

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Volume of commercial payments up 10% in first eight months of 2012

The aggregate volume of commercial payments sent through SWIFT totaled 439.24 million in the first eight months of 2012, constituting a 10% increase from the same period of the previous year. Commercial payments sent from the Non-Eurozone area stood at 126 million and accounted for 28.7% of the global volume, followed by the Eurozone with 123.8 million (28.2%), North America with 84.4 million (19.2%), Asia-Pacific with 62.5 million (14.2%), the Middle East with 18.8 million (4.3%), Africa with 13.4 million (3%), and Latin America with 10.42 million (2.4%). Also, the aggregate number of commercial payments sent from Non-Eurozone countries increased by 15% in the first eight months of year, followed by Latin America and Africa with a 14% rise each, North America (+11%), Asia-Pacific (+10%), the Eurozone (+5%) and the Middle East (+1%). In parallel, the total number of bank-to-bank payments sent through SWIFT stood at 146.3 million in the first eight months of 2012, constituting a 2% increase from the same period of 2011. The volume of bank-to-bank payments in the Non-Eurozone area reached 45.4 million in the covered period and accounted for 31% of the global volume, followed by the Eurozone with 42.92 million (29.3%), Asia-Pacific with 27 million (18.5%), North-America with 22.1 million (15.1%), the Middle-East with 3.48 million (2.4%), Africa with 3.38 million (2.3%) and Latin America with 1.98 million (1.4%). Further, the aggregate number of bank-to-bank payments sent from the Africa increased by 24% in the first eight months of last year, followed by Latin America with an 8% rise, North America and Asia Pacific (+7% each), the Middle East (+5%) and the Non-Eurozone (+1%); while bank-to-bank payments sent from the Eurozone dropped by 3%.

Source: Citigroup

EMERGING MARKETS

Illicit financial outflows near \$6 trillion between 2001 and 2010

Global Financial Integrity, a Washington-based non-profit, research and advocacy organization, estimated the cumulative illicit financial flows (IFF) from developing economies at \$5,859.2bn between 2001 and 2010, of which \$4,691.6bn were transferred through the deliberate misinvoicing of external trade and \$1,167.6bn were channeled through balance-of-payments leakages. The organization defined IFF as funds that are illegally earned, transferred, or utilized, and cover all unrecorded private financial outflows that drive the accumulation of foreign assets by residents in infringement of applicable laws and regulatory frameworks. It said that IFF from developing economies grew at a compound annual growth rate (CAGR) of 11.2% during the covered period, as they reached \$330.5bn in 2001, \$300bn in 2002, \$359bn in 2003, \$490bn in 2004, \$615.1bn in 2005, \$588.7bn in 2006, \$669.9bn in 2007, \$871.3bn in 2008, \$776bn in 2009 and \$858.8bn in 2010. It pointed out that IFF from Asia reached \$3,568.8bn between 2001 and 2010, and

accounted for 61% of the total, followed by the Western Hemisphere with \$897bn (15.3%), the Middle East & North Africa with \$602.3bn (10.3%), developing Europe with \$406.3bn (7%) and Africa with \$384.8bn (6.6%). It noted that IFF from Africa posted a CAGR of 18.5% during the 2001-10 period, followed by Asia with 13%, the MENA region with 11.6%, developing Europe with 6.7% and the Western Hemisphere with 5.6%.

Source: Global Financial Integrity

MENA

Equity markets up 4% in 2012

Arab stock markets increased by 4.2% and GCC equity markets rose by 4.5% in 2012 compared to drops of 13.6% and 8.5%, respectively, in 2011. Activity on the Egyptian stock market increased by 50.8% in 2012 and posted the best performance among Arab markets during the year. It was followed by the Dubai financial market with a 19.9% increase, the Abu Dhabi equity market with a 9.5% growth, Saudi Arabia's stock exchange with a 6% rise, the Kuwait bourse with a 2.1% improvement, the Muscat equity market with a 1.2% increase and the Palestine equity market with a 0.1% rise. In parallel, the Casablanca equity market dropped by 15.1% and posted the worst performance among Arab stock markets in 2012. It was followed by the Damascus financial market with an 11.5% drop, the Iraqi stock exchange with an 8.1% fall, the Bahrain bourse with a 7% decline, the Qatar financial market with a 4.8% drop, the Tunis exchange with a 3% decrease, the Amman bourse with a 1.9% contraction and the Beirut stock exchange with a 0.7% drop. In comparison, emerging market equities rose by 15% and global equities grew by 13.7% in 2012. Arab stock markets increased by 2.1% in December compared to an increase of 4.7% for emerging market equities and a rise of 2.3% for global equities.

Source: Local Stock Markets, Dow Jones Indices, Byblos Research

IPO volume up 134% to \$2bn in 2012

Ernst & Young indicated that initial public offerings (IPOs) in the Middle East raised around \$2bn in 2012, constituting a rise of 134% from \$844m in 2011. It noted that regional companies raised a total of \$82.8m in the first quarter of 2012, \$1.3bn in second quarter, \$252.3m in the third quarter and \$339.8m in the fourth quarter of 2012. Saudi Arabia raised \$1.4bn in 2012 through seven IPOs and accounted for 70% of the funds raised across the region. It was followed by the UAE with \$277m (13.9%) and Oman with \$264.4m (13.2%). Morocco and Tunisia were the only other countries in the region with IPO activity in 2012. There were five IPOs in the materials sectors in 2012, followed by the financial and consumer products sectors with three IPOs each, the healthcare sector with two IPOs and the packaged foods sector with one IPO. Ernst & Young expected investor sentiments to significantly affect IPO activity this year. It forecast Saudi Arabia and the UAE to continue to be the regional hubs of IPO activity in 2013.

Source: Ernst & Young

POLITICAL RISK OVERVIEW - December 2012

EGYPT

President Mohamed Morsi endorsed a new constitution on December 25th, that gave the upper house of Parliament full legislative powers until a new lower house is elected in two months. The new constitution was approved by 63.8% of voters in a two-stage constitutional referendum that saw a 32.9% turnout rate. Opposition groups claimed violations in both voting rounds and said that they would use all peaceful and democratic means to challenge the constitution. Prior to the referendum, clashes between supporters and opponents of President Morsi marked the worst round of violence between political factions since the fall of President Hosni Mubarak.

IRAN

The government announced that it captured a U.S. surveillance drone on December 4, while the U.S. denied such claims. Iran's National Security Committee said that Iranian experts would be capable of manufacturing copies of the captured U.S. drone. Further, the U.S. and Iran stated that they are both willing to resume P5+1 talks. The U.S. and the EU announced additional sanctions on Iran. In parallel, Iran reported a new cyber attack on December 25, and accused Israel and the U.S. of planting malware.

IRAQ

Thousands of protestors blocked the main trade route to Syria and Jordan, and demanded the resignation of Prime Minister Nouri al-Maliki. Tension between the central government in Baghdad and the Kurdistan region persisted with Kurdish troops firing on an army helicopter in the north of Kirkuk to prevent surveillance of military positions. The central government denied permission for Turkey's Energy Minister Taner Yildiz to fly through Iraq to attend an energy conference in Kurdistan. In parallel, mediation between Baghdad and the Kurdistan region are expected to be delayed, as President Jalal Talabani suffered a stroke on December 17 and was transferred to Germany for treatment.

DEM REP CONGO

The Congolese Revolutionary Army rebels, M23, completed their withdrawal from Goma on December 2nd. Opposition parties rejected an invitation to join talks between the government and M23. The International Criminal Court acquitted former militia leader Mathieu Ngudjolo of war crimes and crimes against humanity committed in the Ituri region in 2003.

LIBYA

The General National Congress (GNC) declared a state of emergency in southern provinces on December 16th, and ordered the temporary closure of land borders with Chad, Niger, Sudan and Algeria. The move was in response to an increase in violence, drug trafficking and the presence of armed groups that do not obey the law. In parallel, the GNC appointed Mr. Ashour Shuaib as Interior Minister and Mr. Mohamed Bargati as Defence Minister.

SOUTH SUDAN

Clashes between police forces and demonstrators, protesting the move of a local government seat from Wau town to Bagarre, led to the death of at least 10 persons. Relatives of those killed in the clashes reportedly kidnapped and killed members of the pro-

government Dinka tribe, which reignited violence and protests in Wau town. The escalation of violence obliged many residents to flee the town, while the government flew in police reinforcements from Juba and the UN deployed peacekeepers. The army shot down a UN peacekeeping helicopter on December 21st, killing its four crew members. The army later announced that it mistook the helicopter for a Sudanese plane.

SUDAN

Sudan and South Sudan agreed to take immediate steps to contain border security, but the implementation mechanisms remain unclear. Security forces violently dispersed protests and detained Mr. Farouq Abu Issa, the leader of the Opposition National Consensus Forces coalition, for two days on December 13th following his participation in a forum protesting the killing of students.

SYRIA

Casualties and displacements continue to rise as fighting between the Free Syrian Army and the Syrian military escalates. Fighting continued in Aleppo, increased in Hama and reached new levels in Damascus, mainly in the Palestinian-dominated Yarmouk camp. The UN Commission of Inquiry on Syria said that the conflict is escalating and is becoming increasingly sectarian. The Friends of Syria group recognized the National Coalition of Syrian Revolutionary and Opposition Forces as the legitimate representative of the Syrian people on December 12th. In parallel, the U.S. officially designated the rebel group Jabhat al-Nusra as a terrorist organization. UN/Arab League envoy Lakhdar Brahimi visited Moscow to discuss proposals for ending the conflict, and expressed strong support for the Geneva Plan which is based on the formation of a transitional government.

TUNISIA

Security forces violently dispersed demonstrators in Siliana on December 1st, who were protesting deteriorating socio-economic conditions, leaving hundreds injured. The Interior Ministry announced the break-up of an al-Qaeda jihadi recruitment network. Further, the son-in-law of former President Zine El Abidine Ben Ali, Mr. Sakhr El Materi, was arrested on December 14th for embezzlement of state funds.

YEMEN

President Abd Rabbuh Mansur Hadi restructured the armed forces and abolished the Republican Guard and First Armored Division on December 19th, as part of efforts to unify the military. In parallel, the assassination of military and security personnel continued with two high-ranking officers killed in December 25, an intelligence officer killed on December 17, the deputy head of the political security office killed on December 11, and the chief of staff for central military region in the Maarib province killed on December 8th. Further, an ambush on an army patrol at an oil export pipeline killed 17 army officers. Several al-Qaeda militants were killed in a series of attacks by the army.

Source: International Crisis Group



OUTLOOK

WORLD

Global GDP to reach \$133 trillion by 2030, China to become largest economy

The U.S. National Intelligence Council (NIC) projected the world's real GDP to range between \$105.7 trillion and \$133.1 trillion by 2030 relative to \$67.3 trillion in 2010. The NIC's best case scenario projects real global GDP at \$133.1 trillion by 2030, almost doubling from 2010 levels. Under this scenario, it assumes that economic growth would be driven by the collaboration between the U.S. and China in an increasing number of areas. It forecast Europe's GDP to reach 23.9 trillion or 18% of global GDP by 2030; followed by China with \$23.4 trillion (17.6%); the U.S. with \$22.4 trillion (16.8%); Latin America with \$13.4 trillion (10.1%); Japan with \$8 trillion (6%); India with \$7.9 trillion (5.9%); Russia with \$3.3 trillion (2.5%); and Sub-Saharan Africa with \$2.8 trillion (2.1%); while other countries that include Eastern Europe, Central Asia, Turkey, Canada, South Asia ex-India, and the MENA region would account for \$15.5 trillion (11.6%), and other Asia for \$12.6 trillion (9.5%). The NIC's worst case scenario projects global GDP at \$105.7 trillion by 2030, as globalization stalls and the U.S. and Europe are no longer capable or interested in sustaining global leadership. It said that rich countries would distance themselves from many developing and poor countries in Asia, Africa and the Middle East. It forecast economic growth in major emerging markets to account for 75% of global growth.

The NIC's third scenario projects real global GDP at \$112.2 trillion by 2030, as inequalities within countries and between rich and poor countries dominate. It pointed out that economic growth would continue, but that the world would be less secure due to political and social fractures. Under this scenario, it forecast the GDP of the U.S. to reach \$21 trillion (18.7%) by 2030, followed by Europe with \$19.4 trillion (17.3%) and China with \$17 trillion (15.2%). The fourth scenario projects real global GDP at \$123 trillion by 2030. Under this scenario, the role of non-state actors would grow significantly because of new and emerging technologies, and that non-state actors would take the lead in confronting global challenges.

Source: National Intelligence Council

TURKEY

Rapid lending growth is key risk to banking sector's favorable outlook

Fitch Ratings expected the outlook for the Turkish banking sector to be generally favorable in 2013, as economic growth accelerates and banks' credit metrics remain sound. It said that Turkey's lower macroeconomic and sovereign risks would support the banks' performance. It noted that banks' core credit metrics remained solid despite the weakening in funding and capital ratios from the rapid growth in lending in 2010 and 2011. It said that funding metrics weakened, as the sector's customer deposits-to-GDP ratio dropped to 49.4% at end-September 2012 from 51.6% at end-2011 and 53.2% at end-2010, the loans-to-deposits ratio increased to 114.7% at end-September 2012 from 109.3% at end-2011 and 94.3% at end-2010, and the deposits-to-liabilities ratio regressed to 60.6% at end-September 2012 from 61% at end-2011 and 67.3% at end-2010. Also, it noted

that the sector's capitalization decreased, as the banks' Tier One capital ratio fell to 14.4% at end-September 2012 from 14.8% at end-2011 and 17% at end-2010; while the equity-to-assets ratio declined to 12.8% at end-September 2012 from 13.4% at end-2010.

It expected the banks' credit profiles to remain sound in 2013, based on the assumption that loan growth would range between 15% and 20%. It forecast asset quality to weaken moderately in 2013, as loan books would season after their recent growth, with the sector's NPLs ratio increasing to 2.9% at end-September 2012 from 2.6% at end-2011. But it noted that asset quality is supported by moderate household and corporate indebtedness, diversified loan portfolios, positive economic growth, the absence of significant asset price bubbles, retail lending in local currency only, reasonable underwriting standards, and close supervision. Also, it considered that loan impairment charges in 2013 are unlikely to rise to a level that would critically undermine banks' performance, given that reserve coverage of current NPLs is at a strong 75.2%, despite its decline from 79.4% at end-2011 and 84% at end-2010. However, Fitch warned that Turkish banks would face substantial risks if credit growth significantly exceeds 20% annually. It said that this would challenge banks' underwriting capacity and asset quality, weaken their capital and funding ratios, stretch corporate and household balance sheets, and threaten macroeconomic stability.

Source: Fitch Ratings

ARMENIA

Economic activity to remain solid in 2013

Business Monitor International revised upwards its forecast for Armenia's real GDP growth to 7.1% in 2012 and 4.4% in 2013 from an earlier forecast of 4.3% and 3.4%, respectively, due to strong economic growth in the third quarter of 2012. It said that the weak dram and continued growth in Russian imports would help raise Armenian exports in 2013, while it forecast private investment to resume its growth as the slowdown in construction activity bottoms out. But it noted that the projected decline in household consumption in 2013 would not help sustain the high real GDP growth rate posted in 2012. It added that the Central Bank of Armenia's consumer confidence index fell in the fourth quarter of 2012, reflecting a more pessimistic outlook from the Armenian public towards the domestic economic situation in 2013. It forecast consumer price inflation at 5.5% in 2013, which would weigh on consumer's purchasing power and reduce household consumption growth to 4% for the year.

Further, BMI expected public consumption to be a drag on economic growth this year, as government spending would shift back to negative growth after the presidential elections in February, in order to reduce the budget deficit to the target level of 2.6% of GDP in 2013. Further, it expected net export growth to remain negative in 2013, mainly due to the collapse in the demand for capital investment and to the weak dram, which increased the cost of imports for consumers and businesses. It noted that Armenian exports would post strong growth in 2013 if the dram continues its current depreciatory trend against the Russia ruble and the euro.

Source: Business Monitor International



ECONOMY & TRADE

EGYPT

Sovereign ratings downgraded on political uncertainties

Standard & Poor's lowered Egypt's long-term foreign- and local-currency sovereign credit ratings to 'B-' from 'B' with a 'negative' outlook. It also affirmed the country's short-term ratings at 'B' and revised the transfer and convertibility assessment to 'B-'. It attributed the downgrade to the escalation of political and social tensions and the weakened institutional framework. It noted that the increased division within the country's political class would diminish the effectiveness of the policy-making process, as it would weaken the sovereign's ability to deliver sustainable public finances, promote balanced growth, and respond to further economic or political shocks. It expected political tensions to remain elevated over the medium-term, which would limit the country's ability to address economic, fiscal and external challenges. It added that this would undermine the will of donors and multilateral lending institutions to extend support, which would further weigh on Egypt's already weak public finances, economic prospects and external indicators. In parallel, S&P pointed out that it would downgrade Egypt's ratings if the government is increasingly unable to prevent a significant deterioration in external or fiscal indicators.

Source: Standard & Poor's

MOROCCO

Real GDP growth at 3% in 2012, reforms needed to face external volatility

The International Monetary Fund estimated Morocco's real GDP growth at 3% in 2012 despite robust growth of 4.5% in the agricultural sector. It said that the deterioration of the economic situation in Europe, high global oil and food prices, and a lower-than-average agriculture production weighed on the country's solid economic performance. It expected the current account deficit to exceed 8% of GDP in 2012 and for international reserves to stabilize at around 4 months of import cover. It forecast the fiscal deficit at 6% of GDP in 2012, partly due to the adjustment in the prices of subsidized products last June. It projected the inflation level at 1.3% in 2012 despite the reduction of subsidies. In parallel, the Fund anticipated that external pressures would continue in 2013, and that the international environment would further deteriorate. It said that Morocco would have to implement product and labor markets reforms, invest in human and physical capital, and improve the business climate in order to maintain its performance in the context of a challenging external environment. It pointed out that fiscal reforms would ensure medium-term sustainability and create the fiscal space required to raise investment in human capital and infrastructure. It noted that a more flexible exchange rate regime would help improve competitiveness and raise the absorption capacity of external shocks.

Source: International Monetary Fund

GHANA

Sovereign ratings assigned

Moody's Investors Service assigned to Ghana local and foreign currency issuer ratings of 'B1', four notches below investment grade, with a 'stable' outlook. It also assigned a 'Ba2' local-cur-

rency country risk ceiling as well as a 'B2' foreign currency bond country ceiling and country ceiling for foreign-currency bank deposits. The agency said that the ratings reflect Ghana's robust growth prospects, moderate institutional strength, weak fiscal fundamentals and rising levels of public-sector debt, as well as limited fiscal and foreign exchange buffers against external shocks. It expected Ghana to post strong economic growth during the 2012-14 period, driven by oil, gold mining, cocoa and domestic services. Further, it said that Ghana's moderate institutional strength reflects its democratic track record, political stability and low income inequality relative to similarly-rated peers. But it noted that the government's policy execution has been weakened by inadequate control over public financial management. Also, Moody's indicated that the debt-to-GDP ratio rose from 26% in 2006 to a projected 44% in 2012. But it noted that Ghana's high debt-servicing costs relative to similarly-rated countries are balanced by the availability of financing from the domestic investor base, access to international capital markets, and concessional loans and grants from multilateral and bilateral sources. It forecast the fiscal situation to improve in the next two year due to higher revenues from the oil sector, growth in non-oil tax receipts, a moderation of spending pressures, and the clearance of arrears. It noted, however, that Ghana remains highly vulnerable to sustained currency depreciation, volatility in global commodity prices, and a sudden stop in portfolio capital inflows. It added that these vulnerabilities are exacerbated by the low level of foreign-currency reserves that amount to less than three months of imports.

Source: Moody's Investors Service

SYRIA

Annual inflation rate at 48% in September, Aleppo continues to be hardest hit

Figures issued by the Central Bureau of Statistics show that the Consumer Price Index increased by 48.1% in September 2012 from September 2011 and by 33.5% from end-December 2011. The prices of alcoholic beverages & tobacco rose by 111.8% year-on-year in September 2012, followed by the prices of housing, water, electricity, gas & other fuel oils with a 61.1% increase, household equipments & supplies and ordinary maintenance works (+56.2%), entertainment & culture (+48.1%), food & non-alcoholic beverages (+46.6%), various goods & services (+43.6%), transportation (+42.7%), clothes & shoes (+42.5%), hotels & restaurants (+37.6%), education (+34.6%), health care (+16.5%) and communications (+5.3%). In parallel, the Consumer Price Index increased by 64.6% annually in Aleppo, followed by Homs with a 47.8% rise, Al-Rakka (+47.5%), Idleb (+47.3%), Al-Hasakeh (+47%), Hama (+46.6%), Deir-ez-Zor (+46.5%), Lattakia (+46.5%), Al-Sweida (+45.4%), Tartous (+44.1%), Quneitra (+42.7%), Rural Damascus (+42.4%), Damascus (+41.2%) and Dar'aa (+41%). 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

BANKING

JORDAN

NPLs increase, capital adequacy ratio remains solid

Figures released by the International Monetary Fund indicate that the risk-weighted capital adequacy ratio of banks operating in Jordan reached 19.3% at the end of 2011 relative to 20.3% at the end of 2010 and 19.6% at end-2009. The sector's liquidity ratio regressed to 153% at end-2011 relative to 161.4% at end-2010 and 159.1% at end-2009. The sector's loans-to-deposits ratio remained stable at 65% at end-2011 relative to 64.2% at the end of 2010 and 65.6% at end-2009; while loans accounted for 77.4% of GDP at end-2011, relative to 77% at end-2010 and 78.7% at end-2009. In parallel, foreign currency deposits represented 21.6% of total deposits compared to 21.7% at end-2010 and 21.8% at end-2009, while foreign currency loans accounted for 11.4% of total loans at end-2011 compared to 11.8% at end-2010 and 11.6% at end-2009. Also, the sector's non-performing loans reached 8.5% of total loans at end-2011, up from 8.2% at end-2010 and 6.7% at end-2009. Further, the sector's provisions-to-NPLs ratio reached 52.3% at the end of 2011 compared to 52.4% at end-2010 and 52% at end-2009. In parallel, banks' return on assets was 1.1% in 2011, unchanged from 2010 and 2009; while their return on equity reached 8.3% in 2011, down from 8.8% in each of 2010 and 2009.

Source: International Monetary Fund

EGYPT

Rating agencies take action on banks

Standard & Poor's downgraded the long- and short-term counterparty credit ratings of National Bank of Egypt, Banque Misr, and Commercial International Bank to 'B-/C' from 'B/B'. It said that the three banks' long-term ratings have a 'negative' outlook. It attributed its ratings action on the banks to its earlier downgrade of Egypt's sovereign ratings. It pointed out that the three banks are significantly exposed to sovereign risk because they hold a large amount of government debt relative to their equity base and earnings capacity. It added that the long-term ratings of the three banks are capped at the level of the sovereign rating, as the banks are not likely to withstand a scenario where Egypt defaults on its obligations. The agency indicated that it would lower the three banks' ratings in case it downgrades the sovereign ratings, as such downgrade would have a direct impact on the banks' ratings. In parallel, Fitch Ratings affirmed the National long-term Rating of Commercial International Bank at 'AA (egy)' and Crédit Agricole Egypt at 'AA+ (egy)' and revised the outlook on both banks' ratings to 'stable' from 'negative'; while it affirmed that of Suez Canal Bank at 'BBB(egy)' with a 'negative' outlook. It also affirmed CIB's long-term Issuer Default Rating at 'B+' with a 'negative' outlook, and its Viability Rating at 'b+'. In parallel, the agency withdrew its ratings on Suez Canal Bank at the request of the bank.

Source: Standard & Poor's, Fitch Ratings

TUNISIA

Agency takes rating actions on banks

Capital Intelligence affirmed the long-term foreign currency rating of Banque de Tunisie (BT) at 'BBB-', Banque Internationale Arabe de Tunisie (BIAT) and Arab Tunisian

Bank (ATB) at 'BB+', and Société Tunisienne de Banque (STB) at 'B', while it downgraded that of Banque Nationale Agricole (BNA) to 'BB-' from 'BB'. It lowered the Financial Strength Rating (FSR) of BT to 'BBB-' and maintained it for the other banks. It said that STB's ratings have a 'stable' outlook and those of BT, BIAT, BNA and ATB have 'negative' outlooks, while it noted that ATB's FSR has a 'stable' one. It attributed the downgrade of BT's FSR to the bank's very tight liquidity, the fast increase in NPLs in the first half of 2012, and the continued challenging operating environment. The agency indicated that STB's ratings reflect its very weak financial condition, mainly loan asset quality and capital. Further, it said that BIAT's FSR is constrained by a high level of NPLs, a very low and insufficient capital adequacy ratio, and modest bottom line returns. But it noted that its ratings are supported by adequate liquidity, reasonable operating income and adequate provisioning coverage. It pointed out that ATB's FSR is supported by very good liquidity and an adequate capital position, but is constrained by a high level of NPLs. In parallel, it attributed the downgrade of BNA's foreign currency rating to tightened liquidity, and decreases in both profitability and capital adequacy. It added that the ratings are constrained by the bank's weak liquidity position and insufficient capital relative to the shortfall in provisions and weak loan asset quality.

Source: Capital Intelligence

CHINA

Outlook on banking sector remains stable

Moody's Investors Service indicated that it will maintain its 'stable' outlook on the Chinese banking system for the next 12 to 18 months despite the economic slowdown and long-term challenges due to deregulation. It said that a slowdown in economic indicators, an acceleration towards interest-rate liberalization, and signs of rising non-performing loans constitute the main challenges to the banking sector. But it expected Chinese banks to weather these threats and for the domestic operating environment to remain stable in 2013. It expected export-related industries located in the coastal regions and sectors with overcapacity to continue to be the main sources of new problem loans and credit costs in 2013. However, it did not anticipate a significant deterioration in asset quality over the next 12 to 18 months is not likely, given progress in addressing significant areas of asset quality concerns. It pointed out that the outlook on profitability is modestly negative, with the growth of pre-provision profits slowing due to the impact of lower interest rates and interest-rate liberalization. It anticipated that the sector's net interest margin will decline by 4 to 6 basis points in 2012, and by 10 to 13 basis points in 2013 as a result of banks' large flexibility in setting interest rates. Further, it said that banks' capitalization is stable, adding that strong loss reserves and capital buffers constitute a protection from rising defaults. It noted that the implementation of Basel III standards will have a limited impact on capitalization. It anticipated that the liberalization of interest rates and the continued growth of disintermediation channels would not have a significant impact on the banks' liquidity level over the next 12 to 18 months.

Source: Moody's Investors Service



ENERGY / COMMODITIES

Brent prices to stay above \$100 a barrel in 2013

Global oil production is expected to expand by 2.1% during the 2013-14 period mainly due to growing U.S. and Canadian production and strong Iraqi output. In parallel, global oil consumption growth is projected to average 1.5% in the 2013-14 period as weak economic performance in the EU and other developed economies affect growth in China and emerging markets. Global oil supply is estimated to have grown by 2.2% in 2012, supported by strong recoveries in the Organization of the Petroleum Exporting Countries' output and in North American production. The oil market is forecast to post a surplus of 1.25 million barrels per day (b/d) in 2013, compared to a surplus of 0.29 million b/d in 2012 and a deficit of 0.74 million b/d in 2011. Prices are projected to ultimately reflect supply surpluses but will remain sensitive to downside risks. Brent prices are forecast to average \$108 a barrel in the first quarter of 2013, constituting a decrease of 9% from \$118.6 a barrel in the same quarter in 2012. Brent oil prices rose by 3.5% in 2012, while prices of WTI NYMEX futures dropped by 6.8% in the same year. Further, prices of Brent ICE futures decreased by 0.1% in December to \$111.1 a barrel, while prices of WTI NYMEX futures rose by 3.1% to \$92.3 a barrel in the same month.

Source: Economic Intelligence Unit, Byblos Research

OPEC's net revenues rose to record highs in 2012

The Organization for Petroleum Exporting Countries' net oil revenues grew by 2.5% year-on-year to about \$1 trillion in 2012, the highest level ever in real terms, and surpassing earnings set during the 1973-74 and the 1979-81 oil crises. Saudi Arabia earned the largest share of about 30% of the aggregate OPEC proceeds while Iran took a smaller-than-usual share of 6.5% of the total. The shortage of Iranian oil production led Saudi Arabia, Iraq, Kuwait and the UAE to produce more and in turn increase their profits from record annual oil prices.

Source: Financial Times, Byblos Research

Sudan oil production to reach 150,000 b/d in 2013

Sudan's oil output is estimated at about 140,000 b/d on average in 2012 and it plans to raise its production level by another 10,000 b/d in 2013. Sudan has been increasing its oil and gas exploration activities after it lost around 75% of its former output when South Sudan gained its independence in 2011. Sudan's oil revenues represent the main source of income to the state. Sudan signed several oil exploration and production-sharing deals with multiple foreign companies in 2012 in an attempt to improve current levels of production.

Source: Thomson Reuters

Iranian crude oil sales to drop in 2013

Asian crude oil importers are projected to further reduce their energy imports from Iran going into 2013. Iran's oil exports dropped by more than 50% in 2012 due to Western-imposed sanctions. The anticipated import cuts in 2013 are expected to reduce Iran's oil sales by 135,000 b/d, equivalent to about \$5bn of lost proceeds for the year. China, the world's second-largest oil importer, is forecast to reduce its oil purchases from Iran by 10% in 2013. China's oil imports from Iran dropped by 23% in the first 11 months of 2012, from the same period in 2011.

Source: Thomson Reuters

Base Metals: Copper output to grow by 4% in 2013

Global refined copper production is projected to reach 21 million tons in 2013, constituting an increase of 3.5% from 20.3 million tons in 2012. China's refined copper production is expected to reach 6 million tons in 2013, equivalent to 28.8% of global supply. It would be followed by Chile with 3.1 million tons of output (14.7%), the EU with 2.8 million tons (13.2%) and Japan with 1.5 million tons (7.2%). In parallel, global refined copper demand is projected to reach 20.8 million tons in 2013, constituting an increase of 3.5% from 20.1 million tons in 2012. China's copper consumption is forecast to reach 9.1 million tons in 2013, equivalent to 43.8% of global demand. It would be followed by the EU with 3.1 million tons (15.1%), the U.S. with 1.8 million tons (8.7%) and Japan with one million tons (4.8%). China is expected to remain the main driver behind global copper consumption growth in coming years. Global copper prices are projected to average \$8,267 a metric ton in the first quarter of 2013, constituting a drop of 0.5% from \$8,309 a metric ton in the same quarter in 2012. In parallel, copper prices rose by 4.4% in 2012, the third annual gain in four years.

Source: Economic Intelligence Unit, Byblos Research

Precious Metals: Gold prices to average \$1,800 a troy ounce in 2013

Gold prices rose by 7% in 2012 to settle at \$1,675.8 a troy ounce, the 12th consecutive yearly gain for the metal and the longest winning streak among all commodities. However, last year's price gains were below previous years' growth levels of 10.1% in 2011 and 30% in 2010. Gold prices failed to stay above \$1,800 an ounce key level in 2012, despite the massive monetary easing measures taken by the world's biggest central banks. Also, gold prices are expected to remain below the record high price of \$1,920 a troy ounce set in 2012 unless something dramatic and unforeseen occurs in 2013. Gold prices are forecast to reach \$1,805 a troy ounce in the first half of 2013 and to average \$1,800 a troy ounce for the year. In parallel, the price of gold decreased by 2.2% in December to \$1,675.8 a troy ounce on December 31st, while that of silver dropped by 9.2% in December to \$30.2 a troy ounce. Overall, precious metals' prices grew in 2012. As such, platinum prices registered the largest growth among precious metals in 2012 with a 9.8% increase. It was followed by silver with an 8.3% rise, palladium with a 7.2% increase and gold with a 7% improvement.

Source: Goldman Sachs, Wall Street Journal, Byblos Research

Global Commodity Outlook				
(3-months LME, \$/ton)	2012e	2013f	2014f	2015f
Aluminum	2,057	2,100	2,175	2,250
Copper	7,970	7,965	7,775	7,500
Lead	2,060	2,090	2,200	2,250
Nickel	17,833	21,770	24,400	24,000
Tin	20,972	22,750	22,875	25,000
Zinc	1,956	2,040	2,125	2,220
(Spot price, \$/ounce)				
Gold	1,679	1,749	1,655	1,540
Palladium	638	744	925	925
Platinum	1,556	1,675	1,775	1,825
Silver	31.3	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-	Ba3	BB-	-	B	1.1	17.9	4.2	7.5	0.4	-	13.5	9.7
	Stable	Stable	Stable	-	Positive								
Sudan	-	-	-	-	C	-2.9	73.1	60.5	397.9	-	-	2.1	-
	-	-	-	-	Stable								
Tunisia	BB	Baa3	BB+	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	B3	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	12-Dec-12	No change	30-Jan-13
Eurozone	Refi Rate	0.75	06-Dec-12	No change	10-Jan-13
UK	Bank Rate	0.50	06-Dec-12	No change	10-Jan-13
Japan	O/N Call Rate	0-0.10	20-Nov-12	No change	20-Dec-12
Australia	Cash Rate	3.00	04-Dec-12	Cut 25bps	05-Feb-13
New Zealand	Cash Rate	2.50	25-Oct-12	No change	31-Jan-13
Switzerland	3 month Libor target	0.00	13-Dec-12	No change	14-Mar-13
Canada	Overnight rate	1.00	04-Dec-12	No change	23-Jan-13
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	12-Dec-12	No change	30-Jan-13
Taiwan	Discount Rate	1.88	20-Sep-12	No change	19-Dec-12
South Korea	Base Rate	2.75	09-Nov-12	Cut 25bps	13-Dec-12
Malaysia	O/N Policy Rate	3.00	08-Nov-12	No change	31-Jan-13
Thailand	1D Repo	2.75	28-Nov-12	Cut 25bps	09-Jan-13
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	20-Nov-12	No change	18-Dec-12
South Africa	Repo rate	5.00	22-Nov-12	No change	22-Jan-13
Kenya	Central Bank Rate	11.00	07-Nov-12	Cut 200bps	Jan-13
Nigeria	Monetary Policy Rate	12.00	20-Nov-12	No change	Jan-13
Ghana	Prime Rate	15.00	Nov-12	No change	Jan-13
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	30-Nov-12	No change	18-Jan-13
Brazil	Selic Rate	7.25	28-Nov-12	Cut 50bps	16-Jan-13
Armenia	Refi Rate	8.00	21-Dec-12	No change	N/A
Romania	Policy Rate	5.25	02-Nov-12	No change	07-Jan-12
Bulgaria	Base Interest	0.03	01-Jan-13	No change	N/A
Kazakhstan	Refi Rate	5.50	06-Aug-12	Cut 50bps	N/A
Ukraine	Discount Rate	7.50	20-Aug-12	No change	N/A
Russia	Refi Rate	8.25	10-Dec-12	No change	N/A



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