

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Volume of letters of credit flat in first 11 months of 2012

The aggregate volume of letters of credit sent through SWIFT totaled 4,245,212 in the first 11 months of 2012, constituting a marginal increase of 0.3% from the same period of the previous year. Letters of credit sent from the Asia-Pacific region stood at 2,796,976 and accounted for 65.9% of the global volume, followed by the Eurozone with 370,813 (8.7%), the Middle East with 325,296 (7.7%), Africa with 305,776 (7.2%), Non-Eurozone economies with 205,903 (4.9%), Latin America with 120,522 (2.84%) and North America with 119,926 (2.82%). Also, the aggregate number of L/Cs sent from Latin America increased by 3.8% in the first 11 months of last year, followed by North America (+3%), and Asia-Pacific and the Middle East (+2.3% each); while L/Cs sent from the Eurozone dropped by 13.5%, followed by Africa (-2%), and the Non-Eurozone economies (-1.4%). In parallel, the total number of reimbursement authorizations stood at 574,369 in the first 11 months of 2012, constituting a 3.2% decrease from the same period of 2011. The volume of authorizations in the Asia-Pacific region reached 326,572 in the covered period and accounted for 56.9% of the global aggregate volume, followed by the Middle East with 105,491 (18.4%), Africa with 65,578 (11.4%), Latin America with 51,775 (9%), Non-Eurozone countries with 14,111 (2.5%), the Eurozone with 7,164 (1.2%), and North America with 3,678 (0.6%).

Source: Citigroup

MENA

Awarded projects total \$71bn in 2012, planned & under way projects at \$2,614bn

The aggregate value of projects awarded in the Middle East & North Africa (MENA) region reached \$70.6bn in 2012, constituting a decrease of 27% from 2011 and a drop of 14% from 2010. The number of projects awarded reached 290 in 2012, compared to 280 projects in 2011 and 278 projects in 2010. Projects awarded in Saudi Arabia accounted for 29% of the total value of new projects in 2012, followed by the UAE with 25%, Qatar with 18%, Kuwait with 12%, Oman and Iraq with 6% each, and Egypt with 3%. In parallel, the value of planned and under way projects stood at \$2,614bn at end-2012, constituting a rise of 6% from a year earlier. The value of such projects in Saudi Arabia reached \$782bn at end-2012, up 6% from a year earlier, while those in Qatar totaled \$223bn (+4%), those in Kuwait amounted to \$194bn (+8%), and those in Oman reached \$140bn (+20%). In parallel, the value of planned and under way projects in Iran totaled \$290bn, down 4% annually, while those in Iraq amounted to \$282bn and regressed by 6% year-on-year. Citigroup attributed the decline in the value of planned and under way projects in Iran to sanctions and those in Iraq to the completion of some major projects as well as to the cancellation of some projects that had been dormant for some time.

Source: Citigroup

Equity markets up by 3% in first two months of 2013

Arab stock markets increased by 2.7% and GCC markets rose by 3.6% in the first two months of 2013 compared to increases of 9.1% and 8.9%, respectively, in the same period last year. Activity on the Dubai financial market increased by 18.8% in the first two months of 2013 and posted the best performance among Arab markets during the period. It was followed by the Abu Dhabi exchange with a 15.7% improvement, the Kuwait bourse with a 8.9% increase, the Amman stock market with a 4.3% rise, the Muscat equity market with a 3.7% growth, the Beirut stock exchange with a 3.4% increase, the Saudi Arabia equity market with a 2.9% rise, the Bahrain bourse with a 2.3% appreciation, the Qatar exchange with a 2% growth, the Tunis bourse with a 0.9% increase, the Egyptian stock market with a 0.5% improvement and the Damascus financial market with a marginal increase 0.2%. In parallel, the Casablanca equity market dropped by 4.8% in the first two months of 2013 and posted the worst performance among Arab stock markets in the covered period. It was followed by the Iraqi stock exchange with a 1.9% contraction and the Palestine equity market with a 1.3% decline. In comparison, global equities increased by about 4.6% while emerging market equities regressed by 0.2% in the first two months of this year.

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

IRAN

Tehran urged to address its anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that it remains "particularly and exceptionally" concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system, despite Iran's previous engagement with the FATF and its recent submission of information. It reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also repeated its call to its members and other jurisdictions to apply counter measures to protect their financial sectors and the international financial system from the ongoing and substantial money laundering and terrorist financing risks originating from Iran. The FATF also urged jurisdictions to protect against correspondent relationships being used to bypass or evade counter measures and risk mitigation practices, and to take into account money laundering and terrorism financing risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. The FATF warned that, if Iran fails to take concrete steps to improve its AML/CFT regime, it will consider calling on all countries and jurisdictions to strengthen counter measures in June 2013.

Source: Financial Action Task Force

OUTLOOK

MENA

Growth to slow to 3.4% in 2013 in oil-exporting economies

The Institute of International Finance projected real GDP growth in the oil-exporting economies of the Middle East and North Africa region at 3.4% in 2013 relative to 4.2% in 2012. It said that the increase in the production of crude oil in most of the region's economies and the strong rebound in Libya's economy constituted the main drivers of last year's solid economic growth. It attributed the moderation in real GDP growth this year to a decline in crude oil production in Saudi Arabia, Kuwait, and the UAE. It forecast hydrocarbon output to increase by a marginal 0.7% in 2013 compared to 5.6% last year, and for the non-hydrocarbon sector to grow by 4.3% in 2013 relative to 4.6% in 2011. It expected inflation to remain subdued in the Gulf Cooperation Council economies but to rise in Algeria, Iraq, Iran and Libya.

In parallel, the IIF anticipated that the region's oil-exporting economies would continue to adopt expansionary fiscal and monetary policies in the context of substantial hydrocarbon revenues. It expected the aggregate fiscal surplus of these economies to narrow to 5.1% of GDP this year from 7.3% of GDP in 2012, based on an average global oil price of \$113 per barrel and a small decline in the volume of crude oil exports. Further, it projected the aggregate current account surplus of oil-exporters at 16.5% of GDP in 2013 relative to 18.7% of GDP in 2012. Also, it forecast the cumulative stock of gross foreign assets of the region's oil exporters to reach \$3 trillion at the end of 2013 relative to \$2.7 trillion at end-2012, supported by the diversified nature of investments and the projected large current account surpluses.

The IIF considered that the main downside risk for the region's oil-exporting countries would be lower global oil prices for a sustained period of time. It estimated that a sharp fall in global oil prices would weaken the finances of the region's oil exporters and lead to the cancellation or postponement of ongoing infrastructure investment, which would lower their GDP growth.

Source: Institute of International Finance

SYRIA

Economic activity to contract by 15% in 2013

The Institute of International Finance projected Syria's real GDP to contract by 15% in 2013 following contractions of 20% in 2012 and 6% in 2011. It attributed the contraction in activity to the ongoing violence and economic sanctions. The IIF said that foreign direct investment and tourism, which drove economic growth during the 2003-10 period, have dried up. It anticipated that the nominal size of the economy would drop to \$27bn in 2013 from \$30.9bn in 2012, \$46.7bn in 2011 and \$57.5bn in 2010 as a result of the fall in output and the sharp depreciation of the exchange rate. It pointed out that the official exchange rate depreciated by 72% from end-2010 and is trading at about 81 pounds against the US dollar, while the black market rate is around SYP100. It forecast the average exchange rate at SYP85 to the dollar in 2013 relative to SYP68.5 in 2012,

SYP49.2 in 2011 and SYP46.9 in 2010. It forecast the inflation rate to average 50% in 2013 relative to 40% in 2012 and 5.3% in 2011.

In parallel, the IIF projected Syria's fiscal deficit at 13% of GDP in 2013 compared to 16.3% of GDP in 2012 and 10.6% of GDP in 2011 due to lower tax revenues and sharply reduced oil receipts. Further, it projected the current account deficit at 12% of GDP in 2013 relative to 13.3% of GDP in 2012 and 14.1% of GDP in 2011. It noted that the government arranged deals with Russia, Iran and Iraq to meet its needs of petroleum products. The IIF estimated that official foreign currency reserves would decline to an estimated \$2.1bn at end-2013, equivalent to one month of import cover, from \$5.6bn at end-2012, assuming no significant financial support from the regime's allies.

Source: Institute of International Finance

TURKEY

Banks' reinvestment risk to increase

Citigroup expected Turkey's economic recovery to be favorable to the banking sector, as it would increase demand for credit and improve asset quality. But it cautioned that a possible acceleration in inflation and a further widening of the current account deficit would prompt the Central Bank of Turkey to increase interest rates, which would weigh on banks' margins. However, it ruled out a sharp increase in interest rates, given the possibility of an upgrade to investment grade by a second rating agency, which would stimulate capital inflows, support the local currency and push down yields; the sustained drop in the debt-to-GDP ratio that is projected to reach 36% at end-2013; strong privatization revenues that would limit administrative tax increases; and a narrower fiscal deficit. As such, it expected interest rates to gradually increase, with the average Turkish lira benchmark interest rate reaching 6% at end-2013, 6.3% at end-2014, 6.7% at end-2015 and 6.7% at end-2016. It forecast the average foreign currency benchmark interest rate at 4.6% at end-2013, 5% at end-2014, 5.5% at end-2015 and 5.9% at end-2016.

In parallel, Citigroup indicated that the stabilization of the CBT's effective funding rate at its current low level poses a challenge to the Turkish banking sector. It anticipated that banks will face the risk of pressure on reinvestment margins, as they would have to reinvest their high yielding maturing assets in lower yielding instruments. It said that lower funding cost would usually counterbalance the drop in yields. But it noted that the positive impact of lower rates has already been incorporated, given the very short-term maturity of Turkish deposits. It expected the cost of funds to largely stabilize at the current level but for loan yields to continue to contract, which would lead to a moderate tightening of the spreads between lending and deposit rates in the second half of 2013. In parallel, Citigroup indicated that the authorities are targeting a 15% growth in lending in 2013. As a result, it called on banks to balance reinvestment risk with the risk of regulatory intervention in case lending growth significantly exceeds the authorities' target. It noted that regulatory intervention would come in the form of higher minimum reserve requirements and more onerous provisioning requirements.

Source: Citigroup

ECONOMY & TRADE

QATAR

Non-hydrocarbon sector's optimism on the rise

The D&B Business Optimism Index shows that the level of optimism in the Qatari non-hydrocarbon sector reached 45 points in the first quarter of 2013, up from 38 points in the fourth quarter of 2012 and from 40 points in the same quarter last year, as the six categories forming the index improved. The Volume of Sales sub-index increased by 5 points to 61 points, as 68% of firms in the non-hydrocarbon sector are anticipating an increase in their sales, while 7% are expecting a decline. Also, the Net Profits sub-index rose by 9 points to 49, the New Orders sub-index improved by 6 points to 56, the Level of Stocks sub-index increased by 2 points to 28, and the Number of Employees sub-index grew by 9 points to 47. The survey indicated that 63% of firms expect an improvement in their order book status; while 7% of responding firms expect their inventory levels to improve relative to 30% that think it will remain unchanged. Also, the Level of Selling Prices sub-index improved by 6 points to 13, as 26% of the respondents anticipate their selling price to increase, while 13% expect a decline. In parallel, 42% of respondents do not anticipate any negative factors to impact their business operations in the first quarter of 2013, compared to 36% who had the same opinion in the fourth quarter of 2012. The availability of finance and skilled workers were identified as leading concerns by 18% and 16% of non-hydrocarbon sector firms, respectively, in the first quarter.

Source: *Dun & Bradstreet*

GHANA

Deterioration in public finances reflects loss of fiscal control and reduced credibility

Fitch Ratings expected Ghana's government to target a fiscal deficit of 8% of GDP in 2013 and 5% of GDP in 2014 through lower expenditures and higher revenue growth. It estimated the fiscal deficit to have widened to 12.1% of GDP in 2012 compared to an initial target of 4.8% of GDP and a revised target in July of 6.7% of GDP. It attributed the widening of the deficit last year to higher than-budgeted increase in current expenditures due to elections-related spending, the increase in the wage bill, rising debt servicing costs, transfers for fuel and utility subsidies, and arrears. It indicated that the deterioration in public finances last year reflects a serious loss of fiscal control and reduced credibility. It considered that narrowing the fiscal deficit this year will not be sufficient to restore confidence in the long-term sustainability of the country's public finances. It added that last year's fiscal overshooting would reduce the credibility of the government's fiscal consolidation plan. Further, it said that several risks weigh on Ghana's fiscal outlook. It anticipated that the fuel subsidy cost would quadruple to GHC2.3bn this year from GHC633m last year in the absence of significant subsidies reform, and that the cost of the implementation of the new salary structure would exceed budgeted spending. It added that public spending towards the end of 2012 is reflected in the 2013 budget, while high funding costs would lead to tighter fiscal consolidation that would weigh on the short-term economic growth.

Source: *Fitch Ratings*

ARMENIA

Inflation to pick up on weakening currency

Business Monitor International anticipated Armenia's annual consumer price inflation to reach 4.6% at end-2013 relative to 2.6% in January 2013, and to average 3.9% this year. It attributed the increase in inflation level to the weakening of the Armenian dram, which would increase the price of imports. It said that the dram lost 10.5% of its value against the Russian ruble since June 2012, and expected the price of Russian imports, which account for about 21% of Armenia's total imports, to further increase if the currency continues to depreciate. But it noted that consumer price inflation will remain within the Central Bank of Armenia's (CBA) target band of 4% with an upward or downward margin of 1.5% during the remainder of 2013. As such, it considered that the CBA would be able to cut the refinancing rate this year, but only by 50 basis points to 8% from the current level of 7.5%. It said a reduction in the refinancing rate would enhance exports and narrow the current account deficit. It added that a weaker dram would increase the value of remittances, mainly from Russia, which would further strengthen the current account.

Source: *Business Monitor International*

INDIA

Deteriorating external metrics raises vulnerabilities

Moody's Investors Service anticipated that a continued widening in India's current account deficit and a rise in its external debt would increase the economy's vulnerability to international financial volatility. It said that the current account deficit deteriorated in the last few years and reached a peak of 5.3% of GDP at end-September 2012 compared to an annual average of less than 1% of GDP between 2000 and 2005. It added that borrowing in foreign currency constituted the main source of funding of the deficit, and led to a doubling in the country's external debt to around \$365bn at end-September 2012 from its 2006 level. But it noted that India's external debt-to-GDP ratio of 22% is relatively low compared to similarly-rated sovereigns. It cautioned from a weakening in the country's external liquidity position if the balance of payments continues to deteriorate. Further, the agency considered that the prospects of India's external metrics will depend on the government's policies, given that global growth and commodity price trends are not likely to significantly change in the near-term. It noted that the government already introduced measures to limit the fiscal slippage and inflationary pressures that have contributed to the deterioration in external balances. It said the authorities reduced fuel subsidies, cut the fiscal deficit and allowed greater foreign participation in various sectors. It noted that the government's efforts would narrow the trade deficit and slow down the external debt's growth if they result in a reduction in import demand, an improvement in export competitiveness and an increase in FDI inflows.

Source: *Moody's Investors Service*



BANKING

EGYPT

Gap between official and parallel exchange rates to widen

Merrill Lynch expected the Egyptian pound to remain vulnerable, domestic demand for US dollars to increase, and the gap between the official and parallel rates to widen despite the introduction of a new exchange rate at the end of last year. It said that the new foreign exchange market regulation aims to tighten the control on the official exchange rate by decreasing the room for the pound to move weaker in the interbank market, as well as to reduce the existing spread between the official and black market rates. But it noted that the dollarization rate of resident private-sector deposits increased by 0.9 percentage point in December to 21.4%, constituting the second largest increase since the collapse of the previous regime. It added that the rise is mainly driven by a 0.8 percentage point increase in the dollarization rate of household deposits. It expected the exchange rate to further depreciate and to eventually converge to the black market rate if the gap between the official and parallel rates continues to widen. Further, it said that Egypt's net foreign currency reserves fell by a higher-than-expected \$1.4bn in January 2013 to \$13.6bn, equivalent to 2.4 months of import cover. It pointed out that the current account balance has low to moderate sensitivity to the fluctuation of the pound given that the bulk of current account inflows are denominated in US dollar or depend on the domestic security situation. As a result, it anticipated that a weaker Egyptian pound would not be enough to correct Egypt's external account imbalances.

Source: Merrill Lynch

TUNISIA

Bank ratings downgraded on political uncertainties

Standard & Poor's lowered the long-term counterparty credit ratings of Arab Tunisian Bank (ATB) and Banque Tuniso-Koweitienne (BTK) to 'BB-' from 'BB' and that of Banque de l'Habitat (BH) to 'B+' from 'BB-' with a 'negative' outlook. It affirmed the short-term counterparty credit ratings on BH and ATB at 'B'. It attributed its action to its earlier downgrade of Tunisia's sovereign ratings due to increased political tensions that would weigh on the country's transition to democracy. It pointed out that Tunisian banks are more vulnerable to the deteriorating sovereign creditworthiness and economy, and that the current political turmoil and the lack of a government with a sufficient mandate hamper medium-term planning. It considered that political instability would hamper the pace of economic reforms, threaten fiscal consolidation and further weaken the economy. It said the outlook for growth in 2013 is clouded by political uncertainty, which could deter investment. It expected fiscal consolidation to be gradual because economic and social conditions make a more rapid adjustment difficult. It expected banks' assets to further weaken, which would weigh on their financial performance. It considered that the authorities' ability to take proactive actions to strengthen or support banks in addressing structural issues, such as legacy non-performing loans or weak capitalization, is limited.

Source: Standard & Poor's

SUDAN

Progress in anti-money laundering efforts, deficiencies remain

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that certain strategic AML/CFT deficiencies remain in Sudan despite the country's high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its AML/CFT deficiencies. The FATF encouraged Sudan to address its remaining deficiencies and to continue the process of implementing its action plan. It noted that Khartoum's action plan includes implementing adequate procedures for identifying and freezing terrorist assets; ensuring a fully operational and effectively functioning Financial Intelligence Unit; and implementing a supervisory program for the regulators to ensure compliance with the provisions of the new law and regulations. The FATF welcomed Khartoum's adoption of the MENAFATF mutual evaluation report and noted that it will work with the authorities to address the significant additional deficiencies identified in the report.

Source: Financial Action Task Force

QATAR

Lending stagnates, deposits grow in January 2013

The total assets of banks operating in Qatar totaled QAR 828.4bn at the end of January 2013, constituting an increase of 1% from end-2012 and a rise of 23.3% from end-January 2012. Loans reached QAR 511.2bn, unchanged from end-2012 but increased by 30% from a year earlier, driven by public and private sector credit growth of 57% and 22% year-on-year, respectively. Lending to the services, trade and real estate sectors were the main drivers of private sector credit demand in January. In parallel, aggregate deposits reached QAR 477.5bn at end-January 2013, up 4.2% from end-2012 due to a 6% month-on-month growth in public sector deposits. Deposits grew by 36.6% year-on-year, with public sector deposits posting an annual increase of 71%. The loans-to-deposits ratio decreased to 107% at the end of January relative to 112.5% a year earlier.

Source: Central Bank of Qatar, EFG Hermes

YEMEN

Bank ratings affirmed

Capital Intelligence affirmed the long and short-term foreign currency ratings of National Bank of Yemen (NBY) and International Bank of Yemen (IBY) at 'B-' and 'C', respectively, with a 'negative' outlook on the long-term ratings. It also maintained the Financial Strength Rating (FSR) of NBY at 'BB-' and that of IBY at 'B', but it revised the outlook on both banks' FSRs to 'stable' from 'negative'. It said the two banks' foreign currency ratings reflect the still very challenging operating environment. It indicated that the outlook revision on NBY's FSR reflects the relative stabilization of its asset quality and customer deposits in 2012, and its performance during the first nine months of last year. It attributed the outlook revision of IBY's FSR to the lower level of NPLs and solid rise in customer deposits in the first half of 2012.

Source: Capital Intelligence



ENERGY / COMMODITIES

Global oil prices to ease in 2013

Brent oil prices are projected to remain at high levels in the first half of 2013, mainly due to stronger global oil demand. However, oil prices are forecast to come under downward pressures in the second half of this year mainly due to the slower-than-expected Chinese economic recovery. Also, the oil market sentiment is anticipated to regress in the second half of 2013 due to underlying risks facing the global economy. Global oil supply is projected to remain resilient in 2013 as production growth in North America continues to be strong. In parallel, European oil demand is expected to stagnate this year as the Eurozone crisis remains unsolved. The price outlook for oil products is fairly positive in the short-term due to a rise in global market optimism regarding an accelerating U.S. economic recovery, and to increases in European business confidence and geopolitical tensions in the Middle East region. In parallel, Brent crude prices are forecast to average \$107 a barrel in 2013, constituting a drop of 4.2% from \$111.7 a barrel on average in 2012; while WTI crude prices are projected to average \$92 a barrel this year, constituting a decrease of 1.4% from \$93.3 a barrel in 2012. As such, the Brent-WTI price differential is anticipated to narrow to \$15 in 2013 from an average spread of \$18.4 in 2012.

Source: *Business Monitor International, Byblos Research*

Syria's oil production down 60% by October 2012

Syrian crude oil output reached 153,000 barrels per day (b/d) in October 2012, constituting a decline of about 60% from the start of the civil uprising in March 2011. Syria's oil fields remain largely unaffected from the ongoing fighting and sabotage activities. However, limited opportunities for crude oil exports and restricted domestic refining capacity have restrained supply. Total production shut-ins in Syria were estimated at 220,000 b/d as of November 2012.

Source: *U.S. Energy Information Administration*

Turkey rejects KRG's oil pipelines plan, deal contingent on Iraqi central government's consent

Turkey has officially informed Iraq that it will reject plans to allow the Kurdistan Regional Government's (KRG) oil and gas export pipelines to pass through its territory without the Iraqi central government's approval. The KRG and Turkey were trying to reach a broad energy package that would have allowed Turkish firms to invest substantially in KRG's oil sector, while the deal would have also allowed for the construction of oil and gas pipelines from Erbil to Turkish ports. The KRG currently uses trucks to transport its crude oil across the border to Turkey.

Source: *Business Monitor International*

Iraq and Jordan to finalize pipeline deal

Jordan and Iraq are expected to sign commercial and legal agreements to build a double pipeline to supply the Kingdom with crude oil and natural gas. A tender to build the project will be launched in March of this year. The pipelines would extend from Iraq's southern region of Basra, to Anbar province and then to Jordan's port city of Aqaba. The 1,680 kilometer pipeline is projected to export 2.25 million b/d through Jordan and will generate an estimated \$2bn to \$3bn a year in revenues for the Kingdom. Also, the deal will allow Jordan to secure its oil needs of 120,000 b/d to 150,000 b/d.

Source: *The Jordan Times*

Base Metals: Nickel demand to grow by 3.3% in 2013

Global refined nickel demand is projected to reach 1.82 million tons in 2013, constituting an increase of 3.3% from 1.76 million tons in 2012. China's nickel consumption is forecast to reach 820,000 tons in 2013, equivalent to 45% of global demand. It would be followed by the EU with 325,000 tons (17.9%) and Japan with 162,000 tons (8.9%). In parallel, global refined nickel production is expected to reach 1.85 million tons in 2013, constituting a rise of 0.1% from 1.84 million tons in 2012. China's nickel production is anticipated at 605,000 tons in 2013, equivalent to 32.7% of global supply. It would be followed by Russia with 270,000 tons of output (14.6%) and Japan with 165,000 tons (8.9%). The nickel market is projected to post a surplus of 30,000 tons in 2013 and shift to a deficit of 15,000 tons in 2014. Global nickel prices are forecast to average \$17,791 a metric ton in the first quarter of 2013 and average \$16,292 a metric ton in the second quarter of this year.

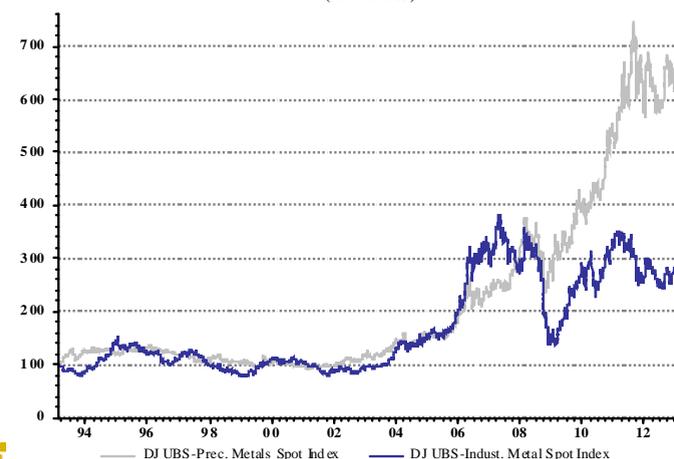
Source: *Economic Intelligence Unit, Byblos Research*

Precious Metals: Gold prices to drop to \$1,200 a troy ounce on average, effective from 2018

Gold prices grew by a compound annual growth rate of 14.3% during the 2000-12 period. However, gold prices are expected to reverse the upward trend mainly due to an anticipated rise in U.S. real interest rates as the U.S. economic activity recovers and a low inflation environment returns. Gold prices are forecast to average \$1,787 a troy ounce in 2013 and to drop by 2.4% to \$1,744 a troy ounce on average in 2014. Also, gold prices are expected to systematically decline over the 2013-17 period and to reach an average long-term price of \$1,200 a troy ounce effective from 2018. In parallel, global gold production is forecast to reach 4,360 tons in 2013, constituting a decrease of 2.1% from 4,454 tons in 2012. Global consumption, excluding official sector purchases, is expected to reach 3,800 tons in 2013, constituting a decline of 3% from 3,919 tons in 2012. As such, total gold jewelry demand is anticipated at 1,920 tons in 2013, equivalent to 50.5% of global gold consumption. It would be followed by physical bars and coins investment with 1,200 tons (31.6%), technology purchases with 400 tons (10.5%) and ETFs investment with 280 tons (7.4%). Further, Central Banks' purchases are projected to grow by 4.7% to 560 tons in 2013.

Source: *Goldman Sachs, Byblos Research*

Precious Metals Index Prices vs. Industrial Metals Index Prices
(Rebase 100)



Source: *Thomson Reuters Datastream, Byblos Research*



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-	B3	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	-	Negative	-	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	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
	Negative	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	-
	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	-	Negative	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	30-Jan-13	No change	20-Mar-13
Eurozone	Refi Rate	0.75	07-Feb-13	No change	07-Mar-13
UK	Bank Rate	0.50	07-Feb-13	No change	07-Mar-13
Japan	O/N Call Rate	0-0.10	14-Feb-13	No change	07-Mar-13
Australia	Cash Rate	3.00	05-Feb-13	No change	05-Mar-13
New Zealand	Cash Rate	2.50	31-Jan-13	No change	14-Mar-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
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	30-Jan-13	No change	20-Mar-13
Taiwan	Discount Rate	1.88	19-Dec-12	No change	21-Mar-13
South Korea	Base Rate	2.75	14-Feb-13	No change	14-Mar-13
Malaysia	O/N Policy Rate	3.00	31-Jan-13	No change	07-Mar-13
Thailand	1D Repo	2.75	20-Feb-13	No change	03-Apr-13
India	Reverse repo rate	7.75	29-Jan-13	Cut 25bps	19-Mar-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	19-Feb-13	No change	26-Mar-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	12-Mar-13
Nigeria	Monetary Policy Rate	12.00	22-Jan-13	No change	19-Mar-13
Ghana	Prime Rate	15.00	Feb-13	No change	Apr-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	No change	06-Mar-13
Armenia	Refi Rate	8.00	12-Feb-13	No change	N/A
Romania	Policy Rate	5.25	05-Feb-13	No change	28-Mar-13
Bulgaria	Base Interest	0.01	01-Feb-13	Cut 2bps	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	12-Feb-13	No change	N/A



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