

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### Downgrades outpace upgrades in 2012

Standard & Poor's indicated that it downgraded 702 issuers and upgraded 381 issuers globally in 2012 relative to 620 downgrades and 500 upgrades in 2011. It said that the downgrades represented \$7,312bn in rated debt compared to \$17,269bn in 2011, while the upgrades covered \$1,303bn in fixed income relative to \$1,845bn in the previous year. The agency downgraded 185 issuers representing \$3,219bn in rated debt in the first quarter, 155 issuers that totaled \$1,475bn in the second quarter, 156 issuers that represented debt of \$456bn in the third quarter, and 206 issuers worth \$2,162bn in the fourth quarter of 2012. Also, it upgraded 112 issuers worth \$316bn of rated debt in the first quarter, 125 issuers with \$404bn in the second quarter, 65 issuers worth \$411bn in the third quarter, and 79 issuers with \$172bn in the fourth quarter of last year. In parallel, S&P downgraded 666 corporate issuers, representing \$3,752bn in rated debt, and upgraded 370 issuers worth \$1,058bn in 2012. It also downgraded 36 sovereigns for a total of \$3,560bn, while it upgraded 11 sovereigns for a total of \$245bn last year.

Source: Standard & Poor's

#### EMERGING MARKETS

##### Private capital inflows to increase by 13.1% to \$1,123.4bn in 2013

The World Bank projected net private capital inflows to developing countries at \$1,123.4bn in 2013, constituting an increase of 13.1% from \$993.1bn in 2012. It expected net private inflows to be equivalent to 4.2% of developing economies' aggregate GDP in 2013 relative to 4.1% of GDP in 2012. It forecast net equity inflows to grow by 18.1% to \$761.2bn, driven by an increase of 15.6% in net FDI to \$693.2bn and a rise of 53.2% in portfolio equity flows to \$68bn. Also, it forecast net private debt inflows at \$362.2bn in 2013 relative to \$348.6bn in the previous year. Also, the Bank forecast net private capital inflows to developing economies to reach \$1,244.2bn in 2014 and \$1,348.4bn in 2015, and to be equivalent to 4.2% of GDP in each of 2014 and 2015. Further, it expected net equity flows to reach \$856.1bn next year and \$903bn in 2015, and for net private debt inflows to reach \$388.1bn in 2014 and \$445.5bn in 2015. In parallel, it forecast net private capital inflows to the East Asia & Pacific region at \$422bn in 2013, which would account for 37.6% of capital inflows to developing economies, followed by Latin America & the Caribbean with \$327.1bn (29.1%), Europe & Central Asia with \$211bn (18.8%), South Asia with \$87.3bn (7.8%), Sub-Saharan Africa with \$58.8bn (5.2%), and the Middle East & North Africa with \$17.3bn (1.5%). It forecast net private capital inflows to the MENA region to grow by 38.4% in 2013, followed by South Asia with a 20.2% rise, Europe & Central Asia (+20%), East Asia & the Pacific (+18.1%), Sub-Saharan Africa (+7.9%), and Latin America & the Caribbean (+2.1%).

Source: World Bank

#### MENA

##### Non-oil importers to benefit from upgrade of trade infrastructure

The World Economic Forum anticipated that upgrading the transport and communications infrastructures as well as improving border administration in oil-importing economies of the Middle East and North Africa region would lead to an additional rise of 8.5% in their combined GDP, an increase of 45.9% in their cumulative exports and a growth of 33.8% in their overall imports. It said that the increase in the GDP of non-oil MENA economies would be the second highest among all regions after South-East Asia with 9.3%, and would exceed the rise in global GDP of 4.7%. It estimated that the increase in exports of non-oil MENA countries would constitute the third highest increase globally after that of South & Central Asia (+65.2%) and Sub-Saharan Africa (+63.1%), and would exceed the rise in global exports by more than three times. It pointed out that the growth in imports by non-oil MENA economies would be the fourth highest globally, lower than that of Sub-Saharan Africa (+55.3%), South & Central Asia (+49.3%), and the rest of Americas (+39.1%). In comparison, global imports would increase by 14.9%.

Source: World Economic Forum

##### Equity markets up by 4% in January 2013

Arab stock markets increased by 3.5% and GCC markets rose by 4.1% in January 2013 compared to increases of 2.1% and 1.5%, respectively, in the same month last year. Activity on the Dubai financial market increased by 16.3% in January and posted the best performance among Arab markets during the month. It was followed by the Abu Dhabi exchange with a 9.4% improvement, the Kuwait bourse with a 5.2% increase, the Amman stock market with a 4.5% rise, the Qatar exchange with a 4.4% growth, the Tunis bourse with a 3.7% increase, the Saudi Arabia equity market with a 3.6% increase, the Beirut stock exchange with a 3.1% rise, the Egyptian stock market with a 2.5% improvement, the Bahrain bourse with a 1.8% appreciation, the Damascus financial market with a 1.6% growth and the Muscat equity market with a 0.68% improvement. In parallel, the Casablanca equity market dropped by 4.3% in January and posted the worst performance among Arab stock markets in the covered month. It was followed by the Iraqi stock exchange with a 1.9% drop and the Palestine equity market with a 1.1% decline. In comparison, emerging market equities rose by 1.7% and global equities increased by 4.8% in January.

Source: Local stock markets, Dow Jones Indices, Byblos Research

# OUTLOOK

## IRAQ

### Real GDP growth to average 11% in 2013-14 under proper political conditions

The Institute of International Finance projected Iraq's real GDP growth at 10.4% in 2013 and 11.6% in 2014 relative to an estimated growth of 11% in 2012. The IIF's projections assume that political and regional disputes remain contained, which would allow the government to continue expanding the hydrocarbon sector. It forecast hydrocarbon output to grow by 13.7% in 2013 and 16.8% in 2014 compared to an estimated 15% in 2012, and for the non-hydrocarbon sector to increase by 6% in 2013 and 4% in 2014, relative to an estimated 6% last year. It attributed the modest growth in the non-hydrocarbon sector to spillover effects from hydrocarbon activity and government spending. It said that Iraq's oil production reached a record level of 3.2 million barrels per day (b/d) in 2012 and is forecast to rise to 3.7 million b/d in 2013 and 4.3 million b/d in 2014.

In parallel, the IIF considered that the main downside risk to the outlook would be the deterioration in Iraq's security situation due to regional and domestic tensions. Under a downside risk scenario, the IIF projected Iraq's real GDP growth at 6% in 2013 and 5% in 2014. It said that deteriorating security and political conditions would delay major infrastructural projects.

In parallel, the IIF indicated that significant increases in expenditures offset higher oil production and shifted the fiscal balance to a deficit of 1.9% of GDP in 2012 relative to a surplus of 7.5% of GDP in 2011. But it expected the fiscal deficit to narrow to 1% of GDP in 2013 given that total expenditures would be lower-than-budgeted and hydrocarbon revenues would maintain their double-digit growth. Further, it projected the current account balance at 24.3% of GDP in 2013 and 28.4% of GDP in 2014 relative to an estimated 23.1% of GDP in 2012. It noted that higher oil exports led to larger foreign asset accumulations last year, including a fivefold increase in gold reserves. It forecast Iraq's foreign exchange reserves at \$78.5bn in 2013 and \$87bn in 2014, equivalent to 14.1 months and 14 months of import cover, respectively.

Source: *Institute of International Finance*

## ALGERIA

### Non-oil real GDP to grow by 4.8% in 2013, economic risks to the downside

The International Monetary Fund projected real GDP growth in Algeria at 3.4% in 2013 relative to an estimated 2.5% in 2012, with non-oil output increasing by 4.8% in 2013 relative to an estimated growth rate of 5% in 2012. It said that the increase in public spending stimulated non-hydrocarbon activity and supported economic growth last year. It expected domestic demand and a recovery in the hydrocarbon sector to underpin Algeria's economic performance this year. But it noted that risks to the economy are mainly to the downside, as Algeria is vulnerable to a prolonged fall in global oil prices, rising international food prices, a worsening of the Eurozone economy, and increasing domestic pressure to use hydrocarbon receipts. Further, it forecast the average inflation rate at 5% in 2013 relative to an estimated 15-year high of 8.4% in 2012.

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In parallel, the Fund expected the fiscal deficit to narrow to 1.3% of GDP in 2013 from 3.6% of GDP in 2012, as the 2013 budget phases out the wage back payments and allows for fiscal consolidation. It estimated the breakeven oil price at \$121 per barrel in 2012, up from \$109 in 2011 and reflecting an increased vulnerability to hydrocarbon prices. Further, it estimated the current account surplus at 8.1% of GDP in 2012 as higher global hydrocarbon prices offset lower export volumes, and forecast the surplus at 7% of GDP in 2013. It projected foreign exchange reserves at \$208.6bn in 2013, equivalent to 41.7 months of imports, relative to an estimated \$194bn in 2012 or 40.2 months of imports. It estimated the assets of the country's oil stabilization fund, net of public debt, at around 26% of GDP in each of 2012 and 2013. The IMF encouraged the authorities to implement reforms to preserve macroeconomic stability, ensure long-term fiscal sustainability, and promote non-hydrocarbon growth.

Source: *International Monetary Fund*

## SOUTH SUDAN

### Economy to grow by 59% in 2013 in case oil production and shipment resume

Business Monitor International projected South Sudan's real GDP to grow by 59% in 2013 and 18.7% in 2014 compared to an estimated contraction of 49.7% in 2012. It attributed the collapse of the economy last year to the shutdown of oil production in January 2012 due to a dispute with Sudan over transit fees and other issues. It said that the projected growth level for 2013 reflects base effects, and assumes a resumption of oil production sometime this year, as well as the continued moderation of inflation levels. It anticipated significant downside risks to the outlook, and considered that the economy would not return to its 2011 levels of real productivity until 2015.

In parallel, BMI expected private consumption to rebound in 2013 and to reach SSP28.1bn or \$9.1bn in 2013 and SSP34.1bn or \$11bn in 2014. It noted that high inflation levels and widespread insecurity significantly weighed on private consumption last year. It said that inflation averaged 46.6% in 2012, which eroded the purchasing power of households. But it noted that inflation started to recede and reached 25.2% in December 2012. It forecast inflation to remain high in 2013 but at lower levels than last year. Further, BMI forecast government consumption at SSP4.1bn or \$1.3bn in 2013, largely due to foreign support, given that oil revenues have yet to materialize despite an agreement reached with Sudan. It noted that the projected government consumption for 2013 constitutes a slight improvement compared to 2012 level, but remains significantly below the SSP6.5bn spent in 2010. It anticipated government consumption to accelerate over the longer term as the government uses its oil revenues to meet the demand for public services. Further, BMI expected public investment in South Sudan to be strong compared to other components of GDP, as the government and donors seek to bridge the wide infrastructure deficit and South Sudan looks to increase its independence in the selling and distribution of its oil products. It anticipated private sector investment to remain limited, as firms wait for the security situation to stabilize.

Source: *Business Monitor International*

January 31, 2013

# ECONOMY & TRADE

## EGYPT

### **Sovereign ratings downgraded, outlook 'negative'**

Fitch Ratings downgraded Egypt's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'B' from 'B+' with a 'negative' outlook, which is five notches below investment grade. It also lowered the country ceiling to 'B' from 'B+' and affirmed the short-term IDR at 'B'. It said that the downgrade reflects the deterioration in public finances, a shortage of foreign currency, and political instability. It noted that the fiscal deficit widened to 10.7% of GDP in fiscal year 2011/12, and is forecast to further deteriorate to 11.2% of GDP in FY2012/13. It added that spending on subsidies, interest payments and the public-sector wage bill are rising, while weak economic performance is leading to lower public revenues. Further, it said that the authorities tightened capital controls and introduced foreign currency auctions in response to the depletion of foreign exchange reserves. It estimated Egypt's foreign reserves at around three months of current account payments, but it attributed the reserves' level to substantial ad hoc inflows from bilateral creditors. It warned from further depreciation of the local currency and declines in reserves in the absence of funding associated with an IMF program. It pointed out that domestic political conditions are complicating economic policy-making. In parallel, the agency said that it would downgrade the ratings in the event of a prolonged delay to the implementation of an IMF program and/or an unexpected depletion of reserves and a disorderly devaluation of the currency.

Source: *Fitch Ratings*

## BAHRAIN

### **Outlook revised up to 'stable', ratings affirmed**

Standard & Poor's affirmed Bahrain's long- and short-term foreign and local currency sovereign credit ratings at 'BBB/A-2', and revised the outlook on the long-term ratings to 'stable' from 'negative'. It also maintained the transfer and convertibility assessment at 'BBB'. It attributed the outlook revision to the return of political stability, stable economic growth, financial inflows from GCC countries, and higher global oil prices of around \$111 per barrel in the medium-term. It noted that political risks and a sharp decline in global oil prices are not likely to be severe enough to lead to a sovereign downgrade in the near-term. It added that large-scale public investment and higher hydrocarbon production would support growth prospects. It said that the ratings are supported by the country's strong external and fiscal positions. But it noted that the ratings are constrained by continuing domestic political tensions, stagnating per capita real GDP growth, and the fiscal dependency on sustained high global oil prices and international donor support. Further, it indicated that Bahrain's fiscal vulnerability to global oil prices remains high, as oil and gas receipts account for 88% of government revenues. It noted that the structural flexibility of public finances deteriorated due to the government's expansionary fiscal policy. But it said that pledges of \$1bn of annual inflows from GCC countries over 10 years will partly offset the deterioration in public finances. It noted that these non-debt inflows would reduce Bahrain's need to borrow in order to meet its capital expenditures requirements.

Source: *Standard & Poor's*

## SUDAN

### **Current account deficit to remain in double digits in coming years**

Business Monitor International projected Sudan's current account deficit to narrow to 14.8% of GDP in 2013 from an estimated deficit of 16% of GDP in 2012, and expected the deficit to remain in double digits in coming years as the country is still struggling to compensate for the large loss in export revenues associated with the independence of South Sudan in July 2011. It said that the current account deficit would further narrow if the government achieves its target of expanding oil production to 150,000 barrels per day in 2013. It noted that Sudan has made progress in finding new oil fields and increasing production at its existing operations. It added that the government signed oil exploration and production-sharing deals with international companies and is working with Norwegian partners to boost recovery rates at wells. It pointed out that these efforts would help counterbalance the lack of revenues from oil transit fees from South Sudan, given that the South stated that it will not resume oil production until at least March 2013. In parallel, BMI said that Sudan is trying to encourage non-oil exports, mainly in the agricultural sector. It added that efforts include growth in the production and exports of gum Arabic, and the expansion of the Roseiris Dam on the Nile River to help increase storage capacity that would improve irrigation and power generation. It noted that the government hopes that the increase in the productive capacity of the agricultural sector would lower the demand for food imports and diversify exports.

Source: *Business Monitor International*

## ARMENIA

### **Energy architecture at global level**

The World Economic Forum ranked Armenia in 60th place among 105 countries on its Energy Architecture Performance Index for 2013, and in fifth place among eight Commonwealth of Independent States included in the survey. The index assesses the performance of energy systems across three primary objectives that are delivering economic growth, achieving economic growth in an environmentally-sustainable way, and providing universal energy access and security. The index is composed of 16 indicators aggregated into three sub-indices. Globally, Armenia ranked ahead of the Philippines and India and came behind South Africa and Algeria. Armenia received a score of 0.54 points, similar to the CIS average but slightly lower than the global average of 0.55 points. In parallel, Armenia came in 75th place globally and in fifth place among CIS economies on the Economic Growth & Development Sub-Index that measures the extent to which a country's energy architecture supports its economic growth. Further, Armenia ranked in 30th place globally and in second place in the region on the Environmental Sustainability Sub-Index, which reflects the extent to which a country's energy architecture has been constructed to minimize negative environmental externalities. Finally, Armenia ranked in 64th place globally and in sixth place in the region on the Energy Access & Security Sub-Index, which mainly measures whether adequate access to energy is provided to all segments of the population.

Source: *World Economic Forum, Byblos Research*



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# BANKING

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## WORLD

### Outlook on bank ratings improves in fourth quarter of 2012

Fitch Ratings indicated that there were 59 'negative' outlooks on emerging markets bank ratings in the fourth quarter of 2012, compared to 68 in the third quarter, 58 in the second quarter and 38 in the first quarter of 2012. In parallel, the number of 'positive' outlooks totaled seven in the fourth quarter of 2012, unchanged from the preceding quarter, up marginally from six in the second quarter and down from nine in the first quarter of last year. Also, the number of 'stable' outlooks increased to 323 in the fourth quarter of 2012 from 311 in the preceding quarter, 318 in the second quarter and 335 in the first quarter of last year. Overall, 81.2% of bank outlooks in emerging markets are 'stable', 14.8% are 'negative' and 1.8% are 'positive'. In parallel, 91.9% of outlooks in the Middle East & Africa are 'stable', 7.1% are 'negative' and 1% are 'positive'; while 85.6% of outlooks in Emerging Asia are 'stable' and 12.2% are 'negative'. Also, 74.7% of outlooks in Emerging Americas are 'stable', 18.3% are 'negative' and 7% are 'positive'; while 73.9% of outlooks in Emerging Europe are 'stable', 20.3% are 'negative' and 0.7% are 'positive'.

Source: Fitch Ratings

## EGYPT

### Banks placed on review for possible downgrade

Moody's Investors Service placed on review for possible downgrade the long-term local-currency deposit ratings and the financial strength ratings of state-owned National Bank of Egypt (NBE), Banque Misr (BM), Banque du Caire (BC); and those of the privately-owned Commercial International Bank (CIB) and Bank of Alexandria (BoA). It said the ratings review will evaluate risks related to the banks' very high exposure to government securities; assess the impact of a further deterioration in the operating environment on the banks' asset quality and capitalization; and re-examine the government's capacity to support systemically important government-owned banks. It noted that banks' exposure to government securities range between 800% and 900% of Tier One capital for each of the three state-owned banks while it stands at 180% and 277% for CIB and BoA, respectively. It indicated that high exposure to government securities links the banks' standalone credit profiles to the sovereign's creditworthiness, makes them vulnerable to potential event risk at the sovereign level, and constrains their standalone credit-risk profiles at the sovereign level. The agency said that it would downgrade the banks' ratings if sovereign creditworthiness weakens further, the operating environment deteriorates, and the banks' loss-absorption capacity declines.

Source: Moody's Investors Service

## QATAR

### Rise in inter-bank foreign liabilities increases funding risks

The International Monetary Fund indicated that funding risks in Qatar's banking sector have increased significantly in recent years as banks in Qatar used foreign financing to meet the funding gap that resulted from strong lending growth. It said that

wholesale inter-bank foreign liabilities, which are mostly short-term liabilities, grew as domestic funding sources have been unable to keep up with rising credit demand. It noted that funding from European banks is significant, but that banks' direct exposure to banks from Greece, Ireland, Italy and Portugal is limited. Further, it said that the dollarization rate of credit increased significantly, with credit in foreign currency to the public sector accounting for 80% of total foreign currency-denominated credit at end-June 2012. It noted that this would lead to an increase in currency and maturity mismatches. The Fund considered that the authorities need to limit the buildup of liquidity risk related to short-term foreign borrowings, including through the use of additional prudential liquidity ratios. In parallel, the IMF indicated that loans allocated to the real estate sector account for 25% of total credit, of which around 56% are denominated in foreign currencies. It noted that the Central Bank of Qatar needs to monitor individual banks' exposure to the real estate sector, given that the level of exposure across banks is not homogenous. It added that the authorities need to prevent the buildup of excessive exposure of the banking system to the real estate sector through the use of macro prudential tools, such as the allocation of higher risk weights for real estate lending in the capital adequacy ratio.

Source: International Monetary Fund

## TURKEY

### Stable outlook on banking sector to continue

Moody's Investors Service indicated that it will maintain its 'stable' outlook on the Turkish banking system for the next 12 to 18 months. It attributed its decision to moderate domestic economic growth and improving sovereign financial strength that would create supportive operating conditions for banks, as well as to the banks' sufficient resources to absorb the projected gradual increase in non-performing loans (NPLs). It expected loan growth to moderate to between 12% and 15% in 2013, and for asset quality to gradually normalize and for NPLs to moderately increase this year. It noted that Turkish banks have sufficient resources to manage worse-than-expected losses. However, Moody's forecast the banks' net profit margins to further decline due to low interest rates and rising competition. It noted that the funding profile of banks is becoming less robust as lending growth is outpacing deposit growth. It expected net profit margins to weaken over the next 12-18 months, as banks face an environment of moderating growth, increased competition, and rising provisioning costs. It forecast pre-provision margins to stay flat at best given that moderate economic growth limits revenue opportunities, and competition reduces any positive impact from lower rates on funding costs. Further, it said that Turkish banks are becoming more vulnerable to market volatility, even though most of them still benefit from robust retail deposit franchises. It noted that a renewed acceleration of the Eurozone crisis, a sudden increase in global investor risk aversion, and volatile markets constitute the main downside risks to the outlook.

Source: Moody's Investors Service



## Global oil demand to grow by 2% in 2013

Global oil production is expected to reach 91.8 million barrels per day (b/d) in 2013, constituting an increase of 2.1% from 89.9 million b/d in 2012. The Organization of the Petroleum Exporting Countries' (OPEC) output is anticipated to account for 41.5% of global production in 2013. Crude oil production is forecast to reach 31.7 million b/d in 2013, equivalent to 83.2% of total OPEC supply; while natural gas liquids' production is projected at 6.4 million b/d in 2013, equivalent to 16.8% of total OPEC supply. Further, total non-OPEC output would represent 56.1% of global oil production in 2013. In parallel, global oil consumption is expected to reach 91 million b/d in 2013, constituting a rise of 1.5% from 89.7 million b/d in 2012. The Organization for Economic Cooperation and Development (OECD) countries' consumption is projected to reach 45.9 million b/d in 2013, equivalent to 50.4% of global demand; while total non-OECD consumption is anticipated at 45.1 million b/d, equivalent to 49.6% of global demand over the same year. Brent crude prices are forecast to reach \$110.5 a barrel on average in the first quarter of 2013.

Source: *Economic Intelligence Unit, Byblos Research*

## Iran bans energy exports to the EU

Iran announced a unilateral ban on all crude oil and gas exports to the European Union in retaliation for the 27-nation bloc's embargo on the Iranian energy sector. It added that these preemptive sanctions against European countries would remain in place as long as they refuse to abandon their "hostile" policies against Iran. The EU accounted for about 18% of Iran's oil sales prior to the Western-imposed sanctions. Iranian oil exports reached 1.4 million barrels per day in December 2012, and are expected to average 1.2 million b/d in the first quarter of 2013.

Source: *Associated Press, Thomson Reuters*

## KRG to restart energy exports via Turkey

The Kurdistan Regional Government (KRG) announced that it will resume its crude oil and condensate exports to the international oil markets through Turkey starting in February 2013. A long-standing dispute between the central Iraqi government and the KRG caused the latter to cease exports through the Baghdad pipeline, most recently in December 2012. KRG's crude oil exports are projected to reach about 20,000 b/d, while condensate exports are forecast to average about 12,500 b/d in 2013. KRG's current crude oil production capacity is estimated at between 350,000 b/d and 400,000 b/d.

Source: *Dow Jones Newswires, Thomson Reuters*

## Egypt's gas exports to Jordan drop by 67%

Egypt's natural gas supplies to Jordan dropped to about 80 million cubic feet (mcf) per day currently, constituting a decrease of 66.7% from the 240 mcf per day agreed upon in a gas deal signed between the two countries in 2004. Jordanian officials attributed the decline to the ongoing instability and riots in Egypt. The drop in Egyptian gas supplies forced Jordan to import more expensive oil, which inflated Jordan's energy bill and increased the country's cost of electricity subsidies. Egyptian gas accounted for 18% of Jordan's total electricity generation needs in 2012, down significantly from 80% of the total in 2009.

Source: *Jordan Times, Byblos Research*

## Base Metals: Steel output to grow by 6% in 2013

Global steel production is projected to reach 1,601.8 million tons in 2013, constituting an increase of 5.5% from 1,518.1 million tons in 2012, and to rise by 3.3% to 1,655.1 million tons in 2014. China's steel output is expected to reach 747 million tons in 2013, equivalent to 46.6% of global supply. It would be followed by non-China Asian countries with 301.2 million tons (18.8%), the EU with 166.5 million tons (10.4%), and members of the North American Free Trade Agreement (NAFTA) with 129.5 million tons (8.1%). In parallel, global steel demand is forecast to reach 1,597.4 million tons in 2013, constituting an increase of 4.5% from 1,528.1 million tons in 2012, and to increase by 3.4% to 1,651.7 million tons in 2014. Chinese demand is expected to reach 703.2 million tons in 2013, equivalent to 44% of global steel demand. It would be followed by non-China Asian countries with 337.7 million tons (21.1%), the EU with 161.2 million tons (10.1%), and members of NAFTA with 136.5 million tons (8.5%). The steel market is forecast to post a deficit of 10,000 tons in 2012 and to shift to a surplus of 4,400 tons in 2013. Also, EU steel prices are forecast to average \$638 per ton in the first quarter of 2013 and to rise to an average \$640 per ton in the second quarter of the year.

Source: *Economic Intelligence Unit, Byblos Research*

## Precious Metals: Palladium prices to grow by 20% in 2013

Global palladium production is projected to reach 9.2 million ounces in 2013, constituting a rise of 4.3% from 8.8 million ounces in 2012. As such, total mine supply is forecast to reach 6.3 million ounces in 2013, while auto catalyst recycling is estimated at 2.1 million ounces over the same year. South Africa's output is expected to account for about 42% of the world's total mine production in 2013. In parallel, global palladium demand is projected to reach 9.5 million ounces in 2013, constituting an increase of 4.6% from 9.1 million ounces in 2012. Auto catalysts' consumption is anticipated at 7.1 million ounces in 2013, equivalent to 74.4% of global demand. It would be followed by industrial demand with 2 million ounces (21%) and jewelry consumption with 0.2 million ounces (2.3%). The palladium market is expected to post a deficit of 336,000 ounces in 2013 and to widen to a deficit of 639,000 ounces in 2014. As such, global palladium prices are anticipated to remain on an upward trend in the 2013-14 period due to the undersupply in the market. Global palladium prices are forecast to average \$775 a troy ounce in 2013, constituting an increase of 20.2% from \$645 a troy ounce in 2012.

Source: *Citigroup, Byblos Research*

Global Commodity Outlook				
(3-months LME, \$/ton)	2012e	2013f	2014f	2015f
Aluminum	2,049	2,100	2,175	2,250
Copper	7,945	7,965	7,775	7,500
Lead	2,072	2,115	2,200	2,250
Nickel	17,592	19,890	22,725	24,000
Tin	21,108	22,750	22,875	25,000
Zinc	1,963	2,060	2,125	2,220
(Spot price, \$/ounce)				
Gold	1,669	1,675	1,655	1,540
Palladium	645	775	925	925
Platinum	1,552	1,700	1,775	1,825
Silver	31.18	31.0	26.5	23.25

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								
<b>Africa</b>													
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								
<b>Middle East</b>													
Bahrain	BBB	Baa1	BBB	BBB+	BB	-2.3	36.5	138.6	65.1	6.2	354.8	4.2	-
	Stable	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								
<b>Asia</b>													
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								
<b>Central &amp; Eastern Europe</b>													
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	10-Jan-13	No change	07-Feb-13
UK	Bank Rate	0.50	10-Jan-13	No change	07-Feb-13
Japan	O/N Call Rate	0-0.10	22-Jan-13	No change	14-Feb-13
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	23-Jan-13	No change	06-Mar-13
<b>Emerging Markets</b>					
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	19-Dec-12	No change	Mar-13
South Korea	Base Rate	2.75	11-Jan-13	No change	14-Feb-13
Malaysia	O/N Policy Rate	3.00	08-Nov-12	No change	31-Jan-13
Thailand	1D Repo	2.75	09-Jan-13	No change	20-Feb-13
India	Reverse repo rate	8.00	18-Dec-12	No change	29-Jan-13
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	5.50	22-Jan-13	Cut 25bps	19-Feb-13
South Africa	Repo rate	5.00	22-Jan-13	No change	20-Mar-13
Kenya	Central Bank Rate	9.50	10-Jan-13	Cut 150bps	Mar-13
Nigeria	Monetary Policy Rate	12.00	22-Jan-13	No change	19-Mar-13
Ghana	Prime Rate	15.00	Nov-12	No change	11-Feb-13
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.50	18-Jan-13	No change	08-Mar-13
Brazil	Selic Rate	7.25	16-Jan-13	Cut 50bps	06-Mar-13
Armenia	Refi Rate	8.00	21-Dec-12	No change	N/A
Romania	Policy Rate	5.25	07-Jan-13	No change	05-Feb-13
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	15-Jan-13	No change	N/A



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