

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond and equity inflows at \$41bn in first eight months of 2012, AUM at \$993bn

Capital flows to emerging market equity and bond funds posted net inflows of \$40.5bn in the first eight months of 2012, with bond inflows at \$23.2bn and equity inflows at \$17.3bn. Latin America accounted for \$9.3bn or 40% of inflows to bond funds; Emerging Europe, the Middle East & Africa (EMEA) for \$8bn, or 34.7%; and Emerging Asia for \$5.9bn or 25.3% of the total. Further, Emerging Asia posted \$10bn in inflows to equity funds in the first eight months of the year and accounted for 57.9% of equity inflows to emerging markets, followed by the EMEA region with \$4bn (23.1%), and Latin America with \$3.3bn (19%). Mexico was the biggest recipient of bond inflows with \$2.6bn, or 11.1% of total inflows into emerging market bond funds year-to-August; while China was the largest recipient of equity inflows with \$2.8bn or 16.3% of total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled \$992.8bn at the end of August 2012, with bonds reaching \$217.9bn and equities totaling \$774.9bn. The EMEA region had \$83.9bn in bonds-related AUM, followed by Latin America with \$76.8bn, and Emerging Asia with \$57.2bn. Further, Emerging Asia had \$505.1bn in equity-related AUM, followed by Latin America with \$136.1bn and the EMEA region with \$133.7bn. *Source: Barclays Capital, Byblos Research*

Private equity investments down 31% to \$10bn in first half of 2012

Private equity funds dedicated to emerging markets raised \$17.2bn in the first half of 2012, constituting a decrease of 24% from \$22.6bn in the same period last year. Emerging Asia funds raised \$9.2bn, with China accounting for \$4bn and India for \$1.2bn. Multi-regional funds raised \$3.1bn, followed by CEE & CIS funds with \$2.6bn, Latin America & Caribbean funds raised \$1.7bn with Brazil receiving \$675m, Sub-Saharan Africa funds with \$489m, and MENA funds with \$96m. Emerging markets private equity fundraising accounted for 15.2% of global private equity fundraising in the first half of 2012 compared to 18.1% in the same period last year. In parallel, private equity investments in emerging markets totaled \$9.8bn in the first half of 2012, constituting a drop of 31% from \$14.1bn in the same period last year. Also, the number of transactions reached 411 deals in the first half compared to 460 deals in the same period last year. The average deal was worth around \$23.8m in the covered period relative to \$32.4m in the first half of last year. Emerging Asia attracted 65% of private equity investments by value, followed by Latin America & the Caribbean with 14.4%, the CEE & CIS region with 9.9%, Sub-Saharan Africa with 6.2% and the MENA region with 4.5%. India and China attracted 56.5% of emerging markets private equity investment. *Source: Emerging Markets Private Equity Association*

MENA

Arab world's competitiveness stagnates

The World Economic Forum included 14 Arab countries in its Global Competitiveness Index for 2012-13, down from 15 countries in the previous survey. Qatar came in 11th place globally and was the region's top-ranked country, followed by Saudi Arabia in 18th place, the UAE (24th), Oman (32nd), Bahrain (35th), and Kuwait (37th) as the five most competitive Arab economies and the only ones to rank among the top 50 globally. In contrast, Libya (113th), Mauritania (134th) and Yemen (140th) were the least competitive Arab countries. The rankings of six countries in the region improved, six regressed year-on-year and one remained unchanged; while Libya was included in the index for the first time and Tunisia and Syria were dropped from the rankings this year. Jordan posted the highest improvement in the regional rankings with a rise of seven spots, while Algeria dropped by 23 spots year-on-year, constituting the worst decline in the region. In parallel, the region's average score dropped marginally to 4.23 points from 4.25 points in last year's index, and came slightly above the global average score of 4.2 points. The GCC countries' average score increased to 4.91 points from 4.85 points previously, while the average score of non-GCC Arab countries dropped to 3.71 points from 3.77 points last year. The scores of eight Arab countries increased and six declined, with Libya posting the highest increase in competitiveness and Algeria showing the steepest drop. *Source: World Economic Forum, Byblos Research*

Equity markets up 5% in first eight months of 2012

Arab stock markets increased by 5.1% and GCC equity markets rose by 5.7% in the first eight months of 2012 compared to drops of 13.1% and 11%, respectively, in the same period last year. Activity on the Egyptian stock market increased by 44.9% in the first eight months of 2012 and posted the best performance among Arab markets during the covered period. It was followed by the Dubai financial market with a 14.4% increase, Saudi Arabia's stock market with an 11.2% rise, the Tunis exchange with a 10.5% improvement, the Abu Dhabi equity market with a 6.6% growth, and the Kuwait bourse with a 0.8% rise. In parallel, the Iraqi stock exchange dropped by 13.4% in the first eight months of 2012 and posted the worst performance among Arab stock markets. It was followed by the Casablanca equity market with a 9.8% drop, the Palestine exchange with a 9.3% retreat, the Damascus financial market with a 5.8% fall, the Bahrain bourse with a 5.1% drop, the Beirut stock exchange with a 4.3% decrease, the Muscat equity market with a 3.8% decrease, the Amman stock exchange with a 3.6% contraction and the Doha bourse with a 3.4% decline. In comparison, emerging market equities rose by 3.4% and global equities grew by 7.5% in the first eight months of the year. Arab stock markets rose by 3.1% in August compared to an increase of 2% for global equities and no change in emerging market equities. *Source: Local stock markets, Dow Jones Indices, Byblos Research*

POLITICAL RISK OVERVIEW - AUGUST 2012

EGYPT

Egyptian authorities launched on August 6 the largest military operation since 1973 in Sinai after militants attacked the border post at Rafah, killing 16 policemen and capturing two armored vehicles in an attempt to break into Israel. The military launched airstrikes against suspected Islamists and started to seal off smuggling tunnels leading to Gaza. The Court sentenced to death 14 members of al-Tawhid wal-Jihad Islamist group on August 14 over the July 2011 attack on al-Arish. President Mohammed Mursi announced the resignation of seven senior military officers, including the head of the Supreme Council of the Armed Forces (SCAF), General Hussein Tantawi, while appointing General Abdel Fattah al-Sisi as the new head of the SCAF. President Mohammed Mursi revoked a June constitutional declaration that aimed to give the SCAF legislative powers, and issued an alternative declaration awarding himself powers.

IRAN

U.S. military chief General Martin Dempsey claimed on August 15 that Iran is creating and training Syrian militia to support President Bashar al-Assad's forces. The government appealed to Turkey and Qatar during the Tehran conference on Syria in order to help them release the 48 Iranians taken hostages in Syria by the Free Syrian Army. Iranian security chief Saeed Jalili held talks with Syrian President Bashar al-Assad and pledged his government's support. The military test-fired new short-range missile on August 4th. Supreme Leader Ali Khamenei pledged that Iran will never build atomic weapons. The International Atomic Energy Agency said on August 30 that Iran has recently doubled the number of nuclear centrifuges.

IRAQ

Kurdistan's Regional Government resumed oil exports on August 7 through Iraq's national pipeline following a four months shutdown. Kurdish Deputy Prime Minister Rosh Nuri al-Shawish said that Kurdistan is ready to restart negotiations with Baghdad on the oil law. A series of bombings and shootings across the country killed over 70 people. Prime Minister Nouri al-Maliki's media advisor rejected reports citing that Iraq breached sanctions on Iran.

DEM REP CONGO

Members of the Armed Forces of the Democratic Republic of Congo (FARDC) continued defecting in South Kivu throughout the month and announced the formation of a new rebel movement. Insecurity in South Kivu escalated despite the truce between the government and the M23 movement. The UN Security Council called on outside countries to end their support for the M23 rebellion. The International Conference on the Great Lakes Region failed to reach agreement on the composition and funding of 4,000 forces to counteract the armed groups and defend borders.

LIBYA

The National Transitional Council handed the power on August 8 to the newly elected National Assembly, with Mohammed Magarief elected as new President. The National Assembly suspended three members for links with the former Qadhafi government. Interior Minister Fawzi Abdel A'al withdrew his res-

ignation and said that he would not risk armed confrontation with heavily-armed Islamists groups. A series of attacks targeted security facilities across the country.

SOUTH SUDAN

African Union mediator Thabo Mbeki announced on August 3 a breakthrough deal on oil transportation fees with Sudan, but the implementation of the deal is linked to progress in other areas. The Abyei Joint Oversight Committee established a peaceful coexistence pact. The South Sudanese government accused Sudan of keeping troops in Abyei with the aim of provoking a war. At least 24 Sudan People's Liberation Army soldiers were killed on August 22nd.

SUDAN

The Sudan People's Liberation Movement-North agreed with the African Union, Arab League and the UN on humanitarian access to civilians in Southern Kordofan and the Blue Nile, with access dependent on Khartoum's consent. Clashes between the Sudanese Revolutionary Front and the Sudan Armed Forces continued in North and Southern Kordofan and in the Blue Nile provinces.

SYRIA

The month saw an upsurge in fighting between the Free Syrian Army (FSA) and pro-regime forces to gain control of Aleppo. The government continued airstrikes against towns in northern Syria; with continuous fighting in Damascus. Newly-appointed Prime Minister Riyad Hijab defected to Jordan on August 6th. The UN/Arab League special envoy Kofi Annan resigned on August 2nd. The UN Security Council ended the UN observer's mission, and agreed to set up a civilian liaison office. Algerian diplomat, Lakhdar Brahimi, was appointed on August 16 as the new UN envoy. The United Nations General Assembly passed a resolution condemning the Syrian regime's use of heavy weapons. The Organization of Islamic Countries suspended Syria's membership on August 16th.

TUNISIA

Protests were held across the country on August 13 against the definition of gender roles in a new draft constitution. A general strike in Sidi Bouzid called on the release of protesters detained during previous demonstrations. The Interior Ministry confirmed that Ayoub Massoudi will be going to trial after criticizing the army. An arrest warrant was issued on August 24 for the TV channel director Sami Fehri over a mocking government show.

YEMEN

Republican Guards led by the son of the former president, Ahmed Ali Abdullah Saleh, attacked the Defense Ministry headquarters following a restructuring of military units in attempts to curb Ahmed's powers. A series of assassination attempts targeted the government and military officials. Security guards were killed in mid-August attacks on intelligence headquarters in Aden by suspected Islamist militants. Violence continued in the South of the country with at least 45 people killed in a suicide bombing at a funeral. The government obstructed al-Qaeda-linked militants' plot to attack Sanaa. A gas pipeline feeding the country's only liquefied natural gas export terminal was sabotaged on August 21st.

Source: International Crisis Group

OUTLOOK

SAUDI ARABIA

Kingdom to become net oil importer by 2030

Citigroup considered that Saudi Arabia could become a net importer of oil by 2030 given its current level of domestic oil consumption and the growth rate in peak electricity demand, assuming there is no change in the country's electricity supply mix. It said that Saudi Arabia consumes 25% of its oil production of 11.1 million barrels per day (b/d), while it exports 7.7 million b/d. It added that the country's energy consumption per capita exceeds that of most industrial nations despite its relatively small population. It noted that oil and its derivatives account for 50% of the country's electricity production and that over 50% of energy demand is consumed by households, of which 70% goes for air conditioning during the summer months. Also, Saudi Arabia's water consumption is the third highest in the world at 250 liters per day per capita, with water mainly supplied by energy-intensive water desalination plants.

In addition, Citigroup pointed out that Saudi Arabia already consumes all of its gas production of 9.6 billion cubic feet per day, and expected pressure on gas supply in view of delays in new gas projects. It noted that the Kingdom aims to raise its gas production to 15.5 billion cubic feet per day by 2015, implying that gas production would increase by a compound annual growth rate of 12.7% between 2011 and 2015. But it considered that Saudi Arabia needs to find new sources of energy to meet its residential and industrial demand given that peak power demand is growing at a rate of 8% per year. Further, authorities plan to add 80 Gigawatts to the existing power capacity by 2032 from nuclear and solar sources. It noted, however, that using nuclear energy to produce electricity presents specific risks such as the lack of available expertise following 25 years of underinvestment in the industry; plant safety such as methods to keep reactors cool in the desert; and risk of cost overruns. In parallel, Citigroup estimated the loss in government revenues from oil & gas subsidies at over \$80bn, and forecast such losses to rise to almost \$400bn by 2035. It said the government may transfer some of its economic burden to the private sector.

Source: Citigroup

TUNISIA

Banking sector weaknesses could undermine economic and financial stability

The International Monetary Fund indicated that risks arising from weaknesses in Tunisia's financial sector would undermine the country's macro-financial stability. It said that continued liquidity injection by the Central Bank of Tunisia (CBT) to compensate for the banks' weakening asset performance would put further pressure on foreign currency reserves and inflation. It noted that a further decline in reserves would force a large exchange rate adjustment or monetary policy tightening, which would result in either additional inflationary pressures or a credit crunch. It added that the banking sector's contribution to medium-term growth would be undermined and banks' recapitalization needs would increase significantly if banks' solvency issues are not addressed rapidly. It estimated the sector's recapitalization needs at between 3% of GDP and 7% of GDP, equivalent to between 3.2% and 7.5% of total banks assets.

As such, the Fund called on the authorities and banks to proactively address the sector's large capitalization needs and the tight liquidity situation. It said that banks would need to take preemptive actions and start to set aside additional capital. It noted that the CBT will have to develop an exit strategy to gradually limit its large liquidity support to banks. It added that the CBT would have to align its collateral requirements to international practices in order to preserve its balance sheet and introduce a "lender of last resort" facility for banks with insufficient eligible collateral.

In parallel, the IMF indicated that the financial sector reforms of the past 10 years were not sufficient to modernize and strengthen the banking system, while banking supervision was not developed adequately and fell short of international standards. It said that effective banking supervision must ensure uniform application of prudential rules and prompt resolution of solvency problems to promote fair competition. It advised the authorities against interventions that potentially involve market distortion, such as interest rate ceilings or floors.

Source: International Monetary Fund

EGYPT

Fiscal deficit to widen to 11% of GDP in 2012, public finances to remain weak

Standard & Poor's projected Egypt's real GDP growth at 1.5% in 2012 and 3% in 2013 compared to 1.8% in 2011. It considered that a poor outlook for the tourism sector and lower FDI will continue to weigh on economic activity. It expected net exports to remain a drag on economic growth, but to be offset by strengthening domestic demand from stronger private consumption, based on the assumption that the domestic political situation stabilizes. It also projected real GDP per capita growth to decelerate to around 1.5% over 2012-2015 from an average of 3.6% in the previous six years.

In parallel, S&P forecast the fiscal deficit to widen to 10.5% of GDP in 2012 from 9.8% of GDP in 2011 and to reach 9.1% of GDP in 2013. It considered that the government's effort to reverse further deterioration in public finances will not succeed, and that the authorities will not be able to reverse the negative trend of weak revenue growth and high spending. It expected public finances to remain very weak, given the prospect of continued demand for increased social spending, including subsidies, and lower tax revenues. It estimated that a 20% devaluation of the Egyptian pound would be unlikely to have a material impact on public finances.

S&P indicated that wide-ranging structural reform efforts are likely to remain secondary to political reforms even with an IMF program. It suggested that moving from the current exchange rate regime to a more flexible one should be complemented by tighter fiscal and monetary policies to support external investors' confidence. It noted that the government's stock of debt is relatively high and expensive. It projected the net public debt at 66% of GDP in 2012-2015, with interest expenditures at about 25% of revenues over the same period.

Source: Standard & Poor's



ECONOMY & TRADE

GCC

Profits of cement producers up 27% in first half of 2012

The aggregate net profits of cement companies operating in the GCC economies reached \$971.5m in the first half of 2012, representing a 27.1% increase from the same period of 2011, as operating profits increased by 25.9% year-on-year to \$946.1m and sales rose 17.3% to \$2.5bn in the first half of the year. Net profits of Saudi Arabia's cement sector posted a 25.4% rise in the first half of 2012 to \$778.6m, while that of the UAE's sector increased by 174.7% to \$53.3m in the covered period. The aggregate debt of cement companies increased significantly by 7.9% year-on-year to \$2.2bn in the first half of 2012, with the debt-to-assets ratio at 15.8% and the equity-to-assets ratio at 73.8%. In parallel, cement prices in the GCC averaged around \$65.8 per ton in the first half of 2012, posting a 0.2% decline from \$65.9 per ton in the same period of last year, due mainly to marginal drop in cement prices of Kuwait and Oman. Further, the sector's capacity is expected to reach 112.7 million tons per year at end-2012 and 116 million tons per year at end-2013 compared to 102.9 million tons per year at end-2011. Saudi Arabia's cement capacity is expected to reach 56.2 million tons per year at end-2012 which represents 49.9% of the GCC's total capacity; followed by the UAE with 34%, Oman and Qatar with 5.5% each, Kuwait with 4.8% and Bahrain with 0.4%. *Source: Global Investment House*

SYRIA

Annual inflation rate at 36% in June, Homs hardest hit

Figures issued by the Central Bureau of Statistics show that the Consumer Price Index increased by 36.1% in June 2012 from June 2011 and by 18.7% from end-December 2011. The prices of housing, water, electricity, gas & other fuel oils rose by 54.2% year-on-year in June 2012, followed by the prices of alcoholic beverages & tobacco with a 47.4% increase, household equipments & supplies and ordinary maintenance works (+43.7%), hotels & restaurants (+41.5%), Various goods & services (+40.2%), clothes & shoes (+34.7%), transportation (+32.5%), food & non-alcoholic beverages (+32.1%), entertainment & culture (+20.2%), education (+18.1%), health care (+10.6%) and communications (+4.5%). In parallel, the Consumer Price Index increased by 39.3% annually in Homs, followed by Deir-ez-Zor with a 39.2% rise, Aleppo (+38.8%), Hama (+37.7%), Al-Hasakeh (+37.4%), Tartous (+37.3%), Rural Damascus (+36.6%), Quneitra (+36.2%), Idleb (+36%), Al-Sweida (+35.1%), Dar'aa (+34.5%), Al-Rakka (+33.7%), Lattakia (+33.2%) and Damascus (+32.5%). The ongoing turmoil, disruption in economic activity and of supply routes, as well as international sanctions, have resulted in significant shortages of basic goods, energy products and household items. *Source: Central Bureau of Statistics*

JORDAN

Fiscal deficit to narrow to 10.3% of GDP this year on cuts in public expenditures

The Institute of International Finance projected Jordan's fiscal deficit to narrow to 6.2% of GDP in 2012 from 6.8% of GDP in 2011; and to reach 10.3% of GDP this year relative to 12.7% of GDP last year when excluding grants. It attributed the expected narrowing of this year's deficit to austerity measures already passed this year and to fiscal consolidation measures required by the recently-approved \$2bn IMF Stand By Arrangement. It considered that the impact of the IMF program will be mostly felt on the expenditures side, as it will cut back on capital expenditures, stabilize defense spending and limit the rise in subsidies. It expected total expenditures to decrease slightly to 32% of GDP in 2012, down from 33% of GDP last year, and to be driven primarily by a 29% cut in capital spending. As a result, capital expenditures will account for 3.4% of total spending relative to 5.2% in 2011. It noted that current expenditures are forecast to remain constant at around 28% of total spending, reflecting the priority given by the authorities to social spending, especially while the regional turmoil is ongoing. The IIF indicated that the fiscal impact of the IMF program will be limited, as Jordan is likely to continue to face significant challenges in lowering its budget deficit and restraining the growth of the public debt, and will remain quite dependent on foreign aid. It noted that additional revenue and expenditure policy measures have been identified for the purpose of further fiscal consolidation in 2013 and 2014. It forecast the fiscal deficit, excluding grants, to continue narrowing to 9.5% of GDP in 2013 and to 8% of GDP in 2014 if these measures were implemented. *Source: Institute of International Finance*

DEM REP CONGO

Dodd-Frank Act to have limited impact on mining sector

Business Monitor International anticipated that the official implementation of the Dodd-Frank Act by 2014, which requires U.S.-listed companies to declare the exact source of any metals they buy from the Democratic Republic of Congo (DRC), is unlikely to have a significant impact on the country's mining sector. It expected poor implementation of the Act, weak governance in the DRC, and smuggling through third countries to weaken the impact of the bill. It noted that non-American firms that are not bound by the terms of the Dodd-Frank Act will ensure that minerals in high demand are still exported. It noted that copper, which is the DRC's main mineral export, is not covered by the Act, and that copper's production increased by 80% since 2008. Further, it attributed the fall in the production of gold, tin, coltan and tungsten, which are covered by the Act, to underreporting rather than to a real fall in production. As such, BMI expected the DRC's mining industry to continue to grow, with the new legislation only further complicating an already difficult legal environment. It noted that the Act will encourage miners to invest in more stable regions of the DRC, rather than causing them to leave the country. *Source: Business Monitor International*



BANKING

SAUDI ARABIA

Private sector lending up 14% year-on-year

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR 1,621bn at the end of July 2012, unchanged month-on-month, but constituting a 5% rise from end-2011 and a 7.9% increase from July 2011. Lending to the private sector reached SAR 899bn, up 1.5% month-on-month, while lending grew by 14.1% from a year earlier and posted a new 40-month record high. The growth in lending was driven by an increase in consumer and public spending and a recovery in corporate demand for credit. The system non-performing loans accounted for 2.2% of total loans at end-July 2012, with provisions coverage at 140%. Also, customer deposits totaled SAR 1,154bn at end-July, constituting a drop of 0.6% month-on-month, but increased by 9.6% from a year earlier. Bank reserves accounted for 12.9% of total deposits at end-July, down from 13.1% a year earlier. The sector's aggregate cumulative 12-months net profits increased by 3% year-on-year to SAR 33.4bn in July 2012, and by 13% from end-2011. The loans-to-deposits ratio was 81.9% at end-July relative to 79% a year earlier.

Source: Deutsche Bank, HSBC, Saudi Arabian Monetary Agency

MOROCCO

Lending growth sustained in July, liquidity remains tight

Figures issued by Bank Al-Maghrib show that the total assets of commercial banks operating in Morocco reached MAD1,101bn, or about \$125bn, at the end of July 2012, constituting a rise of 0.3% month-on-month, a growth of 5.2% from end-2011 and an increase of 12.1% from end-July 2011. The sector's aggregate loans totaled MAD708.5bn, unchanged from the previous month, and increased by 3.1% from end-2011. Also, total lending grew by 7.5% annually in July 2012, driven mainly by growth in retail lending and by an increase in working capital lending to corporates. Investment-related lending in the corporate segment fell by 3% year-on-year. Deposits reached around MAD701bn at end-July 2012, remaining flat month-on-month but rising by 4.5% from a year earlier. The loans-to-deposits ratio stood at 101% at end-July 2012, down slightly from 102% in the preceding month. Liquidity in the Moroccan banking sector has been tight over the past three years, with loan growth outpacing deposit growth. Banks have overcome the slow pace of deposit growth in the past two years through short-term borrowing and the issuance of subordinated debt in the domestic market. Also, the sector's NPLs ratio stood at 5% in July 2012, remaining broadly unchanged since January 2009 and reflecting an increase in nominal NPLs.

Source: Bank Al-Maghrib, EFG Hermes

GHANA

Currency stabilizes, depreciation risks remain

Business Monitor International indicated that the Ghanaian cedi has stabilized against the US dollar since the beginning of July after a period of fluctuations since September 2011, and has been trading at around GHS1.95 per US dollar before slightly

appreciating to trade at GHS1.93 against the dollar at end-August. It attributed the stabilization of the exchange rate to the measures implemented by the Bank of Ghana (BoG) designed to halt the currency's slide. It noted that the BoG tightened the benchmark interest rate by 250 basis points to 15% since February 2012, reduced the single currency net open position for banks and increased issuance of local debt, among other measures. It added that local debt issuance is having a particularly positive effect on the value of the cedi, as local debt instruments are drawing significant foreign investor interest given their high yields. It pointed out that the Finance Ministry intends to auction additional long-term bonds by the end of the year, and potentially open up the short-term domestic bond market to offshore investors. It noted that currently, non-residents may only purchase bonds with an original maturity of three years or more. However, BMI cautioned that it is too soon to conclude that the currency's weakness is over, given that the stability of the cedi against the dollar is recent and that the currency has not yet made a firm break away from its depreciating trend. It said that downside pressure from high import demand remains significant in the context of booming oil & gas and infrastructure needs, while domestic risk aversion remains a factor as the December 2012 elections approaches.

Source: Business Monitor International

ARMENIA

Rapid credit growth does not pose risks to sovereign creditworthiness

Fitch Ratings indicated that Armenia's private sector lending has been growing rapidly, as it exceeded 30% year-on-year in June 2012 and expanded by 35.5% in full year 2011, mainly driven by corporate lending. It added that exchange rate depreciation explains 5 percentage points of the growth in private sector lending, as the dram lost 8% of its value against the US dollar between May and June 2012 due to a combination of local and global factors. It noted that Armenia was one of 15 rated sovereigns where real credit growth exceeded 15% last year, and posted the fastest credit growth among rated sovereigns in the Commonwealth of Independent States. Further, it said that the banking sector's aggregate risk-weighted capital ratio is on a downward trend but remains strong at 17.8% in March 2012, well above the regulatory 12% minimum set by the Central Bank of Armenia (CBA). It noted that the NPLs ratio dropped to 4.7% in March 2012 from a peak of 10.8% in April 2009, but it warned that loss-absorption capacity is vital given the risks posed by high dollarisation and devaluation. The agency pointed out that the Armenian banking system does not pose a risk to sovereign creditworthiness, given that the sector is privately-owned and that 80% of the sector is foreign owned. It considered that this distances the government from the need to provide support to banks in cases of stress. It noted that the CBA's stress tests show that banks are robust to stress scenarios such as a dram depreciation of 30% or a shock to remittance inflows.

Source: Fitch Ratings



ENERGY / COMMODITIES

Brent prices above \$114 a barrel

Brent crude for October delivery rose by \$1.3 to \$114.5 a barrel on September 6, while U.S. crude prices increased by \$1.3 to \$96.6 a barrel. The increase in oil prices was mainly attributed the European Central Bank agreement on unlimited bond-purchase program to tackle the Eurozone's debt crisis. Brent prices rose significantly in the third quarter of the year, due to higher-than-expected demand, lower-than-expected supply and the reemergence of geopolitical risks. But the increase in global oil demand in the third quarter of 2012 is expected to be temporary, which would lead to a decline in global oil prices rather than further increases. Brent crude prices are expected to trade between \$90 a barrel and \$120 a barrel over the coming months, with an average of \$110 a barrel in 2012 and \$102 a barrel in 2013. Overall, prices of Brent ICE futures increased by 8.3% in August to \$114.6 a barrel, and prices of WTI NYMEX Futures rose by 7.7% in August to \$96.8 per barrel.

Source: Thomson Reuters, Business Monitor International, Institute of International Finance, Bloomberg

Nigeria's crude oil output declines in second quarter of 2012

Nigeria, Africa's largest oil producer, indicated that its crude oil output including condensates and liquified natural gas reached 2.12 million barrels a day in the second quarter of 2012, constituting a 3.2% drop from 2.19 million barrels a day from the same last period. Also, total oil exports declined by 4% to 1.67 million barrels a day in the second quarter from 1.74 million a day in the same period last year. Nigeria depends on oil exports for more than 80% of its revenues and 95% of foreign exchange income.

Source: Bloomberg

Iraq to make exploration deals more profitable

Iraq indicated that future energy exploration contracts will be more lucrative in a bid to attract a larger number of foreign firms to auctions for exploration blocks. The country held an unsatisfactory auction for oil and gas exploration blocks in May 2012, in which a dozen plots of unexplored territory were offered, but only four contracts were awarded. Along with increasing oil production, the country aims to increase gas extraction to enhance its low level of electricity output.

Source: Agence France Presse

Côte d'Ivoire's Cocoa exports to rise in 2012/13

Côte d'Ivoire's cocoa output is expected to reach 1.4 million tons in fiscal year 2011/12, relative to 1.5 million tons in FY2010/11, due to less favorable weather conditions. Côte d'Ivoire is the world's largest producer of cocoa as its production accounted for 34.8% of global cocoa production in FY2011/12. Cocoa production is expected to post a slight increase in FY2012/13 as weather conditions are still not looking ideal for the crop to recover to its record level of FY2010/11. The country's cocoa exports in FY2011/12 are forecast to be higher than in FY2010/11 despite the lower output, because the export ban during the country's civil war affected the sector's exports in FY2009/10 and FY2010/11. Cocoa prices are forecast to average GBP 1,450 per ton in 2012, and GBP 1,250 per ton in 2013.

Source: Business Monitor International

Base Metals: Global Steel output to grow in 2013

Global steel production is projected to reach 1,555 million tons in 2012, constituting an increase of 3.5% from 1,502 million tons in 2011, and to increase to 1,610 million tons in 2013. China's steel production is expected to reach 697 million tons in 2012, equivalent to 44.8% of global production. It would be followed by the EU with 146 million tons of output (9.4%), members of the North American Free Trade Agreement (NAFTA) with 123 million tons (7.9%), and the Commonwealth of Independent States (CIS) with 116 million tons (7.5%). In parallel, global steel demand is expected to reach 1,382 million tons in 2012, constituting an increase of 1.4% from 1,363 million tons in 2011, and to rise to 1,422 million tons in 2013. Chinese demand is expected to reach 648 million tons in 2012, equivalent to 46.9% of global demand. It would be followed by the EU with 124 million tons (9%), members of NAFTA with 114 million tons (8.2%), and the CIS countries with 52 million tons (3.8%). Oversupply constitutes a major obstacle to the steel industry as the global market is lacking discipline with cuts in production in Europe and the U.S. being offset by an increase in production from China. The U.S. has been the only country to post a rise in steel prices, adding about \$40 per ton over the last two months. But this increase is expected to be short-lived given the potential for low cost imports from China and Europe.

Source: Citigroup, Byblos Research

Precious metals: Gold prices fluctuate above \$1,700 per ounce

Gold prices fluctuated above \$1,700 an ounce on September 6, their highest level since March 13, 2012, after the European Central Bank's announcement of unlimited purchases of government bonds to defuse the region's crisis. Also, the U.S. Federal Reserve's comments on the severe condition of the U.S. labor market last week had encouraged investors to buy gold as a hedge against inflation. Spot gold prices increased by 0.9% to \$1,708.5 an ounce on September 6, while U.S. gold futures contracts for December delivery rose by 1% to \$1,711.2 an ounce. Further, other precious metals rose as gold rallied, with silver and platinum prices rising to their strongest levels since April 2012. Overall, the price of gold increased by 4.4% in August to \$1,687.6 per ounce, while that of silver rose by 12.1% in August to \$31.4 an ounce. Further, palladium prices increased by 6.4% in August to \$629.4 per ounce and platinum prices rose by 8.3% to \$1,537.3 per ounce.

Source: Thomson Reuters, Bloomberg

Global Commodity Outlook			
(3-months LME, \$/ton)	2011	2012f	2013f
Aluminum	2,424	2,084	2,200
Copper	8,833	8,114	9,000
Lead	2,391	2,063	2,300
Nickel	22,896	18,728	21,000
Tin	26,042	22,266	25,500
Zinc	2,212	2,018	2,250
(Spot price, \$/ounce)			
Gold	1,573	1,688	1,900
Palladium	733	665	800
Platinum	1,720	1,557	1,800
Silver	35	32	35

Source: Standard Chartered

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	-	-	-	-	BB	-3.6	9.9	2.8	5.7	1.2	2.6	10.3	2.0
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	BB	12.6	30.9	18.0	47.1	7.5	-	12.0	-
	Stable	Stable	Stable	-	Negative								
Egypt	B	B1	B+	BB+	CCC	-9.9	76.4	14.8	44.6	6.7	127.8	-2.0	-
	Negative	Negative	Negative	Negative	Stable								
Ethiopia	-	-	-	-	B	-1.6	37.3	26.5	276.7	-	-	-6.3	0.2
	-	-	-	-	Stable								
Ghana	B	-	B+	-	BB	-4.3	43.4	20.4	59.4	-	-	-6.5	3.2
	Stable	-	Stable	-	Positive								
Ivory Coast	-	-	-	-	CCC	-5.7	67.9	47.3	100.0	-	-	1.0	0.3
	-	-	-	-	Stable								
Libya	-	-	B	-	B	-	-	15.1	28.2	2.0	-	4.4	-
	-	-	Stable	-	Stable								
Mauritania	-	-	-	-	-	-1.5	92.4	92.2	100.0	-	560.0	-6.5	0.01
	-	-	-	-	-								
Morocco	BBB-	Ba1	BBB-	BBB-	B	-6.9	54.4	24.6	81.2	8.9	131.3	-7.4	2.3
	Stable	-	Stable	Stable	Stable								
Nigeria	B+	-	BB-	-	B	1.1	17.9	4.2	7.5	0.4	-	13.5	9.7
	Positive	-	Stable	-	Stable								
Sudan	-	-	-	-	C	-2.9	73.1	60.5	397.9	-	-	2.1	-
	-	-	-	-	Stable								
Tunisia	BB	Baa3	BBB-	BBB	B	-3.2	42.4	47.9	105.5	9.3	309.3	-7.4	1.1
	Stable	Negative	Negative	Stable	Stable								
Middle East													
Bahrain	BBB	Baa1	BBB	BBB+	BB	-2.3	36.5	138.6	65.1	6.2	354.8	4.2	-
	Negative	Negative	Stable	Negative	Stable								
Iran	-	-	B+	BB-	CCC	0.2	9.0	3.4	9.8	1.5	11.3	10.7	3.8
	-	-	Stable	Stable	Stable								
Iraq	-	-	-	-	CCC	7.4	86.9	76.8	61.4	-	83.1	7.9	1.5
	-	-	-	-	Stable								
Jordan	BB	Ba2	-	BB	CCC	-6.0	70.6	21.6	53.9	4.8	71.0	-9.5	1.4
	Negative	Negative	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	31.0	4.1	18.0	25.3	7.0	126.1	41.8	-
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B1	B	B	CCC	-5.6	136.2	174.5	536.4	14.7	92.5	-14.4	2.3
	Negative	Stable	Stable	Stable	Stable								
Oman	A	A2	-	A	A	8.2	5.1	11.5	19.1	-	65.7	13.2	0.2
	Negative	-	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	8.0	32.5	72.6	123.1	9.1	642.6	28.4	-
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB	15.2	7.5	16.3	29.8	2.1	19.7	24.4	13.0
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	CC	-	-	-	87.7	-	-	-	1.1
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	BB	2.9	16.9	41.0	59.3	6.6	445.1	9.2	5.5
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	CC	-4.4	42.5	18.0	72.4	-	157.5	-3.5	-
	-	-	-	Negative	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								
Asia													
Armenia	-	Ba2	BB-	-	-	-2.7	35.1	65.5	453.3	-	357.9	-12.3	0.4
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	A	BBB	-1.1	25.8	9.1	31.5	1.7	-	2.8	58.9
	Stable	-	Stable	Stable	Stable								
India	BBB-	Baa2	BBB-	BBB-	BBB	-5.9	68.1	15.5	62.9	11.1	96.5	-2.8	16.8
	Negative	Stable	Negative	Stable	Stable								
Kazakhstan	BBB+	Baa2	BBB-	-	BBB	5.7	10.9	76.1	136.2	29.7	432.4	7.6	8.4
	Stable	-	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.5	17.0	87.9	132.3	17.8	-	1.9	1.7
	Stable	Stable	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	BBB-	BB	-4.1	33.0	67.4	175.7	23.7	246.9	-4.2	2.6
	Stable	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	0.8	9.6	22.5	71.9	9.7	-	5.5	-
	Stable	Positive	Stable	-	Stable								
Turkey	BB	Ba1	BB+	BB	B	-1.3	39.4	39.7	167.4	29.5	454.2	-9.9	13.4
	Stable	Positive	Stable	Stable	Stable								
Ukraine	B+	B1	B	-	CCC	-4.0	36.5	76.4	142.1	34.9	-	-5.6	7.0
	Negative	Negative	Stable	-	Positive								

Sources: International Monetary Fund; Economist Intelligence Unit - The above figures are estimated for 2011



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	01-Aug-12	No change	13-Sep-12
Eurozone	Refi Rate	0.75	02-Aug-12	No change	06-Sep-12
UK	Bank Rate	0.50	02-Aug-12	No change	06-Sep-12
Japan	O/N Call Rate	0-0.10	09-Aug-12	No change	19-Sep-12
Australia	Cash Rate	3.50	07-Aug-12	No change	04-Sep-12
New Zealand	Cash Rate	2.50	26-Jul-12	No change	12-Sep-12
Switzerland	3 month Libor target	0.00	14-Jun-12	No change	13-Sep-12
Canada	Overnight rate	1.00	17-Jul-12	No change	05-Sep-12
Emerging Markets					
China	One-year lending rate	6.00	05-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	01-Aug-12	No change	13-Sep-12
Taiwan	Discount Rate	1.88	21-Jun-12	No change	20-Sep-12
South Korea	Base Rate	3.00	09-Aug-12	No change	13-Sep-12
Malaysia	O/N Policy Rate	3.00	05-Jul-12	No change	06-Sep-12
Thailand	1D Repo	3.00	25-Jul-12	No change	05-Sep-12
India	Reverse repo rate	8.00	31-Jul-12	No change	17-Sep-12
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	N/A
Saudi Arabia	Repo rate	0.25	16-Jun-09	Cut 25bps	N/A
Egypt	Overnight Deposit	9.25	24-Nov-11	Raise 100bps	N/A
Turkey	Base Rate	5.75	16-Aug-12	No change	18-Sep-12
South Africa	Repo rate	5.00	19-Jul-12	No change	20-Sep-12
Kenya	Central Bank Rate	16.50	Aug-12	Cut 150bps	05-Sep-12
Nigeria	Monetary Policy Rate	12.00	24-Jul-12	No change	19-Sep-12
Ghana	Prime Rate	15.00	Aug-12	No change	10-Sep-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	20-Jul-12	No change	07-Sep-12
Brazil	Selic Rate	7.50	11-July-12	Cut 50bps	29-Aug-12
Armenia	Refi Rate	8.00	05-Jun-12	No change	N/A
Romania	Policy Rate	5.25	30-Mar-12	Cut 25bps	N/A
Bulgaria	Base Interest	0.04	01-Sep-12	Cut 4bps	N/A
Kazakhstan	Refi Rate	5.50	06-Aug-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	23-Mar-12	Cut 25bps	N/A
Russia	Refi Rate	8.00	26-Dec-11	Cut 25bps	N/A



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