

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond and equity inflows at \$65bn in first 10 months of 2012, AUM at \$1,064bn

Capital flows to emerging market equity and bond funds posted net inflows of \$65bn in the first 10 months of 2012, with bond inflows at \$36.3bn and equity inflows at \$28.7bn. Latin America accounted for \$14.2bn or 39.1% of inflows to bond funds; Emerging Europe, the Middle East & Africa (EMEA) for \$13.1bn, or 36.2%; and Emerging Asia for \$9bn or 24.7% of the total. Further, Emerging Asia posted \$16.8bn in inflows to equity funds in the first 10 months of the year and accounted for 58.7% of equity inflows to emerging markets, followed by Latin America with \$6.7bn (23.2%) and the EMEA region with \$5.2bn (18.1%). Mexico was the biggest recipient of bond inflows with \$4.1bn, or 11.3% of total inflows into emerging market bond funds year-to-October; while China was the largest recipient of equity inflows with \$6.3bn or 22% of total inflows into emerging market equity funds. In parallel, assets under management (AUM) in emerging markets totaled \$1,063.8bn at the end of October 2012 compared to \$933.2bn a year earlier, with bonds reaching \$241.1bn and equities totaling \$822.7bn. The EMEA region had \$95.7bn in bonds-related AUM, followed by Latin America with \$83.2bn, and Emerging Asia with \$62.2bn. Further, Emerging Asia had \$534.8bn in equity-related AUM, followed by the EMEA region with \$145.2bn, and Latin America with \$142.6bn.

Sources: *Barclays Capital, Byblos Research*

Private equity investments at \$27bn in first 9 months of 2012

Private equity funds dedicated to emerging markets raised \$27.2bn in the first 9 months of 2012 compared to \$32.3bn raised in the same period last year. Emerging Asia funds raised \$15.2bn, with China accounting for \$6.4bn and India for \$1.7bn, followed by CEE & CIS funds with \$4.2bn and multi-regional funds with \$3.7bn. Also, Latin America & Caribbean funds raised \$3bn with Brazil receiving \$1.7bn, followed by Sub-Saharan Africa funds with \$648m and MENA funds with \$547m. In parallel, private equity investments in emerging markets totaled \$17.1bn in the first 9 months of 2012 compared to \$21.5bn in the same period last year. Also, the number of transactions reached 619 deals in the first 9 months compared to 690 deals in the same period last year. The average deal was worth around \$27.6m in the covered period relative to \$32.2m in the first 9 months of 2011. Emerging Asia attracted 61.6% of private equity investments by value, followed by Latin America & the Caribbean with 21.7%, the CEE & CIS region with 9.4%, Sub-Saharan Africa with 4.1% and the MENA region with 3.1%. China attracted 34.4% of emerging markets private equity investment, followed by Brazil with 20.2% and India with 12.1%.

Source: *Emerging Markets Private Equity Association*

Bank funding conditions improve in third quarter of 2012

The Emerging Markets Bank Lending Conditions Survey indicated that the Lending Conditions Index reached a five-quarter high of 49.9 in the third quarter of 2012, compared to 48.6 in the previous quarter and to 49.1 in the same quarter of 2011. The survey said that overall banking conditions were broadly stable in the third quarter of the year. It revealed that 27.3% of respondent banks indicated that demand for commercial and industrial loans increased in the third quarter of 2012, while 21% of respondents considered that demand for commercial real estate loans rose. Also, the survey noted that 27.6% of respondents acknowledged that residential real estate loans increased in the third quarter of 2012 and 34% of respondents considered that demand for consumer loans rose. In parallel, the survey revealed that funding conditions improved significantly for the first time since the last quarter of 2010. Also, it noted that 34.3% of responding banks reported an overall easing in international funding conditions relative to 23.6% that acknowledged an overall tightening in domestic funding conditions. The results of the survey are based on responses from 132 banks domiciled in emerging market economies. The survey is addressed to senior loan officers, chief credit officers or other senior officers in equivalent positions at 200 banks based in emerging market countries.

Source: *Institute of International Finance*

MENA

Vast disparities in region's prosperity levels

The Legatum Institute's Prosperity Index for 2012 indicated that one Arab country has a high level of prosperity, eight states have an average prosperity level, and six countries have a weak level of prosperity. The UAE is the highest ranked Arab country and came in 29th place globally among 142 countries. It was followed by Kuwait (38th), Saudi Arabia (52nd), Morocco (73rd) and Jordan (77th) as the most prosperous Arab countries; while Sudan (125th), Iraq (131st) and Yemen (134th) were the least prosperous. The index uses a holistic definition of prosperity to include both material wealth and quality of life. The rankings of 12 Arab countries regressed year-on-year with Syria posting the steepest decline of 32 spots, followed by Yemen with a decline of 28 spots and Tunisia with a decrease of 24 spots. Djibouti, Mauritania and Iraq were included for the first time in the index. The UAE ranked first on the Economy, Entrepreneurship & Opportunity, Governance, Education, Health, Safety & Security, and Personal Freedom sub-indices; while Morocco ranked first on the Social Capital sub-index. The survey noted vast disparities in the prosperity levels across the region in 2012, but it said that most Arab countries have improved their performance in the Entrepreneurship & Opportunity sub-index over the last three years. It added that the MENA region posted the second largest improvement in this sub-index behind Asia. It attributed the improvements in the sub-index in part to a decrease in business start-up costs.

Sources: *Legatum Institute, Byblos Research*

POLITICAL RISK OVERVIEW - OCTOBER 2012

EGYPT

An Egyptian Court referred a case to the Supreme Constitutional Court challenging the constitutionality of the Islamist-dominated Constituent Assembly. Violent confrontations erupted in Tahrir Square between the ruling Muslim Brotherhood and the opposition denouncing Islamist dominance of the constituent assembly. President Mohammed Mursi attempted to remove the Mubarak-era Prosecutor General following the court's release of 24 Mubarak loyalists accused of involvement in deadly attacks during the 2011 uprising. The Prosecutor General ordered an investigation into allegations of fraud in the presidential election after an official complaint was filed by Ahmed Shafiq who narrowly lost the presidential contest. President Mursi issued a pardon for crimes, except for murder, committed in support of the revolution. A Libyan militant suspected of involvement in the September attack on the U.S. consulate in Libya was killed by security forces in Cairo.

IRAN

Police violently dispersed demonstrators protesting the currency depreciation on October 3rd. The European Union approved additional sanctions on October 15 due to the government's non-compliance over the nuclear program.

IRAQ

Iraqi authorities issued arrest warrants for the Central Bank governor and other bank officials over currency manipulation allegations. Shootings and bombings throughout the country caused 70 deaths and 118 injuries. The government announced that it would stop Syrian-bound Iranian airplanes for weapons inspections. The government agreed on weapon deals with the U.S., Russia and the Czech Republic. The al-Qaeda-linked Islamic State of Iraq claimed responsibility for a series of bomb attacks and the Tikrit jailbreak.

DEM REP CONGO

Fighting between M23, the Congolese Revolutionary Army rebels, and the Armed Forces of the Democratic Republic of Congo (FARDC) continued in the country's east. The FARDC began the integration procedure of the Nyatura local militias. The UN Security Council announced plans to impose sanctions against leaders of the M23 rebel movement. The government continued to lobby the international community to impose sanctions on Rwanda for its role in supporting the M23 rebels.

LIBYA

Libyan army units have launched a full scale attack against former pro-Qadhafi stronghold Bani Walid, including civilian areas. The government's security forces continued to come under attack in the east. A political crisis developed as the General National Congress dismissed Prime Minister Mustafa Abu Shaghour for failing to form a Cabinet, and appointed Ali Zeidan, an independent Congress member. A new Cabinet was approved on October 31st. Dozens of protesters stormed the National Assembly and forced the cancellation of a vote on a coalition government proposed by Prime Minister Ali Zeidan. Libya defended its right at the International Criminal Court to hold the domestic trial of Saif al-Islam Qadhafi.

SOUTH SUDAN

The Parliament ratified the oil and border deal with Sudan. Hundreds of people protested against the demilitarization of contested border areas. The government ordered oil companies to resume production on October 18, ending a nine months shut-down. The government expressed discontent over the African Union High-Level Implementation Panel's call to extend the Abyei mediation efforts, stating inconsistency with the African Union's roadmap and with UN Resolution 2060. Amnesty International accused security forces of widespread abuses in the Jonglei disarmament campaign. The government announced plans to mediate the Ethiopia-Eritrea border dispute.

SUDAN

An Israeli military aircraft bombed a factory in Khartoum on October 24th. Iranian warships docked at the Port of Sudan on October 29th. Renewed rebel confrontations with government troops in Darfur left several people dead. The government, a splinter rebel group and the Justice & Equality Movement agreed to an immediate ceasefire and peace negotiations, following a series of meetings. The government expressed concerns over security arrangements to deliver humanitarian aid to South Kordofan and Blue Nile states. The Sudan People's Liberation Movement-North (SPLM-N) reported the bombing of South Kordofan villages by the Sudan Armed Forces on October 30th. The U.S. accused SPLM-N rebels of recruiting child soldiers from South Sudan's refugee camps.

SYRIA

Casualties and displacements continue to rise as fighting between the Free Syrian Army (FSA) and the Syrian military escalates, with regime forces conducting large-scale military operations and bombing raids on opposition-controlled areas. A ceasefire brokered by the UN/Arab League envoy Lakhdar Brahimi for Eid al-Adha was repeatedly broken. Syrian rights activists claimed that October 29 was the worst day yet of the regime's air raids. Qatar called for a well-armed peacekeeping force to be deployed in Syria. Syrian-Arab rebels exchanged fire with Syrian Kurds in Aleppo on October 24th. Turkish Kurdistan Workers' Party threatened to intervene if fighting persists. Concerns escalated over the deterioration in regional instability due to the ongoing cross-border fire with Turkey.

TUNISIA

The ruling Troika of An-Nahda, Ettakatol and Congress for the Republic agreed on a semi-parliamentary system of government. Thousands of people held a demonstration in Tunis on October 22 against the government's failure to stop Islamist violence. Hardline salafists clashed with alcohol sellers in Tunis. Demonstrations erupted against the ruling coalition on the one-year anniversary of the first democratic elections.

YEMEN

Al-Qaeda in the Arab Peninsula (AQAP) militants killed 16 soldiers in an attack on Abyan province's army base. Security forces obstructed a plot to bomb a joint government-U.S. air base in Lahej province in the south. Three AQAP leaders were killed in an October 2 raid in Aden. Families of protesters killed during the 2011 anti-regime demonstration filed charges against members of the former regime, including the ousted President Ali Abdullah Saleh. A gas pipeline feeding the country's only gas export terminal was sabotaged on October 30th.

Source: International Crisis Group



OUTLOOK

SUDAN

Losses from the South's independence projected at 26% of GDP in 2012

The International Monetary Fund indicated that Sudan's economic and financial losses from the independence of South Sudan are significant and have affected all sectors of the economy. It estimated that the South's independence on July 9, 2011 resulted in a decline of about 75% in Sudan's oil production, a 50% fall in fiscal revenues and a drop of about 67% in its international payment capacity. It considered that Khartoum's adjustment to a permanent shock constitutes a serious challenge and requires a strong policy response at a time when international financial support is very limited.

The IMF projected the loss to Sudan's overall GDP as a result of the South's independence at SDG48.8bn this year, equivalent to 25.6% of its estimated 2012 GDP, and at SDG19.4bn in 2011 or 11.4% of its 2011 GDP. It said that the loss in overall output is concentrated in the oil sector where losses will represent 19% of Sudan's GDP in 2012 relative to 8.4% of GDP in 2011, while the non-oil sector's losses would account for 6.7% of GDP this year compared to 3% of GDP in 2011. It estimated the drop in oil output at SDG36.1bn, equivalent to 74% of total output losses in 2012, compared to a fall of SDG14.3bn or 73.7% of total losses in 2011. It added that non-oil output will contract by SDG12.7bn and will account for 26% of Sudan's total loss in output this year, compared to SDG5.1bn or 26.3% of total losses last year.

Further, the Fund estimated the losses in government revenues at SDG12.4bn in 2012, equivalent to 6.5% of 2012 GDP relative to 2.1% of GDP last year. It said that the loss in fiscal revenues reflect the foregone oil revenues net of the transfers to South Sudan, and the savings on wages of South Sudan civil servants. In parallel, the Fund estimated the loss of oil exports revenues at \$6.6bn in 2012, equivalent to 12.8% of GDP in 2012, compared to \$3.7bn or 5.8% of GDP in 2011. It noted that the loss in export revenues will be counterbalanced by a reduction in transfers to South Sudan of SDG13.1bn in 2012, equivalent to 6.9% of GDP.

Source: International Monetary Fund

EGYPT

Economy needs to grow by 6% annually to reduce vulnerabilities, substantial downside risks remain

The Institute of International Finance projected Egypt's real GDP growth at 3.2% in fiscal year 2012/13 and 4.5% in FY2013/14 compared to a growth rate of 2.2% in FY2011/12. It attributed the pick up in growth to a recovery in investments and in the exports of goods & services, as well as to the continued strengthening of household consumption. But it warned that growth would be lower and risks of a greater depreciation of the pound would rise if the authorities fail to reach an agreement with the International Monetary Fund. It stressed the importance of an agreement with the IMF, as it would help restore confidence in the economy, act as an anchor for prudent policies, and release financial support from other sources. It said that Egypt needs to achieve a real GDP growth rate of at least 6% annual-

ly to significantly reduce its high unemployment rate that reached 12.5% last June. It added that this requires the implementation of structural reforms that include significant fiscal consolidation and improving the business environment.

In parallel, the IIF said that the Egyptian economy continues to face substantial downside risks that mainly originate from ideological tensions, potential social unrest, populist policies, and fiscal slippage. It noted that the deterioration in security conditions would adversely affect economic activity through lower tourism, weak private investment, and further capital flight. It said that renewed global economic downturn would affect world trade and adversely impact Suez Canal traffic. It added that Egypt's non-oil exports would be hit hard if the situation in the Eurozone, which is the country's largest trading partner, deteriorates further. Further, the IIF pointed out that downside risks to growth have implications on the budget, as weaker-than-anticipated economic activity would result in lower tax revenues and would challenge the government's fiscal consolidation efforts.

Source: Institute of International Finance

LIBYA

Real GDP growth projected at 86% in 2012 and 13% in 2013

Business Monitor International projected Libya's real GDP to grow by 86.4% in 2012 relative to a contraction of 61.7% in 2011, driven by low base effects following the 2011 war and a faster-than-expected recovery in domestic crude oil production. It said that the real estate and construction sectors were severely affected by the 2011 war, as they contracted by 52% and 79%, respectively from 2010. It added that the hydrocarbon industry, which accounts for around 80% of the economy, declined by 72% in 2011 as oil production stopped during the war. It noted that the public sector was the only sector that expanded during the war, as government and defense output increased by 1.4% in real terms in 2011. It forecast Libya's real GDP growth at 13.1% in 2013, constituting one of the fastest-growing economies in the world, supported by rising oil exports and reconstruction efforts. It expected crude oil production and exports to increase by 7.3% and 6.6%, respectively, in 2013. It anticipated that the hydrocarbon sector will continue to be a key driver of growth at a time when investment in the non-oil economy remains relatively weak. But it said that the hydrocarbon recovery will be transmitted to the non-oil economy, given that it will lead to the acceleration of government spending.

In parallel, BMI anticipated that pressure on the government to raise spending will persist due to increasing export revenues and because of public pressure to loosen fiscal policy. It said that Libya currently lacks the institutional capacity to implement large-scale capital expenditure projects, but it noted that the newly-elected government would increase current spending, mainly through higher wages and the creation of new public sector jobs. BMI forecast household consumption to post a steady recovery in 2013 due to solid demand across economic sectors. It expected private consumption to increase by 15% in 2013.

Source: Business Monitor International

ECONOMY & TRADE

IRAN

Local currency rating downgraded on rising economic and financial pressures

Capital Intelligence lowered Iran's long-term local currency sovereign rating to 'BB-' from 'BB+' and maintained the 'negative' outlook on the rating. It affirmed Iran's long-term foreign currency rating at 'BB-', but revised the outlook to 'negative' from 'stable'. It maintained the foreign and local currency short-term ratings at 'B'. It attributed the downgrade to the country's high inflation rate, as well as to the collapse of the unified exchange rate regime introduced in 2002 and the return to a multiple exchange rates system. It added that the downgrade reflects increasing external pressures on Iran's economy and public finances due to the tightening of economic and financial sanctions. It noted that the 'negative' outlook on the ratings takes into account the current weaknesses in economic management, expectations of a more pronounced deterioration in macroeconomic and fiscal performance over the coming years, as well as a decline of foreign currency reserves. The agency said that the default risks on Iran's local and foreign currency obligations have become increasingly connected due to rising political risks, decreasing macroeconomic policy flexibility, weakening of the fiscal position and growing dependence of the budget on high oil prices. It pointed out that Iran's sovereign creditworthiness is under increasing pressure from international sanctions and inconsistent domestic policies, which are exacerbating structural and fiscal vulnerabilities.

Source: Capital Intelligence

SYRIA

Annual inflation rate at 40% in August, Aleppo continues to be hardest hit

Figures issued by the Central Bureau of Statistics show that the Consumer Price Index increased by 39.5% in August 2012 from August 2011 and by 23.5% from end-December 2011. The prices of alcoholic beverages & tobacco rose by 65.8% year-on-year in August 2012, followed by the prices of housing, water, electricity, gas & other fuel oils with a 54.2% increase, household equipments & supplies and ordinary maintenance works (+43.7%), food & non-alcoholic beverages (+39.5%), various goods & services (+37%), clothes & shoes (+34.7%), transportation (+32.5%), hotels & restaurants (+24.7%), entertainment & culture (+20.2%), education (+18.1%), health care (+10.6%) and communications (+4.5%). In parallel, the Consumer Price Index increased by 47.6% annually in Aleppo, followed by Deir-ez-Zor with a 40.5% rise, Tartous (+39.7%), Homs and Rural Damascus (+39.7%, each), Al-Hasakeh (+39.3%), Al-Sweida (+38.3%), Quneitra (+38.2%), Idleb (+38.2%), Lattakia (+38%), Al-Rakka (+36.9%), Hama (+36.5%), Dar'aa (+35.8%) and Damascus (+34.7%). The ongoing turmoil, disruption in economic activity and of supply routes, as well as international sanctions, have all resulted in significant shortages of basic goods, energy products and household items

Source: Central Bureau of Statistics

TURKEY

Sovereign ratings upgraded to investment grade

Fitch Ratings upgraded Turkey's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BBB-' from 'BB+' with a 'stable' outlook. It also raised the short-term foreign currency IDR to 'F3' from 'B' and the Country Ceiling to 'BBB' from 'BBB-'. It attributed the upgrade to investment grade to the easing of near-term macro-financial risks, supported by a moderate and declining government debt burden, a sound banking system, favorable medium-term growth prospects, and a wealthy and diverse economy. It noted that the Turkish economy is on track to return to a sustainable growth rate, as the current account deficit narrowed and inflation levels decreased without entering a recession. It expected the economy to remain more volatile than investment grade peers. But it noted that sovereign creditworthiness has become more resilient to shocks due to the country's strong sovereign, bank and household balance sheets, and economic and exchange rate flexibility. It projected gross fiscal financing requirement at 9% of GDP in 2012, down from 17% of GDP in 2010, due to narrower budget deficits and smaller debt maturities. However, it said that Turkey's external finances remain a key rating weakness. It forecast the current account deficit at 7.3% of GDP in 2012 and 7.2% of in 2013, relative to 10% of GDP in 2011. It added that large current account deficits and maturing external debt payments expose the country to global liquidity shocks.

Source: Fitch Ratings

NIGERIA

Sovereign ratings upgraded on stronger balance sheet

Standard & Poor's raised Nigeria's long-term foreign and local currency sovereign credit ratings to 'BB-' from 'B+' and the long-term national scale rating to 'ngAA-' from 'ngA+'. It also affirmed the local-currency short-term rating at 'B' and revised the transfer and convertibility (T&C) assessment to 'BB-' from 'B+'. It noted that the ratings have a 'stable' outlook. It attributed the upgrade to an increase in Nigeria's fiscal and external assets, and to strong economic growth. It said that fiscal reserves increased to \$9.4bn at end-October 2012 from \$2bn at end-2010, of which \$8.4bn is in the excess crude account (ECA) and \$1bn in the Nigeria Sovereign Investment Authority. It added that Nigeria's fiscal reserves, which provide a significant fiscal buffer, increased due to fuel subsidy cuts, conservative budget oil price assumptions, improving fiscal management, and high global oil prices. It noted that the country's external buffers increased due to high global oil prices and strong exports, with foreign reserves standing at just above \$42bn at end-October 2012. The agency pointed out that the government maintained the reform momentum in several key areas, including cutting the fuel subsidy and reforming the power sector, while the authorities restructured and strengthened the previously-troubled banking sector. It added that it has become more difficult to disrupt oil production and to steal oil due to increasing deep-water offshore production.

Source: Standard & Poor's



BANKING

EGYPT

Private sector lending up 8% year-on-year in August

Figures issued by the Central Bank of Egypt show that total assets of banks operating in the country reached EGP1,375.1bn at the end of August 2012, up by 0.7% from the previous month, and constituting an increase of 5.1% from end-2011 and a rise of 7% from end-August 2011. The private sector's aggregate lending reached EGP468.2bn, unchanged from the previous month, and up by 4.2% from end-2011. Also, private sector lending grew by 7.6% year-on-year in August 2012, mainly driven by retail lending. Further, private sector deposits grew by 0.8% from the preceding month to EGP920bn at end-August 2012, compared to a monthly growth of 0.6% in July 2012, due to an improvement in corporate deposits. Also, private sector deposits rose by 5.9% in the first eight months of the year and by 6.8% year-on-year, mainly driven by households' deposit growth. The dollarization rate of private deposits reached 20.8% at end-August 2012, unchanged from the preceding month and down from 21.2% at end-2011. The private sector loans-to-deposits ratio was 50.9% at end-August 2012, down from 51.3% at end-July 2012 and 51.7% at end-2011.

Source: Central Bank of Egypt

MOROCCO

Lending growth stagnates, liquidity remains tight

Figures issued by Bank Al-Maghrib show that the total assets of commercial banks operating in Morocco reached MAD1,087.1bn at the end of September 2012, constituting a decline of 0.6% month-on-month but a growth of 3.8% from end-2011 and an increase of 8.6% from end-September 2011. The sector's aggregate loans totaled MAD704.1bn, constituting a decrease of 0.1% from the preceding month and a rise of 2.5% from end-2011. Also, total lending growth slowed to 5.3% annually in September 2012 compared to annual increases of 6.3% in August 2012 and 11% in January 2012. Consumer and cash loans continued to be the fastest growing segments with a 10% annual increase, while lending to fund capital expenditures declined by 1% year-on-year, reflecting the weak domestic corporate investment environment. Deposits totaled MAD690.3bn at end-September 2012, unchanged from the preceding month. Also, deposits grew by 2.3% year-on-year, mainly driven by retail deposits that posted a 6% year-on-year increase. But the growth in deposits has been on a downward trend since the beginning of the year after reaching 6% year-on-year in January 2012. The loans-to-deposits ratio stood at 102% at end-September 2012, up slightly from 101% in the preceding month and relative to 99% in January 2012. The tight liquidity led banks in Morocco to tap the domestic bond market and to seek securitizing part of their mortgage loan portfolio. Also, the sector's NPLs ratio stood at 5.1% in September 2012, increasing slightly from 5% in August 2012, but remained broadly unchanged since the beginning of the year despite the sharp slowdown in both agricultural and non-agricultural sectors in the first nine months of 2012.

Sources: Bank Al-Maghrib, EFG Hermes

SUDAN

Currency devaluation affects commercial banks

The International Monetary Fund indicated that the devaluation of the Sudanese pound inflated the balance sheet of commercial banks by 20%. It said that the aggregate net foreign assets of commercial banks operating in Sudan reached SDG4.9bn at end-June 2012 relative to SDG1.69bn at end-March 2012 and SDG1.71bn at the end of 2011; while the sector's net domestic assets stood at SDG33bn at end-June 2012 relative to SDG29.2bn at end-March and SDG26.6bn at end-2011. The IMF projected banks' net foreign assets at SDG5.7bn at end-2012 and SDG5.8bn at end-2013, and net domestic assets at SDG35.5bn at end-2012 and SDG44.1bn at end-2013. Further, claims on the private sector stood at SDG23.6bn at end-June, up by 12.8% from end-March and by 21.2% from end-2011. Also, private sector deposits rose to SDG32.8bn at end-June 2012 from SDG27.5bn in March and SDG25.1bn at end-2011. In parallel, the Fund estimated the banking sector's aggregate loans-to-deposit ratio at 76.2% at end-June 2012, down from 82.8% at end-2011, and projected it to drop to 71% at end-2012. Further, banks' return on assets reached 1.4% at end-March on an annualized basis, down from 3.9% in 2010; while their return on equity reached 8.1% at end-March annually, down from 26.5% in 2010. In parallel, the IMF expected the devaluation of the Sudanese pound to have a significant impact on the banking system, as it forecast the sector's capital adequacy ratio to fall below 10% during the next 18 months from 11% at end-March 2012 and 13.1% at end-2011. It also anticipated the NPLs ratio to exceed 15% relative 12.6% at end-2011.

Source: International Monetary Fund

ARMENIA

Microfinance sector growing

The Economist Intelligence Unit's Global Microfinance Index 2012 ranked Armenia in 18th place among 55 countries worldwide and in first place among four members of the Commonwealth of Independent States (CIS) in terms of the environment for microfinance. Armenia ranked in 22nd place globally and in first place in the CIS in the 2011 survey. Globally, Armenia ranked ahead of Tanzania and Honduras, and came behind Rwanda and Brazil; while it ranked ahead of Azerbaijan, Tajikistan and Georgia in the CIS. The index evaluates the microfinance climate across two categories that are the Regulatory Framework & Practices, which assesses market-entry and regulatory dynamics; and the Supporting Institutional Framework that addresses institutional and business practices. Armenia received a score of 47.4 points in 2012, up from 45.1 points in 2011, and above the global and the CIS averages of 42.6 points and 39 points, respectively. Armenia ranked in 41st place on the Regulatory Framework & Practices category and in third place on the Supporting Institutional Framework category. The survey said that Armenia has been receiving high volumes of funding to microfinance organizations from external donors and multilateral institutions since 2011. But it pointed out that the absence of specific legislation on microfinance constrains the sector's development.

Source: Economist Intelligence Unit, Byblos Research



ENERGY / COMMODITIES

Global gas consumption to grow by 4% in 2013

Global gas consumption is projected to reach 3,348.3 billion cubic meters (bcm) in 2012 and to rise to 3,478.8 bcm in 2013. North America's gas demand is forecast to reach 901.6 bcm in 2013, equivalent to 26% of global consumption. It would be followed by Asia & Australia with 720 bcm (20.7%), Eastern Europe & the Commonwealth of Independent States with 587.4 bcm (17%), Western Europe with 540.6 bcm (15.5%), the Middle East with 445.7 bcm (12.8%), Central & South America with 164.5 bcm (4.7%) and Africa with 119 bcm (3.4%). Further, global gas consumption is expected to grow by 4% in 2013. In parallel, U.S. natural gas Henry Hub prices are forecast to reach \$3.2 per million British thermal unit (Btu) on average in 2013, while European natural gas prices are projected to average \$10.6 per million Btu on average in 2013. Also, Japanese liquefied natural gas prices are forecast to reach \$13.5 per million Btu on average in 2013. In parallel, the Dow Jones-UBS Natural Gas Sub-Index rose by 2.1% in October 2012, while the Dow Jones-UBS Petroleum Sub-Index dropped by 4.8% during the month.

Sources: *Economic Intelligence Unit, Dow Jones Indices, Byblos Research*

BP resumes oil exploration in Libya

British Petroleum (BP) confirmed plans to drill 12 onshore and five offshore oil exploration wells in Libya in 2013. BP previously announced that it will resume its deepwater drilling campaign as part of the \$2bn exploration program that was stopped due to civil unrest. Libya's oil production is expected to grow by 1.6 million barrels per day (b/d) in 2012 and reach 1.9 million b/d in 2021. The substantial increase in Libya's oil output is contingent on improvements in the country's security and political situation.

Source: *Business Monitor International*

Exxon Mobil to quit Iraqi oilfield

Exxon Mobil intends to sell its share in a multibillion-dollar oil project in Iraq. Exxon's announcement to exit one of Iraq's largest fields, West Qurna 1, came after it signed several exploration deals with the Kurdistan Regional Government. Exxon stated in a letter addressed to the Iraqi government that it began discussions with international oil companies to divest from West Qurna, which currently produces about 400,000 barrels of oil a day.

Sources: *Financial Times, Thomson Reuters*

Algeria to invest \$80bn in energy sector

Sonatrach, Algeria's state-run energy group, plans to invest \$80bn in oil and natural gas projects over the 2012-16 period. The company is expected to commit \$14bn of the total amount to build four new refineries. Algeria aims to reestablish its energy industry and reduce its reliance on imported fuel. The government is expected to approve a hydrocarbons law by end-2012 to provide greater incentives to foreign investors. Algeria produced 1.2 million barrels a day of crude oil in October 2012.

Source: *Bloomberg*

Base Metals: Zinc demand to grow in 2013

Global refined zinc demand is projected to reach 13 million tons in 2012 and to increase to 13.6 million tons in 2013. China's zinc consumption is forecast to reach 6.1 million tons in 2013, equivalent to 44.4% of global demand. It would be followed by the EU with 2.1 million tons (15.6%), the U.S. with one million tons (7%) and India with 0.6 million tons (4.6%). In parallel, global zinc production is projected to reach 13.3 million tons in 2012 and to rise to 14 million tons in 2013. China's zinc production is expected to reach 5.7 million tons in 2013, equivalent to 41% of global supply. It would be followed by the EU with 2.1 million tons of output (15%), South Korea with 0.9 million tons (6.1%) and Canada with 0.7 million tons (5%). Further, global zinc consumption growth is anticipated to accelerate to 2% in 2012 from 1.3% in 2011, and to 4.8% in 2013. Also, overall global zinc production growth is forecast to slow down to 1.9% in 2012 and to recover to 5.1% in 2013. Global zinc prices are projected to average \$1,936 per metric ton in 2012 and to rise to \$2,083 per metric ton in 2013. In parallel, the Dow Jones-UBS Industrial Metals Sub-Index dropped by 9.3% while the Dow Jones-UBS Zinc Sub-Index decreased by 11.7% in October, and the Copper Sub-Index declined by 6.4%. Also, the Dow Jones-UBS Nickel Sub-Index decreased by 12.5% and the Aluminum Sub-Index dropped by 10.2% last month.

Sources: *Economic Intelligence Unit, Dow Jones Indices, Byblos Research*

Precious Metals: Gold mine supply to rise in 2013

Global gold mine production is expected to reach 2,613 tons in 2012, and is forecast to grow by 2.8% to 2,687 tons in 2013. China's gold mine supply is forecast to reach 390 tons in 2013, equivalent to 14.5% of global mine output. It would be followed by Australia with 279 tons (10.4%), the U.S. with 228 tons (8.5%), Russia with 225 tons (8.4%) and Peru with 174 tons (6.5%). Further, global old gold scrap supply is projected to reach 1,748 tons in 2012 and to increase by 6% to 1,853 tons in 2013. As such, global gold production is anticipated to grow by 8% year-on-year to 4,215 tons in 2013. Global gold ETF holdings stood at \$139.7bn on November 2nd. In parallel, the Dow Jones-UBS Precious Metals Sub-Index dropped by 3.9% in October, while the Dow Jones-UBS Gold Sub-Index decreased by 3.1%, and the Silver Sub-Index declined by 6.5% during the month. Also, the Dow Jones-UBS Platinum Sub-Index regressed by 5.5% last month.

Sources: *Economic Intelligence Unit, Dow Jones Indices, Byblos Research, Citigroup*

Global Commodity Outlook				
(3-months LME, \$/ton)	2012e	2013f	2014f	2015f
Aluminum	2,060	2,100	2,175	2,250
Copper	7,965	7,965	7,775	7,500
Lead	2,060	2,090	2,200	2,250
Nickel	18,360	21,770	24,400	24,000
Tin	21,265	22,750	22,875	25,000
Zinc	1,955	2,040	2,125	2,220
(Spot price, \$/ounce)				
Gold	1,680	1,749	1,655	1,540
Palladium	649	744	925	925
Platinum	1,557	1,675	1,775	1,825
Silver	31.6	31.0	26.5	23.3

Source: *Citigroup*



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	-	Stable								
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+	-	B	-4.3	43.4	20.4	59.4	-	-	-6.5	3.2
	Stable	-	Stable	-	Stable								
Ivory Coast	-	-	-	-	B	-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
	Negative	-	Stable	Stable	Stable								
Nigeria	BB-	-	BB-	-	B	1.1	17.9	4.2	7.5	0.4	-	13.5	9.7
	Stable	-	Stable	-	Positive								
Sudan	-	-	-	-	C	-2.9	73.1	60.5	397.9	-	-	2.1	-
	-	-	-	-	Stable								
Tunisia	BB	Baa3	BBB-	BBB	CCC	-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	Negative	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	Positive								
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
	-	-	-	-	Negative								
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-	BB	-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	-	Positive								
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	BBB-	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	-	Stable								

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	24-Oct-12	No change	12-Nov-12
Eurozone	Refi Rate	0.75	04-Oct-12	No change	08-Nov-12
UK	Bank Rate	0.50	04-Oct-12	No change	08-Nov-12
Japan	O/N Call Rate	0-0.10	30-Oct-12	No change	20-Nov-12
Australia	Cash Rate	3.25	02-Oct-12	Cut 25bps	06-Nov-12
New Zealand	Cash Rate	2.50	25-Oct-12	No change	06-Dec-12
Switzerland	3 month Libor target	0.00	13-Sep-12	No change	13-Dec-12
Canada	Overnight rate	1.00	23-Oct-12	No change	04-Dec-12
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	24-Oct-12	No change	12-Nov-12
Taiwan	Discount Rate	1.88	20-Sep-12	No change	27-Dec-12
South Korea	Base Rate	2.75	11-Oct-12	Cut 25bps	09-Nov-12
Malaysia	O/N Policy Rate	3.00	06-Sep-12	No change	08-Nov-12
Thailand	1D Repo	2.75	17-Oct-12	Cut 25bps	28-Nov-12
India	Reverse repo rate	8.00	30-Oct-12	No change	18-Dec-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	18-Oct-12	No change	20-Nov-12
South Africa	Repo rate	5.00	20-Sep-12	No change	22-Nov-12
Kenya	Central Bank Rate	13.00	05-Sep-12	Cut 350bps	07-Nov-12
Nigeria	Monetary Policy Rate	12.00	19-Sep-12	No change	20-Nov-12
Ghana	Prime Rate	15.00	10-Sep-12	No change	Nov-12
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	26-Oct-12	No change	30-Nov-12
Brazil	Selic Rate	7.25	10-Oct-12	Cut 50bps	28-Nov-12
Armenia	Refi Rate	8.00	06-Nov-12	No change	N/A
Romania	Policy Rate	5.25	02-Nov-12	No change	07-Jan-12
Bulgaria	Base Interest	0.04	01-Nov-12	Raise 1bps	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	8.25	14-Sep-12	Raise 25bps	N/A



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