

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Insurance sector's risks increase

Standard & Poor's indicated that the global insurance sector is facing an accumulation of risks due to adverse global economic conditions, historically low interest rates, heightened sovereign-related risks and changing regulations. It anticipated that the weaker global economic outlook will heavily weigh on growth prospects for life insurers, decrease their risk averseness, and reduce their profitability. It said that competition from banks and asset managers for consumers' savings would also dampen the sector's prospects. Further, it said that the interest rate environment is adversely affecting insurers' credit quality and challenging their business models. It noted that low interest rates are inflating reported equity and solvency ratios for many insurers, given the mark-to-market method of asset valuation and the limited use of fair value method for the valuation of liabilities. It pointed out that many insurers re-priced their products, both in the life, and in the property and casualty sectors due to the low interest rate environment. Also, it noted that this environment pushed life insurers to focus on products that are less sensitive to interest rates. It indicated that the long-term effects of regulatory changes remain uncertain, which would adversely affect many insurers' cost of capital and strategic choices.

Source: Standard & Poor's

Volume of commercial payments up 10% in first 11 months of 2012

The aggregate volume of commercial payments sent through SWIFT totaled 610.8 million in the first 11 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 177.3 million and accounted for 29% of the global volume, followed by the Eurozone with 170.4 million (27.9%), North America with 117.5 million (19.2%), Asia-Pacific with 87.1 million (14.3%), the Middle East with 25.2 million (4.1%), Africa with 18.8 million (3.1%), and Latin America with 14.5 million (2.4%). Also, the aggregate number of commercial payments sent from Non-Eurozone countries increased by 15% in the in the first 11 months of last year, followed by Africa with a 14% rise, Latin America (+12%), North America (+11%), Asia-Pacific (+10%), and the Eurozone (+5%); while commercial payments sent from the Middle-East decreased by 2% in the covered period.

In parallel, the total number of bank-to-bank payments sent through SWIFT stood at 301.3 million in the first 11 months of 2012, constituting a 1% increase from the same period of 2011. The volume of bank-to-bank payments in the Non-Eurozone area reached 105.7 million in the covered period and accounted for 35.1% of the global volume, followed by the Eurozone with 102.7 million (34.1%), Asia-Pacific with 41.2 million (13.7%), North-America with 37.9 million (12.6%), Africa with 5.6 million (1.9%), the Middle-East with 5.3 million (1.8%), and Latin America with 2.9 million (1%).

Source: Citigroup

EMERGING MARKETS

Convergence with developed economies' sovereign ratings to continue in 2013

Fitch Ratings anticipated that the convergence between the ratings of developed and emerging sovereign issuers will continue in 2013. It attributed the convergence to downward pressure on developed markets' sovereign creditworthiness rather than to improvements in emerging markets' sovereign ratings. It expected emerging markets' sovereign ratings to remain subdued due to the slowdown in emerging markets' economic growth in 2012. It said that there were six sovereign upgrades in emerging markets in 2012, compared to 18 upgrades in 2011 and 13 sovereign upgrades in 2010. It noted that the decrease in the number of sovereign upgrades reflects emerging markets' exposure to the problems in developed economies. It added that there were two sovereign downgrades in emerging markets in 2012 due to domestic problems in each country rather than because of external factors. In parallel, the agency indicated that the ratio of 'negative' to 'positive' outlooks for emerging market sovereigns currently stood at 2-to-1 at the end of 2012, constituting a significant deterioration from the 1-to-1 ratio posted at the end of 2011. It attributed the doubling of 'negative' outlooks on emerging economies' sovereign ratings in 2012 to a range of factors affecting individual countries, including fiscal and banking sector concerns, political risks and structural problems.

Source: Fitch Ratings

MENA

Regulatory quality is main requirement of foreign investors to enter region, political risks are main concern

The Qatar Financial Centre's Asset Management Survey for the MENA region indicated that investors are increasingly factoring heightened risks in the region in their investment decisions. Further, respondents cited the need for lower political risk and more liquidity levels in some stock exchanges as their main concerns in the region. Also, investors identified several more concerns such as the need for increased market liberalization, better clearing & settlement services, portable cross-border investment products, improved risk management services, improved fund administration services, more derivatives, and greater choice of custody provision. The survey noted that investors identified several requirements for initiating operations in the region. It said investors cited the quality of local regulatory environment as the main requirement, followed by the quality of local staff, the ease of setting up operations, the ease of doing business, the size of the local High Net Worth community, the size of local capital markets, the availability of immediate investment opportunities, the ease of access to the local distributors, the depth of the local retail investment market, and the ability to attract expatriate staff.

Source: FTSE Global Markets, Qatar Financial Centre Authority

POLITICAL RISK OVERVIEW - February 2013

EGYPT

President Mohamed Morsi announced a four-stage parliamentary election to begin on April 27th, but he then rescheduled it to April 22nd to avoid a conflict with a Christian holiday. The National Salvation Front, a main opposition coalition, announced that it will boycott the upcoming parliamentary elections. President Morsi called for a live broadcast national dialogue session to discuss guarantees for fair and transparent elections. The government will allow non-governmental and international organizations to monitor the elections. Civil unrest continued in cities and governorates across the country. Civil disobedience campaigns have spread throughout the country as protesters demanded official accountability for the deaths of over 40 protesters in the January 2012 violence.

IRAN

Iran indicated that negotiations with the P5+1 reached a "turning point" after it was offered a series of concessions, including sanctions relief on gold and petrochemical exports, in exchange for limiting its uranium enrichment. New U.S. sanctions on Iran took effect on February 6 and Tehran rejected U.S. direct negotiations under the pressure of sanctions. Iran said that it is ready for a "comprehensive agreement" with the International Atomic Energy Agency (IAEA) if its nuclear rights get recognized. It added that the deal will allow the IAEA to visit the Parchin military complex southeast of Tehran. The IAEA confirmed that Iran has begun the installation of new generation centrifuges at the Natanz uranium enrichment plant.

IRAQ

Thousands of Iraqis continued their protests against Prime Minister Nouri al-Maliki across the country. A suicide bomber killed a senior Iraqi army intelligence officer and three of his bodyguards in the northern town of Tal Afar. Sectarian violence continued across the country with at least 120 deaths and over 100 injuries. The long-standing dispute between the Iraqi central government and the Kurdistan Regional Government (KRG) over oil rights have delayed attempts to pass a legislation of a national budget. Turkey has officially informed Iraq that it will reject plans to allow the KRG's oil and gas export pipelines to pass through its territory without the Iraqi central government's approval.

DEM REP CONGO

Eleven African countries signed the Peace, Security and Cooperation Framework on February 23 in Ethiopia to end two decades of conflict between the Democratic Republic of Congo (DRC) and the M23 rebel movement. The UN, the African Union, the International Conference on the Great Lakes Region, and the Southern African Development Community will act as the agreement's guarantors. The deal is expected to end foreign interference in DRC's internal affairs. The M23 rebel group replaced its leader Jean-Marie Runiga, due to accusations of high treason and embezzlement, with General Sultani Makenga.

LIBYA

Thousands of Libyans celebrated on February 17 the second anniversary of the anti-Gaddafi revolt. The General National Congress approved a proposal that would allow Libyans to directly elect a committee to write the country's new constitution. The Constitution Drafting Committee unveiled a "political isolation law" that would prohibit about 36 categories of civil servants from senior government and administrative positions due to their ties to the previous regime.

SOUTH SUDAN

The UN Special Representative of the Security General, Hilde Johnson, urged communities in the Jonglei state to stop the cycle of violence following the killings of over 100 people and the abduction of an unknown number of people in attacks by rebels loyal to David Yau Yau. The government accused Sudan of bombing the disputed border area of Jaw.

SUDAN

Tribal fighting over the control of gold mines in the Darfur region has killed more than 500 people and destroyed about 68 villages since January of this year. Thousands of people were displaced as fighting erupted between the Sudan Armed Forces and the Sudan Revolutionary Front rebels in South Darfur. Oil Minister Awad al-Jaz visited Tehran to follow up on an Iranian investment pledge. The government and the Justice & Equality Movement signed a ceasefire agreement in Qatar.

SYRIA

Casualties and displacements continue to rise as fighting between the Syrian military and the Free Syrian Army escalates. The UN High Commissioner for Refugees referred to the humanitarian situation in Syria as "dramatic beyond description". The Assad regime fired tactical ballistic missiles into civilian neighborhoods. Rebels launched a new offensive on Damascus. UN/Arab League envoy Lakhdar Brahimi and the Syrian National Coalition (NC) announced their support for the NC leader Mouaz Khatib's initiative to hold conditional talks with the regime. Syrian Foreign Minister Walid al-Moualeem said that the regime is prepared to hold talks with the armed opposition. European Union governments renewed sanctions against Syria for three months, but amended an arms embargo to provide more non-lethal support and technical assistance to protect civilians. The Syrian opposition dropped its boycott to the "Friends of Syria" meeting in Rome after the EU promised to substantially increase non-lethal aid. The NC announced that it would establish a government to preside over the "liberated" areas of the country. UN/Arab League mediator Lakhdar Brahimi's contract was extended until the end of 2013.

TUNISIA

Demonstrators and riot police clashed on the streets of Tunis as crowds tried to reach the Interior Ministry to protest the assassination of leftist politician Chokri Belaid. The assassination prompted the worst political crisis since the 2011 revolt. Prime Minister Hamadi Jebali announced the dissolution of the government in response to the killing, while he later resigned as his plan to form an interim Cabinet of technocrats collapsed. Tunisia's president appointed Interior Minister Ali Larayedh as the new Prime Minister. Authorities have identified and detained four suspects linked to a religious extremist group in connection to Belaid's assassination.

YEMEN

Tensions between southern separatists on the one hand, and state security forces and the Islah Islamist party on the other reached their highest levels since early 2012. The UN Security Council warned former president Ali Abdullah Saleh and separatist leader Ali Salim al-Bid that they would possibly face sanctions over their interference in the democratic transition and in undermining the national unity government. President Abd Rabbuh Mansur Hadi announced that the drafting of a new constitution and a national dialogue are set to begin on March 18th.

Source: International Crisis Group



OUTLOOK

QATAR

Fiscal surplus to turn into deficit by 2015

Citigroup anticipated Qatar's large fiscal surplus to gradually narrow from an annual average of 8.8% of GDP between 2005 and 2012, and to shift to a moderate deficit by 2015 that would reach 2.3% of GDP by 2017. It attributed the trend to the expected slowdown in revenues from an annual average growth of 22% between 2005 and 2012 to about 4% per year between 2013 and 2107, with most of the future growth coming from non-hydrocarbon receipts. It attributed the coming slowdown in revenues to the decline in oil production, the peak in liquid natural gas (LNG) production since the government reached its capacity target of 77 million tons per year in 2011 and declared a moratorium on further gas production until at least 2015, as well as to the likely decline in oil prices and, by extension, of LNG prices in coming years. It anticipated expenditures to continue to grow by an average of 10% per year, which would result in fiscal deficits.

Citigroup noted, however, that the deficit will remain small and manageable given Qatar's large external assets and easy access to finance. But it considered that significant risks would challenge the country's benign fiscal outlook such as rapidly rising global LNG capacity, worldwide shale gas developments, lower global oil prices, and higher government spending mainly from commitments to host the World Cup in 2022. But it noted that Qatar responded to the risk of rising global LNG capacity by selling 80% of its LNG production through long-term contracts that included off-take commitments and fixed prices. Citigroup estimated Qatar's external assets at \$163bn at end-2012, which would provide a significant buffer to fiscal uncertainties.

Source: Citigroup

JORDAN

New measures could reduce fiscal deficit to 4% of GDP in 2013

The World Bank indicated that the fiscal measures implemented by the Jordanian government in 2012 would narrow the budget deficit to 9.3% of GDP in 2013 compared to a deficit of 13.3% of GDP when excluding these measures. It estimated that such measures have narrowed the deficit by 3.3 percentage points to 10.7% of GDP in 2012. Also, it expected the government's measures to lead to a drop in the overall public sector deficit, which includes the deficit of the state electricity company, to 14.5% of GDP in 2013 from 17.7% of GDP in 2012 and 18.6% of GDP in 2011. It said that revenue measures included an increase in residency and money transfers fees, a rise in taxes on cars, the introduction of sales taxes on mobile phones and air conditioners, the removal of tax exemption on agricultural inputs, and a rise in taxes on air tickets and on tobacco and alcoholic products. It noted that spending-related measures included a reduction in capital spending, an increase in fuel prices and a decline in military and other current expenditures. But it expected the primary deficit to remain high at 6.3% of GDP in 2013 compared to 8.2% of GDP in 2012 and 10.6% of GDP in 2011. It noted that Jordan needs to reduce its primary deficit to 2.8% of GDP in 2013, and should have posted a deficit of 3% of GDP last year, in order to stabilize its debt dynamics.

The World Bank indicated that Jordan would achieve a debt-stabilizing primary deficit by implementing additional fiscal measures. It estimated that such measures would lead to additional savings from spending of 3.2% of GDP and further revenues of 2.1% of GDP in 2013. On the expenditure sides, it estimated that a freeze on public hiring, salaries and allowances would save the equivalent of 1.2% of GDP in 2013, a delay or freeze of pensions would save 0.8% of GDP, a 75% cut of food subsidies would save 0.7% of GDP and an additional prioritization of capital spending would save 0.27% of GDP. On the revenues side, it forecast that the recovery of the stock of arrears over 8 years would generate revenues equivalent to 0.9% of GDP in 2013, the freeze of accumulation of arrears in 2013 would lead to new receipts of 0.8% of GDP, and the removal of tax exemptions implemented in 2008 would generate the equivalent of 0.3% of GDP in revenues. As such, it anticipated that the implementation of new measures would lead to a primary deficit of 2.8% of GDP and a fiscal deficit of 4.1% of GDP in 2013.

Source: World Bank

SYRIA

Fiscal deficit widens to 10% of GDP, current account deficit expands to 19% of GDP

The Syrian Center for Policy Research estimated Syria's fiscal deficit to have widened to 10.1% of GDP in 2012 from 8.6% of GDP in 2011 and 3.8% of GDP in 2010. It said that the widening of the deficit reflects a decline in revenues to 12% of GDP in 2012 from 19% of GDP in 2011 and 23.1% of GDP in 2010. It attributed the contraction in public revenues to a sharp reduction in oil proceeds to 1.9% of GDP in 2012 from 3.8% of GDP in 2011 and 4.4% of GDP in 2010, a fall in non-oil tax revenues to 6.7% of GDP in 2012 from 10% of GDP in 2011 and 11.5% of GDP in 2010, and a decrease in non-oil non-tax receipts to 3.4% of GDP in 2012 from 5.2% of GDP in 2011 and 7.1% of GDP in 2010. It pointed out that the government reduced public investment expenditures in favor of current spending in order to offset the effect of sanctions and economic contraction on public revenues. As a result, it noted that public investment dropped to 3.5% of GDP in 2012 from 6.6% of GDP in 2011 and 8.8% of GDP in 2010, while current expenditures rose from 18.1% of GDP in 2010 to 20.9% of GDP in 2011 and 18.5% of GDP in 2012. It added that public-sector salaries and wages rose to 14.7% of GDP in 2012 and 14.4% of GDP in 2011 from 11.5% of GDP in 2010. Further, it pointed out that the widening of the deficit led to an increase in the public debt level to 40% of GDP in 2012 from 31% of GDP in 2011 and 23% of GDP in 2010.

In parallel, the Center said that the conflict shifted the balance of payments from a surplus of \$1.2bn in 2010 to a deficit of \$5.1bn or 8.8% of GDP in 2011 and of \$10.9bn or 27.6% of GDP in 2012. It said that the change reflects a widening of the current account deficit to 18.5% of GDP in 2012 and capital outflows. Further, it estimated Syrian exports to have declined by 45% in 2011 and by 75% in 2012, with the share of oil exports declining to less than 20% of total exports in 2012. As such, it said that the trade deficit widened to around 16.1% of GDP in 2012 from 8.1% of GDP in 2011.

Source: Syrian Center for Policy Research



ECONOMY & TRADE

SYRIA

Tourism contribution to economy to reach 10% of GDP by 2023

The World Travel & Tourism Council expected the direct contribution of the travel and tourism (T&T) sector to the Syrian economy to drop by 5.9% to SYP122.3bn in 2013, equivalent to about 4.2% of GDP, down from 6.7% of GDP in 2011 and 8.1% of GDP in 2010. It forecast the sector's direct contribution to grow annually by 4.8% in real terms over the 2013-23 period and to reach SYP195.2bn by 2023 in 2012 real prices, which would be equivalent to 4.3% of GDP. It added that the broad T&T economy would generate demand of SYP286.4bn in 2013, down 7% from SYP308bn in 2012, but would rise by 4.8% in real terms over the 2013-23 period to SYP458.1bn by 2023 in constant prices. It forecast the total T&T economy to account for 9.9% of GDP this year and for 10.2% of GDP by 2023. It estimated capital investment in the T&T economy to grow by 5.4% in real terms over the 2013-23 period to SYP31bn in constant prices by 2023. Further, it forecast T&T visitor exports to increase by 5.6% annually in real terms over the 2013-23 period. It estimated the total contribution of travel and tourism to employment, including jobs indirectly supported by the industry, to reach 657,200 jobs or 8.4% of total employment by 2023. Syria would post the eighth-fastest annual growth of the T&T sector's contribution to employment during the 2013-23 period and the 65th highest yearly growth rate of the sector's contribution to GDP during the covered period. Also Syria would post the 37th fastest annual growth rate in visitor exports between 2013 and 2013, and the 61st highest annual growth rate of investments in the T&T economy in the covered timeframe.

Source: World Travel & Tourism Council

GHANA

Sovereign ratings contingent on significant fiscal consolidation

Moody's Investors Service indicated that Ghana's fiscal balance deteriorated significantly in 2012 due to the increase in elections-related spending, rise in public sector wages, high energy subsidies, the clearance of arrears, and the increase in the cost of debt servicing. It said that the widening of the deficit reversed the fiscal space gained through multilateral debt forgiveness in the mid-2000s, with the debt level rising to 47% of GDP in 2012 from 26% of GDP in 2006. The agency considered that maintaining Ghana's current sovereign rating is contingent on significant fiscal consolidation in 2013 and 2014. It expected the government's fiscal position to improve due to the moderation of elections-related spending and the absence of unexpected disruptions in oil production. But it said that the government will face significant challenges in its efforts to reform energy subsidies and transfers to public corporations. It noted that Ghana's current account and fiscal deficits leave it susceptible to external financial shocks such as sustained currency depreciation or a sudden stop in portfolio inflows to the government securities market. It added that the country's limited foreign-currency reserve buffer and the large share of dollar-denominated public debt further increase its external vulnerability.

Source: Moody's Investors Service

TUNISIA

Ratings downgraded on political uncertainties

Moody's Investors Service downgraded Tunisia's government debt ratings by one notch to 'Ba1' from 'Baa3' and maintained them on review for further possible downgrade. It also lowered the country ceiling for foreign currency bonds by one notch to 'Baa2' from 'Baa1', the country ceiling for foreign currency bank deposits by two notches to 'Ba2' from 'Baa3', and the local-currency bond and deposit ceilings by six notches to 'Baa2' from 'Aa2'. It attributed the downgrades to the increase in political risks and the collapse of the interim government, and the continued deterioration in the country's credit fundamentals since 2011. It said that political tensions are weighing on the government's ability to govern effectively, restore social stability and prevent a worsening of already severe economic conditions. It considered that the deterioration of the political and security situation would deter investors and tourists, and severely affect the balance of payments. It said that the country's debt dynamics have reversed in the past two years and forecast the public debt level to increase to 49% of GDP at end-2013 from 40.8% of GDP at end-2010. It cautioned that the deterioration in credit fundamentals would make the country more vulnerable to domestic and external shocks. Further, it indicated that a long period of political instability would have an adverse impact on the economic recovery and on the fiscal metrics, as well as on the implementation of reforms.

Source: Moody's Investors Service

ARMENIA

Yerevan ranks 189th worldwide, eighth regionally in infrastructure quality

Global consulting firm Mercer Consulting's City Infrastructure Index for 2012 ranked Yerevan in 189th place among 221 cities worldwide and in eighth place among 12 cities in 11 Commonwealth of Independent States (CIS) countries. The index ranked the quality of each city's infrastructure based on the level of electricity supply, water availability, telephone and mail services, public transportation, the level of traffic congestion, and the range of international flights from local airports. On a global basis, Yerevan's infrastructure was similar to that of Niamey in Niger, better than that of Maputo in Mozambique, Algiers in Algeria, and Kinshasa in the Democratic Republic of Congo; but was worse than that of Dar Es Salaam in Tanzania, Havana in Cuba, and Lomé in Togo. Regionally, the quality of infrastructure in Yerevan was better than that of Bishkek in Kyrgyzstan, Baku in Azerbaijan, Dushanbe in Tajikistan and Tbilisi in Georgia. Yerevan was among 10 CIS countries that ranked in the lowest third of the index globally, and was one of five CIS countries that came among the 35 cities with the worst infrastructure worldwide. As such, 85.1% of cities included in the survey had a better infrastructure level than that of Yerevan. The data for the survey was collected between September and November 2012.

Source: Mercer Consulting



BANKING

GCC

Subordinated debt ratings of 12 banks on review for possible downgrade

Moody's Investors Service placed on review for possible downgrade the subordinated debt ratings of Abu Dhabi Commercial Bank, Emirates NBD, First Gulf Bank, Mashreqbank, Qatar National Bank, Commercial Bank of Qatar, Doha Bank, Arab National Bank, Banque Saudi Fransi, Burgan Bank, Bank Muscat and BBK. It attributed the review to the growing risk of 'bail-ins' for subordinated debt instruments. The agency indicated that its review will focus on the risk that local regulators and support providers may impose burden-sharing losses on holders of subordinated debt, which is increasingly the prevailing policy globally. It said that it will assess the evolving risk profile of the debt instruments given the recent global and prudential trends towards imposing losses on junior creditors in the context of government support; and the implementation of Basel III, which will require Tier 2 instruments to have 'loss absorption' features. It noted that regulators in other jurisdictions have used their statutory powers to share losses with existing subordinated debt holders. It added that these recent developments increase the risk of burden-sharing among creditors for subordinated debt outside of insolvency proceedings when receiving government support. It said that all other ratings and outlooks on the banks are not affected by the review.

Source: Moody's Investors Service

MOROCCO

Slowdown in lending growth continues in January 2013

Figures issued by Bank Al-Maghrib show that the total assets of commercial banks operating in Morocco reached MAD1,108.1bn at the end of January 2013, constituting a decrease of 1.9% from end-2012 and a growth of 6.4% from end-January 2012. The sector's aggregate loans totaled MAD702.4bn at end-January 2013, down 2.2% from the preceding month. Total loans grew by 3.2% year-on-year relative to an increase of 4.5% in December 2012, as investment-related lending and loans to financial institutions contracted by 2% and 11% year-on-year, respectively. Mortgage and consumer loans remained strong in January 2013, with annual increases of 8% and 9%, respectively. Deposits totaled MAD709.5bn at end-January 2013, down 2% month-on-month, and relative to a 4% month-on-month growth in December 2012. Also, deposits grew by 3% year-on-year in January 2013, down from 3.3% in the preceding month, due to an annual contraction of 6% in corporate deposits. The loans-to-deposits ratio stood at 99% at end-January 2013 relative to 102% at end-June 2012. Also, the sector's non-performing loans (NPLs) ratio stood at 5% at end-January 2013, increasing marginally from 4.9% at the end of June 2012. Further, nominal NPLs grew by 7% year-on-year in January 2013, as corporate and retail NPLs rose by 10% and 5.9% annually, respectively.

Sources: Bank Al-Maghrib, EFG Hermes

TURKEY

Anti-terrorism financing regime improves

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 it has decided not to suspend Turkey's membership from the organization, as the country has taken important steps towards improving its compliance with international standards. It said that Turkey enacted a new law that addresses the deficiencies in its terrorist financing offense and creates the legal basis for freezing terrorist assets. It added that Turkey has committed to address the remaining deficiencies in the country's counter-terrorism financing regime and will submit a report on how it intends to deal with these shortcomings ahead of the next FATF meeting in June 2013. In parallel, Fitch Ratings said that a FATF suspension would have disrupted the country's access to financial markets, increased its vulnerability to an external financing shock, and reduced the benefits it has received from its strong fiscal financing options, solid debt-management capacity and well-established international capital market access. It noted that Turkey needs to secure external funding to finance investment and growth, given its low savings rate.

Source: Financial Action Task Force, Fitch Ratings

CHINA

Banks' capital insufficient to support assets growth

Standard & Poor's anticipated further declines in the Chinese banking sector's loan quality and profitability this year due to banks' exposure to heavily indebted local government financial platforms, subdued export growth, and manufacturers affected by oversupply. It projected the sector's NPLs ratio to rise to 3% at end-2013 relative to 2% at end-2012 and 1.7% at end-2011. It said that a stabilizing domestic economy, largely steady exports and likely policy easing would limit further deterioration in asset quality this year. It forecast the banking sector's lending growth to range between 14% and 15% this year compared to 15.6% in 2012. It anticipated that the sector's stable lending growth, the projected 40% growth in domestic corporate debt issuance and the stable cost of credit would improve corporate borrowers' access to credit and their debt servicing capacity. In parallel, S&P cautioned that Chinese banks' profitability would further drop this year due to higher credit losses and lower net interest margins. It forecast the sector's return on average assets to range between 0.9% and 1% in 2013 compared to 1.1% in 2012 and 1.2% in 2011. It warned that the acceleration in financial disintermediation would further erode banks' profitability. But it noted that the impact on net interest margins from financial disintermediation remains modest and manageable. It considered that understated credit risks and related unexpected credit losses constitute the main downside risks to the sector's profitability. Further, it expected banks' capitalization to drop this year. It noted that the sector's accumulation of internal capital is insufficient for asset growth after risk adjustment, and that banks' retained profits are hardly sufficient to support annual credit growth of more than 15%.

Source: Standard & Poor's



ENERGY / COMMODITIES

Natural gas prices to recover in the long-term

The natural gas market is expected to remain oversupplied in 2013 mainly due to the constant flow of shale gas resources into the global market. Silver prices regressed to low levels in 2012 due to lower heating demand as the result of a mild winter weather last year. The decline in prices led drillers to cut their production capacity while it incentivized power plants to reduce costs by shifting from the use of coal to natural gas. Natural gas prices are expected to recover in the long-term as currently reflected in the futures market. Global natural gas demand is anticipated to improve over the coming years due to coal-generated power plants retirements, a rise in exports of liquefied natural gas and an increase in the use of gas to fuel trucks and cars. Risks that would influence the natural gas market are mainly weather-related factors and growing oil-associated gas supply in the United States. The U.S. natural gas Henry Hub prices are forecast to average \$3.8 per million British thermal unit (Btu) in the second quarter of 2013 and to rise to \$4 per million Btu in the second quarter of 2014. In parallel, U.S. natural gas Henry Hub prices improved by 4.5% in February to \$3.5 per million Btu, prices of Brent ICE futures decreased by 2.9% to \$111.7 a barrel, while prices of WTI NYMEX futures declined by 4.9% to \$93.6 a barrel last month.

Source: Julius Baer, Byblos Research

Iraq and Jordan oil and gas pipeline to bypass Strait of Hormuz

Iraq and Jordan are projected to build an \$18bn oil and gas pipeline to bypass the Strait of Hormuz, as geopolitical tensions across the Middle East and Iranian threats to close the Strait created concerns of energy supply disruptions. Iraq is currently highly dependent on the Strait as 70% of its oil exports passthrough there. The 1,680 kilometers pipeline would extend from Iraq's southern region of Basra to Jordan's port city of Aqaba. The project will reduce Jordan's reliance on energy imports from Egypt, secure its energy needs, and generate about \$3bn a year in state revenues. Iraq and Jordan are considering plans to finance 25%, or \$4.5bn, of the project through an Initial Public Offering presented to citizens of both countries.

Source: JP Morgan Chase, The Jordan Times, Byblos Research

OPEC output up by 0.4% in February 2013

The Organization of Petroleum Exporting Countries' (OPEC) crude oil output rose by 0.4% month-on-month to 30.32 million barrels per day (b/d) in February 2013, constituting the first monthly increase since October 2012. The rise in production was mainly attributed to higher Iraqi oil exports and to a slight increase of 100,000 b/d in Saudi Arabia's crude supply.

Source: Thomson Reuters, Byblos Research

Saudi Arabia on track towards renewable energy

Saudi Arabia plans to install 23.9 gigawatts (GW) of renewable power capacity by 2020 and to increase it to 54.1 GW by 2032, in an attempt to reduce the amount of oil currently used in its power stations. Saudi Arabia aims to launch the pre-qualification round for the first renewable power plants within two months, to have a final tender within three months and to award contracts within a year. The project would make Saudi Arabia one of the world's main producers of renewable electricity.

Source: Thomson Reuters, Byblos Research

Base Metals: Aluminium demand to rise by 5% in 2013

Global aluminium demand is expected to reach 47 million tons in 2013, constituting an increase of 5.3% from 44.6 million tons in 2012. China's aluminium consumption is forecast to reach 21 million tons in 2013, equivalent to 44.7% of global demand. It would be followed by the EU with 6.4 million tons (13.6%) and the U.S. with 4.9 million tons (10.3%). In parallel, global aluminium production is projected to reach 47.6 million tons in 2013, constituting a rise of 4.3% from 45.6 million tons in 2012. China's aluminium production is anticipated at 20.9 million tons in 2013, equivalent to 44% of global supply. It would be followed by Russia with 4.1 million tons (8.6%) and Canada with 2.9 million tons (6.1%). The aluminium market is expected to remain oversupplied during the 2013-14 period, with anticipated surpluses of 574,000 tons in 2013 and 985,000 tons in 2014. Global aluminium prices are forecast to average \$2,125 a metric ton in the second quarter of 2013.

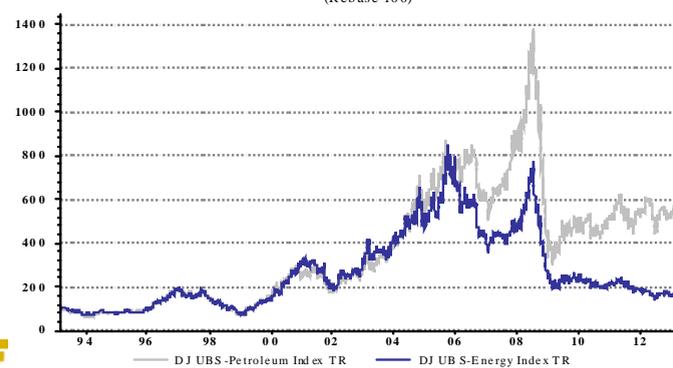
Source: Economic Intelligence Unit, Byblos Research

Precious Metals: Silver prices to regress during the 2013-14 period mainly due to market oversupply

Global industrial silver demand is projected to rise in 2013, in line with global economic growth. But the additional growth in silver consumption is likely to be insufficient to compensate for the rising levels of mine production. Global silver supply is anticipated to grow in coming years, as miners in Mexico, the world's largest producer, and other silver-producing countries continue to raise their levels of output. Also, the debt ceiling debate in the U.S. this year is expected to be insufficient to restore investors' consumption growth to levels seen when the U.S. Federal Reserve introduced further monetary easing measures in 2012. The silver market is expected to become oversupplied in coming years as growth in the metal's supply outweighs demand. As such, silver prices are projected to regress systematically during the 2013-14 period. The silver market is expected to maintain a positive correlation with that of gold in 2013. Silver prices are forecast to average \$32 a troy ounce in the second quarter of 2013 and to drop to \$26 a troy ounce on average in the second quarter of 2014. In parallel, the price of silver decreased by 11.2% in February to \$28.5 a troy ounce on February 28th, while that of gold declined by 5.8% to \$1,584.1 a troy ounce over the same month. Also, platinum prices fell by 6% in February to \$1,586 a troy ounce and palladium prices regressed by 2.6% to \$732.6 a troy ounce in February 2013.

Source: Julius Baer, Byblos Research

Petroleum Index Prices vs. Energy 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-	Ba1	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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