 plus Germany nuclear program proposal, offering Tehran technological incentives in exchange for suspending the process of uranium enrichment. Senior U.S. official William Burns attended the Geneva meeting which is the first high-level U.S. participation in talks on the nuclear issue. President Ahmadi-Nejad discussed a new economic reform plan and proposed direct cash payments to families to replace subsidies. French company Total was the latest international oil company to announce freezing its plans to further invest in Iran.

IRAQ

The largest Sunni bloc, Tawafiq, which had been boycotting the government since last August, rejoined the government on July 19 after months of negotiations on a variety of interests important to the Sunni minority. The parliament approved on July 22 a provincial election law despite a walk-out by lawmakers from the Kurdish coalition bloc. The newly proposed elections are expected to ease sectarian and factional resentment by redistributing power at the local level. Turkey concluded a strategic agreement with Iraq during the visit of the Turkish Prime Minister to Baghdad on July 10, declaring the establishment of the Supreme Council for Strategic Cooperation between both countries. Prime Minister Maliki has for the first time suggested establishing a timetable for the withdrawal of U.S. troops from Iraq on July 7th. Continued bombings hit Baghdad, Falluja and Mosul.

MOROCCO

Police arrested 35 members of a militant group suspected of recruiting volunteers to carry out suicide attacks for al Qaeda. Opposition groups including major socialist and Islamist parties are reportedly in talks over a possible alliance against the new political grouping Movement of Democrats ahead of the 2009 municipal elections.

SUDAN

International Criminal Court Prosecutor Luis Moreno-Ocampo presented evidence on July 14, showing that Sudanese President Omar Al-Bashir committed genocide, crimes against humanity and war crimes in Darfur and applied for a warrant of arrest against him. President Al-Bashir made a defiant visit to Darfur on July 23 emphasizing peace efforts. The Security Council (UNSC) condemned an attack launched on July 9 against the UNAMID which killed seven peacekeepers and injured twenty two others. The Council demanded Khartoum to ensure bringing those responsible to justice. With 14 votes in favor and an abstention by the United States, the UNSC extended by one year the mandate of the joint peacekeeping mission in Darfur on July 31st. Northern and southern armies withdrew at the end of July from Abyei, allowing the joint force deployment. The parliament passed a new election law on July 7, paving the way for the first free elections in 23 years to go ahead on schedule in 2009. But opposition parties and south Sudanese former rebels are concerned that the new law could give an unfair advantage to the ruling National Congress Party.

SYRIA

President Assad attended the Euro-Mediterranean summit in Paris on July 13, meeting with Lebanese President Suleiman. Israeli PM Olmert also attended, but did not discuss with President Assad. Turkish-mediated indirect talks between Israel and Syria continued. President Assad said that direct negotiations are possible but not before the new U.S. president takes office.

TURKEY

Two successive bombs in Istanbul killed 17 people and injured at least 150 people on July 27th. The police claimed that the suspect has links with the PKK. An assault on the U.S. embassy on July 9 saw three police and three assailants dead. The Police arrested some 46 alleged members of ultra-nationalist Ergenekon network, including two high-ranking retired generals, accused of coup plot. AKP-member and former PM Abdullatif Sener quit the party on July 11 after announcing the formation of a new political party on July 5th. The rising number of clashes between the PKK and the army in southeastern regions throughout the month killed 10 soldiers and some 60 PKK militants. Further 65 people were reported dead by airstrikes into northern Iraq at the end of the month.

UKRAINE

German Chancellor Merkel visited Kiev on July 21 to enhance German- Ukrainian relations and to discuss energy issues. Prime Minister Tymoshenko announced on July 23 a deal on natural gas prices with Gazprom.

Source: International Crisis Group



OUTLOOK

SAUDI ARABIA

Banks well placed to benefit from robust domestic economy

Moody's Investors Service indicated that the credit outlook for the Saudi banking system is positive, reflecting the banks' good positioning and ability to benefit from the country's robust economic performance. The agency said its outlook is primarily underpinned by the country's robust economic performance, benefiting from oil revenues and strengthened government finances, as well as by the government's commitment to diversification, which has partly been demonstrated by announced infrastructure projects worth in excess of \$350bn over the next few years. It noted that challenges remain, with inflation now exceeding 10%, geopolitical risks and an economy that is still dependent on oil revenues. But it expected the overall impact on the banking sector to be positive at least over the short-to-medium term. It said the accommodative operating environment has also allowed Saudi banks to maintain strong financial fundamentals and anticipated the sector's financial indicators to remain strong, even though they may have peaked in 2006 and 2007. Also, banks have improved their risk management culture in recent years and display a moderate risk appetite.

According to Moody's, certain structural factors weigh on the upside potential of the Saudi banks' ratings. These include concentrations in lending and deposits, mismatches in the maturity profile of assets and liabilities, limited geographical diversification and pool of experienced human capital, the economy's still limited diversification beyond the hydrocarbon sector, volatility in the country's real and nominal output, and strong loan growth in recent years that has not yet matured or been tested under more adverse conditions. In parallel, Moody's noted that the Saudi Arabian Monetary Agency's risk-based supervision approach, tight regulatory standards, close monitoring of banks' performance and ongoing interaction with their boards and senior management have so far ensured that the financial sector remains sound.

Source: Moody's Investors Service

SUDAN

Growth to slow to 6.7% over 2008-09, inflation to rise

The Economist Intelligence Unit revised downward its economic growth forecast for Sudan to 6.1% in 2008 and 7.2% in 2009, as no major oil discoveries are due to come on stream and output in some ageing fields will decline, while high inflation and political tensions could constrain growth in the non-oil sector. It expected private consumption to remain healthy in 2008-09, supported by an economic boom led by strong oil revenues and foreign direct investment concentrated around Khartoum and in the Nile Valley area, although FDI will be below the highs of late 2005 and early 2006. Also, government consumption is set to increase, as commitments to promote regional economic development under recent peace agreements and preparations for the 2009 elections will result in a rise in investment expenditure on infrastructure.

The EIU expected government revenues to increase by 48% this year to around \$13.4bn, largely due to a 71% rise in oil revenues,

which account for two thirds of government earnings. Although oil prices are set to ease in 2009, rising tax receipts from economic growth and planned tax reforms mean that total revenues should stay at around \$13.4bn in 2009. Government spending is also expected to rise by 39% this year and 8% in 2009. The EIU expected the fiscal deficit to narrow from 3% of GDP in 2007 to 1.6% of GDP in 2008 before widening to 3.2% of GDP in 2009. The EIU noted that inflation rose sharply to an average of 17.3% in the first five months of 2008. With elections due in 2009, the government is likely to resist pressure to control the fiscal deficit by cutting food or fuel subsidies, while rising international commodity prices are expected to keep inflation high at an average of 18% in 2008, sharply above the single-digit inflation target agreed by the Bank of Sudan and the IMF. It projected inflation to moderate only slightly to around 15.5% in 2009, as international price pressures persist.

Source: Economist Intelligence Unit

UKRAINE

Growth dynamics becoming increasingly unsustainable, reflect potential sources of risk

Citigroup expected Ukraine's economic growth to slow down from 7.4% in 2007 to 5.8% in 2008 and 5.3% in 2009, adding that growth remains heavily supported by credit- and money-fuelled consumption, while signs of weaker manufacturing and production are becoming clearer. It said total consumption grew by 17% year-on-year in the first quarter of the year, while annual domestic credit growth was above 70% and broad money growth was just under 50% in May, reflecting signs of an overheating economy. It considered that current drivers of growth are becoming increasingly unsustainable and reflect potential sources of risk, particularly when taken against the current political climate, the challenging external credit environment and the uncertainty over future terms-of-trade effects. Citigroup said credit and monetary conditions have also given rise to inflationary pressures, adding that inflation is likely to have peaked in June at an annual rate of 31.1% and should begin to decelerate to 23% by end-December. It forecast inflation to average 25.7% in 2008 and to decline to 16.2% in 2009. It noted that while this dynamic could provide some near-term policy and political space, the deeper sources of price pressure remain.

Citigroup noted that ongoing credit and monetary conditions are contributing to worsening external balances, with the trade deficit jumping to \$17bn in 2008 and \$21bn in 2009. It forecast the current account deficit to deteriorate from \$5.9bn in 2007 to \$12.6bn, or 6.5% of GDP in 2008 and \$17.4bn, or 7.4% of GDP in 2009. It expected net FDI flows to remain healthy, reaching \$10.5bn in 2008, but added that they are unlikely to provide full coverage of the external deficit. As a result, it expected pressure to mount on both the hryvnia and the National Bank of Ukraine's foreign reserves, currently at \$34.4bn, in view of diminished privatization efforts. It said uncertainty over the terms of trade, including the sustainability of high global steel prices and the ongoing negotiations with Gazprom, could further undermine the outlook. Citigroup forecast total external debt at \$96bn at end-2008, of which \$79bn in private sector debt. But it expected it to decline from 59.8% of GDP at end-2007 to 49.5% of GDP at end-2008 and 46% of GDP at end-2009.

Source: Citigroup



ECONOMY & TRADE

GCC

GDP reaches \$735bn

The Saudi Economic Development Board (EDB) said the Gulf region, with an average sustained growth of 5.5% annually, has become one of the most robust economic blocs in the world. It indicated that the aggregate gross domestic product of the Gulf Cooperation Council (GCC) is already \$735bn and by 2050 could close the gap with Group of 7 economies. The EDB said the oil-price windfall has been re-invested in new infrastructure including transport, telecommunications, education, training and health care, with around \$1,000bn in investments in infrastructure projects in the pipeline. Such investments could reach a total of \$3,000bn by 2010.

Source: Saudi Press Agency

UAE

UAE joins Data Dissemination System

The International Monetary Fund announced that the United Arab Emirates began participating in the IMF's General Data Dissemination System (GDSS) in July 2008 in order to develop its statistical system. The decision is part of the UAE's recognition of the need and importance to improve transparency in data compilation. It also reflects the country's commitment to building a national statistical system consistent with best international practices. The IMF said the UAE's participation in the GDSS should allow it to enhance its statistical capacity and to issue timely statistics needed for economic policy-making and monitoring developments. The GDSS was established by the IMF in 1997 and provides a framework to help countries develop their statistical systems. The UAE is the fifth GCC country to participate in the GDSS and the 93rd participant overall.

Source: International Monetary Fund

SYRIA

Pharmaceutical exports at \$150m in 2007

The Scientific Council for Pharmaceutical Industries (SCPI) said Syrian exports of pharmaceuticals stood at \$150m in 2007, with such exports rising by 20% annually on average. The SCPI said the value of annual local production is estimated at around \$550m, with local consumption at around \$450m, including \$50m from imports. The Syrian pharmaceutical industry is protected from international competition by strict restrictions on imports. According to the SCPI, the Ministry of Health is considering opening up the market to imports, in line with GAFTA and other free trade agreements. Syria has a total of 64 pharmaceutical plants, including state-owned firms Thameco, an affiliate of the Ministry of Industry, and Dimas, affiliated to the Ministry of Health. Exports are expected to receive a boost after the enactment in July of Law 37 which facilitates the conduct of laboratory tests to develop generic medicines. Previously, drug manufacturers had to do these tests abroad.

Source: Syria Report

JORDAN

Tourism revenues up 9% in first half, remittances inflows up 15% year-to-May

Figures released by the Ministry of Tourism shows that tourism revenues reached \$835m in the first half of 2008, up by 8.6% from JD769m in the same period last year. The number of tourists visiting the kingdom on package tours increased by 55.2% during the same period to 242,800 visitors. European tourist accounted for 65% of total visitors in the covered period. In parallel, workers' remittances inflows reached JD1.1bn in the first 5 months of 2008, constituting a 15% increase over the same period of 2007. The growth in the inflow of tourism receipts and remittances is seen as a vital element to financing part of the country's growing trade deficit.

Source: Al-Ghad Daily; Jordan Times

ARMENIA

Real GDP growth at 10.3% in first half of 2008

Figures released by the National Statistical Service show that Armenia's economy grew by 10.3% in the first half of 2008 year-on-year compared to 11.6% in the same period last year. Nominal GDP was \$4.4bn in the covered period. Gross added value rose by 7.7%, contributing to a 6.9% increase in the actual volume of GDP compared to 9.2% in the first half of 2007, while a 29.9% growth in taxes provided 3.4% of the actual economic growth. Construction contributed 3.4% to growth compared to 3.8% in the first half of 2007, and industry provided 0.1% relative to 0.5% during the same period. An 8.3% growth in agriculture, forestry, hunting and fishing provided 0.9% of GDP growth in the period. The financial sector and real estate transactions grew by 22.8%, contributing 1.8% of GDP growth relative to 2% in the first half of 2007. The share of added value was 86.5% in GDP against 88.6% in the first half of 2007. Industrial production accounted for 39.6%, followed by construction with 22.7%, trade, public services, transport and communication with 18.6%, services with 12%, and agriculture with 9.4%. The government forecast economic growth at 10% for this year in its 2008 budget.

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 July, unchanged from June and up from 19.5% in May and 18.7% in April. Food prices reached 29.1% annually in July compared 29.4% in June and 28.3% in May, while non-food goods inflation decreased to 11.5% year-on-year in July from 11.7% in June, and services inflation increased to 15.3% annually in July from 14.9% in June. Non-food price inflation contributed 8.5 percentage points to the July inflation rate compared to 8.4pp in June. Inflation rose by 0.9% month-to-month in July relative to 1.2% in June and 1% in May, with food prices increasing by 0.6%, non-food prices by 1.2% and services prices rising 1%. The data suggests that spillovers from food price inflation to the rest of the economy are more broad-based.

Source: Credit Suisse



BANKING

JORDAN

OPIC facility to expand mortgage lending

The Overseas Private Investment Corporation (OPIC) announced it will provide loan facilities of up to \$100m to each of the Arab Bank and the Housing Bank for Trade and Finance, and up to \$50m to the Cairo Amman Bank. The banks will use the OPIC financing to fund 25-year mortgages for low-income households in Jordan in connection with King Abdullah's National Housing Initiative that aims to build 20,000 residences annually for the next five years. OPIC said Jordanian banks, in general, lack access to long-term funding sources for mortgage financing, which limits the ability of banks to extend long-term mortgage loans. It indicated that the loan facility will establish a 'best practices' approach to mortgages by insisting upon strict loan-to-value ratios, down payments and limits on note payment-to-monthly income ratios of 30-40%. It noted that the mortgage market in Jordan remains largely untapped, with current mortgage finance representing only one-third of the total housing market value in the country. An agency of the U.S. government, OPIC manages risks associated with foreign direct investment in developing countries.

Source: OPIC

EGYPT

OPIC announces \$250m to support mortgage lending

The Overseas Private Investment Corporation (OPIC) announced a \$250m loan that will allow the Commercial International Bank, the largest privately-owned bank in Egypt, to extend long-term mortgage loans to middle-income home buyers. The facility will also be used to allow other Egyptian financial institutions to originate long-term mortgages to low-income home owners. It said that 80% of the loan proceeds will go towards low-income home buyers, and the remaining 20% to middle-income customers. The low-income loans will finance residences with values that do not exceed \$21,000. Private equity firm Ripplewood Holdings, will be the U.S. sponsor of the project. OPIC noted that the project followed the implementation of mortgage finance reforms that have made it easier for Egyptians to purchase property and obtain home loans.

Source: OPIC

IRAN

IMF calls for central bank independence, deregulating banking system

The International Monetary Fund noted the importance of a strengthened and deregulated banking system in Iran, and welcomed recent steps to improve banking supervision and the authorities' plans to recapitalize state-owned banks. It called for improving the Central Bank of Iran's capacity to enforce prudential norms and a gradual deregulation of banking rates of return and credit allocation. It also encouraged the prompt completion of ongoing work in the area of anti-money laundering legislation through the adoption of appropriate implementing regulations, and noted the authorities' commitment to establishing an appropriate framework for combating the financing of terrorism. It also welcomed the authorities' intention to continue cooperating with international financial institutions on these issues. The IMF observed that strengthening the operational

independence of the CBI will increase the effectiveness of monetary policy and anchor inflationary expectations, and supported the resumption of work on a new central bank law.

Source: International Monetary Fund

ARMENIA

Outlook on Armeconombank changed to 'negative'

Moody's Investors Service changed the outlook on the 'D-' bank financial strength rating of Armeconombank (AEB) to 'negative' from 'stable' as well as the outlook on the bank's 'Ba3' long-term local and foreign currency deposit ratings to 'negative'. It said the action reflects the impact on AEB's business and funding franchise following the change to the Armenian tax authority's practice of exclusively maintaining with AEB customer tax dues collected by the bank. But it is no longer the only bank collecting these funds, thus removing the funding accumulation benefits it used to enjoy. Given that a major shareholder is a prominent opposition MP, AEB carries political risk and was one of the few banks in Armenia to be directly affected by political tension both before and after the country's presidential elections earlier this year. Moody's said the bank survived the impact of the loss of tax authority funds as well as a relative squeeze on customer deposits, which began in the fourth quarter of 2007, due to its relatively good domestic franchise and strong financial metrics. But the agency believes that AEB's deposit franchise has weakened as a result.

Source: Moody's Investors Service

Central Bank increases policy rate

The Central Bank of Armenia raised its annual refinancing rate by 0.25% to 7.50%, the sixth such rise this year, and kept all other policy rates unchanged. It attributed the decision to persisting inflationary pressure despite a decline in global oil and food prices.

Source: Central Bank of Armenia

RUSSIA

Central Bank raises reserve requirements

The Central Bank of Russia (CBR) announced new measures to tighten monetary policy by raising the reserve requirements on banks liabilities effective September 1, 2008. It raised the reserve requirements on liabilities to non-resident banks in any currency by 150 basis points from 7% to 8.5%; on liabilities to individuals by 50bp from 5% to 5.5%; and on other liabilities to credit institutions by 50bp from 5.5% to 6%. The CBR mitigated the net impact on the liquidity of the banking sector by raising the applicable average coefficient used for calculating the volume of required reserves to 0.55% from 0.5% previously. The increases are aimed at curbing banks' foreign borrowing as well as to slow money growth and fight inflation, as the required reserves are the most effective instrument at the CBR's disposal in view of the still heavily managed exchange rate and therefore limited effects of interest rate policy. This is the second time in three months that the CBR raises reserve requirements. In parallel, the First Deputy Governor of the CBR said that further liberalization of the exchange rate regime may lead to a free float of the rouble within one to two years.

Source: Citigroup, Credit Suisse



ENERGY / COMMODITIES

Oil recovers from 3-month low

U.S. crude rose 29 cents to \$118.87 a barrel on August 7, regaining some traction after losing more than \$6 in the last three sessions. Oil contracts are almost 20% off the record of \$147.27 a barrel hit on July 11th. London Brent crude climbed 38 cents to \$117.38. Supply disruptions and the prospect of escalating tension between Iran and the West helped to counter investors' broad-based pullback from commodities. BP Plc had declared force majeure on Azeri crude shipments from Ceyhan after an explosion late on August 5 at the Baku-Tbilisi-Ceyhan oil pipeline in eastern Turkey halted oil flows along the key pipeline. Supply disruptions in Nigeria due to militant attacks also supported prices.

But oil's rise was moderate, damped by bearish sentiment on demand in the United States and outflows of investment money. Weekly data from the Energy Information Administration showed a much steeper-than-expected build up in crude stocks on August 6, the latest sign that high fuel costs and a weak economy are hitting oil demand. Crude oil inventories rose by 1.7 million barrels in the week to August 1, beating expectations of a 300,000-barrel build. Distillate fuel stocks rose by 2.8 million barrels, also above forecasts. Gasoline stocks fell by 4.4 million barrels, much more than expected.

Source: Reuters

Syria's oil subsidies bill at \$5bn in first half of 2008

The state-owned company Mahrukat, in charge of distributing oil by-products, sold a total of 8.6 million tons of derivatives in the first half of 2008, for a value of \$2.22bn. In 2007, total sales, including exports, stood at 16.7 million tons for a value of \$3.9bn. According to the company, it purchased a total of 8.8 million tons of derivatives in the first half of this year at a price of \$7.24bn, including 5.4 million tons from the two local refineries for \$4.31bn and 3.5 million tons from imports for \$2.93bn. The total subsidies bill on oil derivatives stood, therefore, at around \$5bn in the first half of 2008.

Source: Syria Report

Egypt to build \$9bn refinery on Mediterranean coast

The state-owned Egyptian General Petroleum Company (EGPC) and other investors will spend \$9bn over five years to build an oil refinery and petrochemical complex on the North Coast of Egypt. The refinery is expected to have a capacity of 350,000 barrels per day and should begin operation by 2010.

Source: Reuters

Algeria partners with German firm to develop solar energy

Algeria's Silicon Technology Development Unit and German company Sonnergy GmbH signed a memorandum of understanding for the creation of a joint venture to develop solar energy in Algeria. The memorandum envisages consulting, engineering, technology transfer and training. The move is part of Algeria's efforts to develop renewable energies, mainly solar and nuclear power, in co-operation with France, the USA, Germany, Russia, China and Brazil.

Source: APS

Base metals: Weak macro data increasingly a problem for the sector

The problems on the demand side have been more than offset by shortfalls on the supply side. Apart from rising production costs, many producer countries are struggling with energy shortages and miner strikes. As a result, copper production in Chile, the largest producer of the metal, is declining by more than 5% despite near-record prices. A similar picture is prevalent in aluminum. China, the largest producer of aluminum, has asked its largest smelters to cut back production by 10% as energy outages mount. Meanwhile, concerns regarding the supply side have been pushed to the background as inventories in many metal markets have started to increase as demand has become weaker due to the slowdown in economic growth. While this is a potential risk for prices, inventory increases are currently still in line with the seasonal norm. Overall, the outlook for the sector is still cautiously optimistic as supply-side problems still outweigh weak demand conditions.

Source: Credit Suisse

Precious metals: Gold increases in as crude oil gains, dollar rally stops

Gold gained in Asia after crude oil rose from a three-month low, boosting the precious metal's appeal as an inflation hedge, while the dollar's rebound paused. Gold has lost 4.7% in the past month as oil prices decreased 16% and the dollar gained 1.8% against the euro. Gold for immediate delivery gained as much as \$4.20, or 0.5% to \$884 an ounce, and traded at \$882.45 in Singapore. Silver for immediate delivery was up 0.4% at \$16.62 an ounce. Gold for December delivery rose 0.9% to \$890.90 an ounce in after-hours electronic trading on the Comex division of the New York Mercantile Exchange. Gold for December delivery traded in Shanghai was little changed at \$892 an ounce. Gold for June delivery on the Tokyo Commodity Exchange was 1.2% higher at \$890 an ounce.

Source: Bloomberg

Commodities price developments	level	6m ave	12m ave	mom%	yoy%
Economist commodity price index	250.9	258.0	235.5	-5.7	23.0
LME metals price index	3792.8	3997.6	3847.3	-4.8	-7.7
Oil prices USD	124.2	118.1	102.0	-11.5	59.0
Oil prices SDRs	76.6	72.8	64.1	-10.9	50.2
Gold \$/troy oz	917.1	919.7	845.8	-0.6	38.0
Silver cents/troy oz	1748.0	1773.9	1584.2	-1.0	35.2
Platinum \$/troy oz	1758.0	2000.4	1707.4	-14.8	36.1
Copper \$/MT	8260.3	8338.8	7814.8	-5.9	1.3
Nickel \$/MT	18632.5	25936.0	27363.1	-14.0	-40.9
Aluminium \$/MT	2928.3	2942.6	2693.1	-4.7	8.4
Zinc \$/MT	1906.3	2180.2	2455.7	1.8	-46.9
Steel - HR coil dry \$/MT	605.0	605.0	591.9	0.0	10.0

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	B-	B3	B-	B-	CCC	-13.2	176.1	100.0	767.3	22.8	255.8	-11.2	5.1
	Stable	-	Stable	Stable	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	AA-	AA-	A	17.6	3.8	7.8	15.2	2.0	154.9	29.3	0.2
	Stable	-	Stable	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
	-	-	Stable	-	-								
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+	Baa1	BBB+	-	BBB	3.5	5.3	29.4	112.5	17.1	82.4	3.7	0.9
	Positive	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	05-Aug-08	No change	16-Sep-08
Eurozone	Refi Rate	4.25	07-Aug-08	No change	04-Sep-08
UK	Base Rate	5.00	07-Aug-08	No change	04-Aug-08
Japan	O/N Call Rate	0.50	15-Jul-08	No change	19-Aug-08
Australia	Cash Rate	7.25	05-Aug-08	No change	N/A
New Zealand	Cash Rate	8.00	24-Jul-08	Cut 25bps	11-Sep-08
Switzerland	3 month Libor target	2.75	19-Jun-08	No change	18-Sep-08
Canada	Overnight rate	3.00	15-Jul-08	No change	03-Sep-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	10-Jul-08	No change	07-Aug-08
Malaysia	O/N Policy Rate	3.50	25-Jun-08	No change	25-Aug-08
Thailand	1D Repo	3.50	16-Jul-08	Raise 25bps	27-Aug-08
India	Repo rate	9.00	29-Jul-08	Raise 50bps	30-Aug-08
UAE	Overnight repo rate	2.00	01-May-08	Cut 25bps	N/A
Saudi Arabia	Repo rate	2.00	05-May-08	Cut 25bps	N/A
Egypt	Overnight Deposit	10.50	Jul-08	Raise 50bps	07-Aug-08
Turkey	Base Rate	16.75	17-Jul-08	Raise 50bps	14-Aug-08
South Africa	Repo rate	12.00	12-Jun-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	02-June-08	Raise 25bps	08-Aug-08
Ghana	Prime Rate	17.00	21-Jul-08	Raise 100bps	22-Sep-08
Mexico	Target Rate	8.00	18-Jul-08	Raise 25bps	15-Aug-08
Brazil	Selic Rate	13.00	23-Jul-08	Raise 75bps	10-Sep-08
Armenia	Refi Rate	7.50	06-Aug-08	Raise 25bps	N/A
Romania	Policy Rate	10.00	26-Jun-08	Raise 25bps	31-Jul-08
Bulgaria	Refi Rate	4.25	03-Jul-08	Raise 25bps	07-Aug-08
Kazakhstan	Refi Rate	10.50	25-Jun-08	Cut 50bps	Sep-08



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

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

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

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

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



BYBLOS BANK GROUP

LEBANON

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

BELGIUM

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

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS (U.K.)
Phone: (+44) 207 493 35 37
Fax: (+44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 - El Amarat - Khartoum - Sudan
Phone: (+249) 183 566 444
Fax: (+249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

FRANCE

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

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil, Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol , Cyprus
Phone: (+357) 25 341433 / 4 / 5
Fax: (+357) 25 367139
E-mail: bybloscyprus@byblosbank.com

UNITED ARAB EMIRATES

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

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 375002, Republic of Armenia
Phone: (+374) 10 530 362
Fax: (+374) 10 535 296

