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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

FDI down 4% to $762bn in 2012

Preliminary figures released by the United Nations Conference on Trade & Development (UNCTAD) show that foreign direct investment (FDI) to developing and transition economies reached $761.8bn in 2012, constituting a decrease of 4.3% from $796.4bn in 2011. FDI to developing economies totaled $680.4bn in 2012, down 3.2% year-on-year; while inflows to transition economies stood at $81.4bn, down 13.1% from 2011. In comparison, FDI to developed countries totaled $548.9bn in 2012 and decreased by 32.1% from the previous year; while global FDI reached $1,310.7bn and dropped by 18.3% year-on-year. FDI to developing and transition economies accounted for 58.1% of global FDI and exceeded FDI to developed economies for the first time by a record $131.5bn. Also, FDI to Latin America & the Caribbean reached $232.6bn; followed by East Asia with $213.1bn; South-East Asia with $106.5bn, South-East Europe and the Commonwealth of Independent States (CIS) with $81.5bn, West Asia with $47bn, Africa with $45.8bn, and South Asia with $32.3bn. Further, FDI to Latin America rose by 7.2% year-on-year, followed by Africa with a 5.5% increase; while FDI to South Asia dropped by 18.4%, followed by South-East Europe and the CIS with a 13% decrease, East Asia (-10.3%) , South-East Asia (-7.3%), and West Asia (-3.3%). The UNCTAD projected global FDI to rise moderately to around $1.4 trillion this year.

Source: UNCTAD

M&A deals in Emerging Europe down 19% to $121bn in 2012

The aggregate value of merger and acquisition deals in Emerging Europe totaled €121bn in 2012, constituting a decline of 19% from €150bn in 2011. A total of 2,265 M&Adeals were closed in Emerging Europe in 2012, constituting a decrease of 40.3% from 3,792 deals in 2011. The decrease in M&A activity was caused by the debt crisis in the Eurozone, the region's main trading partner; political turmoil in some states, and tough austerity plans introduced by local governments. M&A in Russia accounted for 39% of all deals and 82% of the total deal value in 2012, followed by Poland with a 15% share in deal number and a 7% share in total deal value. The manufacturing sector accounted for 395 deals or 18% of all transactions, followed by the services sector with 380 deals (16.8%), finance & insurance with 275 deals (12.1%), wholesale & retail trade with 212 deals (9.4%), and the mining sector with 185 deals (8.2%). Mining was the leading sector in terms of deal value with over €58bn and accounted for 48% of overall transactions, followed by the manufacturing sector with 8.2%, finance & insurance with 7.8%, transportation and warehousing with 6.9%, and services with 6.3%. In parallel, the aggregate value of private equity deals totaled €13bn in 2012, constituting an increase of 30% from €10bn in 2011. Also, the number of private equity deals stood at 213 in 2012 relative to 257 deals in 2011.

Source:DealWatch

MENA

Equity markets up 3% in first quarter of 2013

Arab stock markets increased by 2.7% and GCC markets rose by 5.1% in the first quarter of 2013 compared to increases of 12.6% and 14.2%, respectively, in the same period last year. Activity on the Abu Dhabi exchange increased by 15% in the first three months of 2013 and posted the best performance among Arab markets during the quarter. It was followed by the Kuwait bourse with a 13.3% improvement, the Dubai financial market with a 12.7% increase, the Amman stock market with a 7.3% rise, the Saudi Arabia equity market with a 4.8% growth, the Muscat stock exchange with a 4% expansion, the Tunis bourse with a 3.2% rise, the Damascus financial market with a 3.1% appreciation, the Qatar exchange with a 2.6% growth and the Bahrain bourse with a 2.4% increase. In parallel, the Egyptian stock market dropped by 6.7% in the first quarter of 2013 and posted the worst performance among Arab stock markets in the covered quarter. It was followed by the Beirut stock exchange with a 4.5% contraction, the Iraqi stock exchange with a 4.4% decrease, the Casablanca equity market with a 3.4% drop and the Palestine equity market with a 1% decline. In comparison, global equities increased by 6.3% and emerging market equities declined by 1.2% in the first quarter of the year.

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

Human development level varies across Arab world

The United Nations' Human Development Index for 2012 showed that the level of human development in the Arab world was unchanged year-on-year, as the average score of the 19 Arab countries included in the index was 0.652 points, similar to 0.650 points in 2011 and below the global average of 0.694 points in 2012. The average score for GCC countries was 0.792 points and that of non-GCC Arab countries was 0.624 points. The HDI measures the average achievements in a country in three basic dimensions of human development that are health, education and income. Qatar was the top ranked Arab country and came in 36th place globally among 187 countries. It was followed by the UAE in 41st place, Bahrain (48th) and Kuwait (54th), while the lowest ranked Arab countries were Iraq, which came in 131st place worldwide, Yemen (160th), Djibouti (164th) and Sudan (171st). The rankings of three Arab countries improved, those of six regressed, while 10 remained unchanged year-on-year. Libya's rank improved by 23 spots and posted the highest increase in the Arab world; while Yemen's rank dropped by two places, the steepest regional decrease. Also, the United Nations considered that Qatar and the UAE have a 'very high' level of human development, while it placed Bahrain, Kuwait, Saudi Arabia, Libya, Lebanon, Oman, Algeria, and Tunisia among countries with a 'high' level of human development. Further, Jordan, Palestine, Egypt, Syria, Morocco and Iraq had a 'medium' level of human development; while Yemen, Djibouti and Sudan came in the 'low' level category.

Source: UNDP, Byblos Research

POLITICAL RISK OVERVIEW - March 2013

EGYPT

Fighting between police forces and protesters continued due to the ongoing stalemate between President Mohammed Morsi and the opposition. Dozens of journalists protested in front of Cairo's Muslim Brotherhood (MB) headquarters to denounce the ongoing assaults on journalists. President Morsi warned on March 24 that he would take "necessary measures" to protect the nation. Egypt's Prosecutor General ordered the arrest of five political activists accused of inciting violence against the MB. A Port Said court acquitted 28 defendants, while it sentenced 21 people to death and five to life in prison for their role in the deadly 2012 soccer riot in the northeast city of Port Said. Policemen and security forces held nationwide strikes to demand the dismissal of the Interior Minister and the separation of the police force from political conflicts. An Egyptian court suspended the country's April 22 parliamentary elections, while it referred the amended electoral law to the Supreme Constitutional Court for review.

IRAN

Iran's technical experts and the P5+1 countries discussed a proposal on March 18 that suggests a partial lifting of Western-imposed sanctions on Iran, in exchange for a partial suspension of the latter's nuclear activities. The Iranian Supreme Leader Ayatollah Ali Khamenei warned that Iran would destroy the Israeli cities of Tel Aviv and Haifa if its nuclear infrastructure comes under attack. NATO's cyber warfare center indicated that the U.S. and Israel's 2009 cyber attacks against Iran constituted an illegal act of force under international law.

IRAQ

The country's political crisis and sectarian divisions increased during the month. Parliament approved the 2013 budget despite a Kurdish boycott. The Council of Ministers announced that elections in the Anbar and Nineveh provinces, set to be held on April 20th, would be postponed by up to six months due to violence and threats against election workers. Thousands of Iraqis continued their protests against Prime Minister Nouri al-Maliki across the country. Finance Minister, Rafie al-Issawi, resigned from the government in solidarity with the protesters. Sectarian violence continued across the country with at least 115 deaths and over 220 injuries.

DEM REP CONGO

Former Congolese General and War crimes suspect Bosco Ntaganda surrendered to the U.S. embassy in Kigali, Rwanda on March 18th. He was then transferred to the International Criminal Court in the Hague for trial. President Joseph Kabila met with his Rwandan and Ugandan counterparts to discuss regional security issues. The UN Security Council approved the deployment of an offensive intervention brigade of 2,500 troops in the east to counter the destabilizing activities of the M23 rebel movement and other armed groups.

LIBYA

Hundreds of protesters have violently interrupted a General National Congress (GNC) meeting over concerns that the proposed "political isolation law" would be weakened by the 200-member congress, while they attempted to force its members to approve the bill. The GNC suspended on March 9 its meetings due to rising security threats. The UN Security Council decided to partially lift the arms embargo on Libya, but raised concerns about arms flowing from Libya into neighboring countries.

SOUTH SUDAN

South Sudan and Sudan signed a security agreement on March 12 aimed to end long-standing disputes and restart oil production. Both governments began to withdraw their troops from the demilitarized border zone. The Central Banks of Sudan and South Sudan agreed on experts based abroad to facilitate the collection of the Sudanese government's oil revenues. Sudan has reportedly abandoned its demand to hold 50% of the positions in the administration of the border disputed area of Abyei.

SUDAN

Defense Minister Abdel Raheem Mohammed Hussein offered to hold direct talks with the Sudan People's Liberation Movement-North (SPLM-N). But the SPLM-N reiterated that negotiations need to be based on the UN Security Council Resolution 2046 adopted in May 2012. Vice President Ali Osman Taha invited rebel groups to help draft the new constitution. President Omar al-Bashir reiterated that he would step down at the end of his term in 2015.

SYRIA

Casualties and displacements continue to rise as fighting between the Syrian military and the Free Syrian Army escalates. The British-based Syrian Observatory for Human Rights said that March was the bloodiest month yet since the start of the Syrian uprising. Syria's government and rebels accused each other of firing a rocket loaded with chemical elements outside the northern city of Aleppo. President Bashar al-Assad vowed on March 22 to "cleanse" Syria from extremism. The Syrian National Coalition (SNC) elected Mr. Ghassan Hitto on March 19 as Prime Minister in charge of Syria's rebel-controlled areas. The SNC leader Mouaz al-Khatib resigned on March 24 citing a lack of support from the international community. European Union governments rejected combined French and British efforts to lift an EU arms embargo allowing weapon supplies to Syrian rebels. The Syrian opposition opened an embassy in Qatar on March 27th, a day after the SNC government assumed the Syrian seat at the Arab League summit.

TUNISIA

The country's political crisis eased partially as the newly-appointed An-Nahda Prime Minister, Ali Larayedh, unveiled a new coalition government. The An-Nahda party distributed key ministries, such as the defense, justice and interior ministries, to independents. The National Constituent Assembly has set the end of April as a deadline for completing the new draft constitution, while it called for presidential and legislative elections to be held before the end of 2013. Thousands of protesters in Tunis demanded the end of the Islamist government rule, as they blamed it for the prominent opposition figure Chokri Belaid's assassination in February 2013.

YEMEN

The National Dialogue Conference began to draft a new constitution and prepare for the February 2014 parliamentary elections on March 18th. Thousands of southern separatists protested against the national dialogue. The Yemeni Nobel peace laureate, Tawakkul Karman, boycotted the dialogue mainly due to the participation of former President Ali Abdullah Saleh's officials. A gunman killed three people in a failed attempt to assassinate a Houthi rebel leader as he was leaving the national dialogue session that aims at ending the country's political turmoil.

Source: International Crisis Group

OUTLOOK

SUDAN

Real GDP to grow by 3% in 2013, currency to remain under pressure

The Economist Intelligence Unit projected Sudan's real GDP to grow by 2.8% in 2013 and by 2.5% in 2014. It estimated that the economy contracted by 9.7% in 2012 due to the full economic impact of South Sudan's independence and the prolonged stoppage of South Sudanese oil exports through the North. It noted that the resumption of South Sudanese oil exports is not likely before at least the second quarter of 2013, despite an agreement reached between the two sides on various security and border issues. It forecast growth to average 4.8% in 2016 and 2017 as the economy adjusts to losses following the South's independence, and as government consumption and investment spending recover following the expiration of the three-year austerity program. Further, it said that inflation pressures remain strong and averaged 32% in 2012, partly reflecting the impact of a weakening Sudanese pound on the import bill and high energy costs. It projected the average inflation rate at 24.3% in 2013, significantly exceeding the Central Bank of Sudan's (CBoS) target of around 10%.

In parallel, the EIU said that the US dollar remains scarce in the domestic market, and the local currency continues to be under pressure amid concerns that the resumption of South Sudanese oil exports and payment of oil export fees to khartoum will be further delayed. It projected Sudan's foreign exchange reserves at $313m at the end of 2013, equivalent to 0.4 months of import cover, relative to $298m at end-2012 or 0.4 months of import cover. It expected the currency to remain under pressure over the short-term, but noted that the resumption of large-scale South Sudanese oil exports would help to bolster the pound during the second half of the year. It forecast the exchange rate to depreciate to an average of 5.78 pounds against the US dollar in 2013 and to end the year at SGD 6.31 per dollar. Also, the EIU expected Sudan to post a fiscal deficit of 4.7% of GDP in 2013, significantly narrower than last year's deficit of 7.2% of GDP, due mainly to the implementation of the government's three-year emergency austerity program. It considered that Sudan will struggle to attract investments to sectors other than in gold mining, and ruled out privatization of state-owned enterprises in the current unstable environment. It projected the current account deficit to narrow to $2.3bn, or 4.9% of GDP, this year from $3.5bn or 6.7% of GDP in 2012.

Source: Economist Intelligence Unit

IRAN

Real GDP to grow by 1.4%, inflation to average 31% in current fiscal year

The Institute of International Finance projected Iran's real GDP to grow by 1.4% in fiscal year 2013/14 ending in March 2014 relative to an estimated contraction of 3.5% in FY2012/13. It forecast the inflation level to average 31.2% in FY2013/14 compared to an estimated average rate of 52.2% in FY2012/13. It projected the government's fiscal deficit to widen to 3.3% of GDP in FY2013/14 from 2.8% of GDP in the previous fiscal year.

The IIF estimated Iran's exports at $74.1bn in FY2012/13, equivalent to 17.3% of GDP, constituting a decline from $123.5bn or 29.1% of GDP in FY2011/12. It also estimated imports at $66.3bn in FY2012/13, or 15.5% of GDP, compared to $70bn or 16.5% of GDP in FY2011/12. It projected Iran's crude oil exports to remain unchanged at 1.2 million barrels per day (b/d) in FY2013/14 compared to a drop of 33.4% in FY2012/13, and to generate receipts of $49.4bn in the current fiscal year relative to $47.5bn in FY2012/13. It noted that emerging & developing economies were Iran's main trade partners in FY2012/13 as they accounted for 71.5% of total exports relative to a 55% share in FY2011/12, and for 73.8% of total imports compared to a 67% share in FY2011/12. It expected gross official reserves to cover 6.6 months of imports in the current fiscal year, down from 9.7 months of imports in FY2012/13 and 12.9 months of imports in FY2011/12. In parallel, the IIF forecast the rial to trade at IRR36,000 to the US dollar on the black market in FY2013/14 relative to IRR29,000 in FY2012/13. It expected the currency to depreciate in the official market to IRR18,852 per dollar in FY2013/14 relative to IRR13,534 in FY2012/13.

Source: Institute of International Finance

NIGERIA

Non-oil activity to accelerate by 7.5% in 2013

The International Monetary Fund projected Nigeria's real GDP growth at 7.2% in 2013 compared to a growth rate of 6.3% in 2012. It forecast hydrocarbon output to expand by 4.9% in 2013 compared to growth of 1.8% last year, and for the non-hydrocarbon sector to grow by 7.5% in 2013 relative to growth of 7.1% in 2012. It noted that economic activity decelerated last year due to nationwide strikes in early 2012, floods in the fourth quarter of the year, and continued security problems in the north of the country. It expected the average annual inflation rate to decline to 8.2% this year from 12.7% last year, supported by tight monetary policy and ongoing fiscal consolidation. It attributed the rise in the inflation rate last year to the adjustment of administrative prices of fuel and electricity; large increases in import tariffs on rice and wheat; and the impact of floods. It considered that a large drop in global oil prices and slow progress in reaching a political consensus over key fiscal reforms constitute the main downside risks for the outlook.

In parallel, the IMF projected a balanced fiscal position in 2013 relative to a surplus of 0.9% of GDP in 2012. It expected the non-oil primary deficit to further narrow to 28.3% of non-oil GDP in 2013 from 30.4% of non-oil GDP last year. It forecast the current account surplus at 4% of GDP in 2013 compared to 4.7% of GDP in 2012. It estimated Nigeria's gross foreign currency reserves at $53.4bn in 2013, equivalent to 6.4 months of imports of goods and services, up from $45.9bn in 2012, or 5.9 months of imports cover. It forecast the combined fiscal reserves in the Excess Crude Account and the Sovereign Wealth Fund at $18.1bn at end-2013 compared to $9.7bn at end-2012 and $9.7bn at end-2011. The IMF called for more broad-based and inclusive economic growth through wide-ranging reforms. It encouraged the authorities to reduce poorly-targeted fuel subsidies and make the Sovereign Wealth Fund fully operational.

Source: International Monetary Fund

ECONOMY & TRADE

SYRIA

Sovereign ratings downgraded

Information provider IHS Global Insight downgraded Syria's medium-term Sovereign Risk Rating to 85 from 80, equivalent to 'C' on the generic scale. It also downgraded Syria's short-term Sovereign Risk Rating to 75 from 70 and kept the outlook on both ratings at 'negative'. It attributed the downgrades to the significant decline in foreign exchange reserves that reached critical levels and resulted in an extremely tight liquidity position. It estimated Syria's foreign exchange reserves at $5bn at end-2012 and expected them to further decline to below $3bn this year. It indicated that the current level of reserves covers less than three months of imports and anticipated reserves to remain under significant pressure in the near-term. It considered that the government's capacity to generate foreign exchange is constrained by depressed export receipts and the ongoing conflict. It estimated that foreign reserves declined by around $6bn in each of 2011 and 2012, similar to the current account deficits posted in each of the two years. In parallel, it pointed out that the decline in foreign exchange reserves was evident by the depreciation of the Syrian pound against the US dollar that reached SYP125 on the black market on March 20th. But it noted that the intervention of the Central Bank of Syria strengthened the value of the pound to the current level of SYP110 to the dollar. It forecast a large and rapid devaluation of the pound in case the CBS ceases to defend the currency in favor of protecting its foreign reserves.

Source: IHS Global Insight

EGYPT

Commitment to reforms still unclear

Merrill Lynch indicated that the lack of a credible political commitment to implement the required reforms, prior to reaching an agreement with the International Monetary Fund, would derail the approval required by the Fund's Executive Board. It added that, even if a deal is reached, the lack of political support for reforms would raise the IMF program's implementation risks. It noted that the authorities are likely to request an increase in the IMF package during the upcoming negotiations, given the deterioration in the country's economic fundamentals, such as the emergence of a black foreign exchange market. It noted that a priority of an IMF deal would be to restore confidence through a combination of front-loaded disbursements and adjustments. It added that a deal may eventually involve a unification of the official and black market exchange rates, with the official rate converging to the black market one. It added that some visibility on the Egyptian pound would be needed to encourage an eventual return of portfolio inflows. It expected the Central Bank of Egypt (CBE) to continue to defend the pound and to maintain it at below 7 pounds for the dollar prior to parliamentary elections through a tightening of private-sector import demand, rate hikes, administrative measures, and deposits by Arab countries at the CBE. In parallel, Merrill Lynch indicated that the elevated risk of a hard landing and the lack of a concrete substitute plan for an IMF program leave little alternative to a deal with the Fund and would reduce the authorities' negotiating margin. It considered that Egypt is not likely to secure additional bilateral aid in the near-term from Arab states.

Source: Merrill Lynch

TURKEY

Sovereign ratings upgraded on declining external financing needs

Standard & Poor's upgraded Turkey's long-term foreign currency sovereign credit rating to 'BB+' from 'BB' and affirmed its short-term foreign currency rating at 'B'. It also raised the local currency sovereign credit ratings to 'BBB/A-2' from 'BBB-/A-3', and upgraded the long-term national scale rating to 'trAAA' and affirmed the short-term rating at 'trA-1'. It revised the transfer and convertibility assessment to 'BBB' from 'BBB-'. It said that all the ratings have a 'stable' outlook. It attributed the upgrade to a steady and sustained decline in Turkey's still-sizable net external financing requirements, as exports have increased and domestic demand has decelerated. It noted that the implementation of policies to limit foreign currency lending and measures to cap nominal credit growth, as well as a floating foreign-exchange regime, facilitate Turkey's external adjustment. It anticipated that these factors would help the economy adapt in the context of a worsening external liquidity environment in 2013 and 2014. It anticipated that Turkey's external debt, net of liquid assets, will remain high at above 100% of current account receipts in the coming two years, in the absence of a significant increase in foreign reserves or a further narrowing of the current account deficit.

Source: Standard & Poor's

ARMENIA

Yerevan ranks 87th globally, 9th among CIS countries in M&A maturity

The City University of London Cass Business School's Mergers & Acquisitions Maturity Index for 2012 ranked Armenia in 87th place among 148 countries globally and in ninth place among 11 Commonwealth of Independent States (CIS) economies. The index evaluates the capacity of countries to attract and sustain M&A activity using 23 factors aggregated into five sub-factors that are Regulatory & Political, Economic & Financial, Technological, Socio-economic, and Infrastructure & Assets groups. The index rates the M&A maturity level of countries on a scale of zero to 100%, with 100% being the highest maturity level. Globally, Armenia's M&A maturity level was higher than that of Algeria, the Dominican Republic and Bangladesh, but lower than that of Pakistan, Azerbaijan and Costa Rica. Also, Armenia's M&A maturity level was higher than Kyrgyzstan and Tajikistan only among CIS countries. Armenia received an M&A maturity level score of 46%, below the CIS average of 52.1% and the global average of 51.8%. In parallel, Armenia came in 63rd place globally and in third place among CIS economies on the Regulatory & Political Factors category; while it ranked in 144th place globally and in 10th place in the region on the Economic & Financial Factors category. Further, it came in 75th place globally and in eighth place regionally on the Technological Factors category; while it ranked in 70th place globally and in ninth place among the CIS countries on the Socio-Economic Factors category. Finally, it ranked in 86th place globally and in eighth place in the CIS region on the Infrastructure & Assets category.

Source: Cass Business School, Byblos Research

BANKING

EGYPT

Bank ratings downgraded on increased linkages to sovereign credit risk

Moody's Investors Service downgraded the local-currency deposit ratings of National Bank of Egypt (NBE), Banque Misr (BM), Banque du Caire (BdC), and Commercial International Bank (CIB) to 'Caa1' from 'B3'; and that of Bank of Alexandria (BoA) to 'B2' from 'B1'. It also downgraded the five banks' foreign-currency deposit ratings to 'Caa2' from 'Caa1'. It noted that all deposit ratings have a 'negative' outlook. It affirmed the baseline credit assessment of state-owned banks NBE, BM and BdC at 'E/caa2', while it downgraded those of privately-owned banks CIB and BoA to 'E/caa1' from 'E+/b3'. It attributed the downgrades to the government's reduced capacity to support state-owned banks; the high credit linkages between banks' balance sheets and the sovereign credit risk; and its earlier downgrade of Egypt's foreign currency deposit ceiling to 'Caa2'. It noted that banks' exposure to government securities ranges between 800% and 900% of Tier One capital for each of the three state-owned banks, while it stood at 143% and 210% for CIB and BoA, respectively, at end-2012. It pointed out that the high exposure of privately-owned banks to government securities links their standalone credit profiles to the sovereign's creditworthiness, makes them vulnerable to potential event risk at the sovereign level, and constrains their baseline credit assessments at the level of the government's bond rating.

Source: Moody's Investors Service

DEM REP CONGO

Capital adequacy ratio at 33%, NPLs at 6%

The risk-weighted capital adequacy ratio (CAR) of banks operating in the Democratic Republic of Congo (DRC) reached 33.3% at the end of June 2012, constituting a rise from 30% at the end of 2011 and from 17% at the end of 2009. Also, the Tier-One capital ratio increased to 23.8% at end-June 2012 from 21% at the end of each of 2011 and 2010, and from 11% at end-2009. The sector's liquid assets were equivalent to 52.6% of total assets at end-June 2012 relative to 52% at end-2011 and 60% at end-2010; while they represented 132.2% of total short-term liabilities at the end of June 2012 compared to 119% at end-2011. Also, foreign exchange liabilities reached 77.2% of total liabilities at end-June 2012 relative to 77.4% at end-2011 and 76.2% at end-2010. The sector's non-performing loans were equivalent to 6% of total loans at the end of June 2012, down from 7% at the end of 2010. Further, the ratio of NPLs net of provision to capital was 8.3% at end-June 2012, down from 10% at end-2010 and 17% at end-2009. In parallel, the sector's interest margin-to-gross income increased to 33.6% at end-June 2012 from 32% at end-2011; while non-interest expenses were equivalent to 57.8% of gross income at end-June 2012 compared to 56.7% at end-2011. In parallel, the IMF said that banks representing 98% of the banking sector's total assets were in compliance with the required minimum equity of $10m in 2010, and that all banks exceed the minimum CAR. But it noted that banks' compliance with other prudential ratios remain mixed, as four banks representing 33% of total assets are in violation of the liquidity requirement.

Source: International Monetary Fund

MOROCCO

Lending and deposits decline year-to-February

Figures issued by Bank Al-Maghrib show that the total assets of commercial banks operating in Morocco reached MAD1,102.5bn at the end of February 2013, constituting a decline of 2.4% from end-2012, and a growth of 5% from end-February 2012. The sector's aggregate loans totaled MAD701.9bn, constituting a decrease of 2.2% from end-2012. Also, total lending grew by 3.9% annually in February 2013 compared to a year-on-year increase of 8% in February 2012. Retail lending growth the growth as mortgage and consumer loans grew by 8% and 7% year-on-year, respectively; while lending to financial institutions dropped by 10% in the covered period. Deposits totaled MAD709bn at end-February 2013, down 1.3% from end-2012. Also, deposits grew by 3.6% year-on-year, mainly driven by retail deposits that posted a 5% year-on-year increase. The loans-to-deposits ratio stood at 99% at end-February 2013, down from 100% at end-2012 and 102% at end-June 2012. Also, nominal NPLs increased by 6% annually, with retail NPLs growing by 6.3% and corporate NPLs contracting by 8.2% year-on-year. The sector's NPLs ratio was 5.1% in February 2013, up from 4.9% at the end of June 2012.

Sources: Bank Al-Maghrib, EFG Hermes

INDIA

Banking sector's assessment maintained

Standard & Poor's maintained India's Banking Industry Country Assessment (BICRA) in 'Group 5', and its industry and economic risk scores at '5' each. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors and 'Group 10' the riskiest ones. S&P noted that other countries in BICRA's 'Group 5' include China, the UAE, Poland, Colombia, Thailand and Turkey. Further, it said that India's economic risk score reflects its "high risks" in economic resilience and credit risk in the economy, and its "low risks" in economic imbalances. It noted that India's low-income economy constrains its economic resilience, while the large and persistent fiscal deficit limits the government's ability to stimulate growth through fiscal policies. It noted that India's weak foreclosure laws accentuate credit risks despite moderate private sector debt. Further, it said that India's industry score indicates that the country faces "very high risks" in its institutional framework and in its competitive dynamics, and "high risks" in its system-wide funding. It added that Indian banks benefit from high levels of stable core customer deposits, which limit their dependence on external borrowings. It added that banking regulations are in line with international standards, and the record of regulatory oversight has been moderately successful despite inadequate disclosure standards. It said that banks have moderate risk appetite and the banking industry is stable despite its fragmentation. But it noted that directed lending and the dominance of state-owned banks distort the market.

Source: Standard & Poor's

Global oil demand to peak by 2020 as gas-for-oil substitution accelerates

Global oil consumption is forecast to reach a peak by 2020 as consumer demand increasingly shifts to more fuel efficient resources such as natural gas. As such, global oil demand growth is projected to ease much sooner than markets currently expect. The substitution from oil to natural gas would be mainly driven by economic incentives, environmental concerns and improved hydraulic fracturing technology. Indeed, the gas-for-oil substitution is currently underway in the U.S., the world's largest fuel consumer, which would facilitate the trend in the global market. In parallel, the gas-for-oil substitution's outlook in the global automotive market is positive mainly due to higher oil prices. Brent oil prices are forecast to trade within a range of $80 a barrel and $90 a barrel by 2020, constituting an average drop of about 22% from current prices. The drop in oil prices would be mainly caused by the oversupply of the oil market as consumers increasingly shift their fuel energy usage to natural gas. In parallel, U.S. natural gas Henry Hub prices improved by 15.8% in March to $4 per million British thermal unit, prices of WTI NYMEX futures rose by 4.2% to $97.5 a barrel, while prices of Brent ICE futures decreased by 2.9% to $109.5 a barrel last month.

Source: Citigroup, Byblos Research

Syria exempts Iran fuel imports from tax

The Syrian government issued on April 2nd an exclusive tax exemption on fuel imports coming from Iran in an attempt to meet its domestic energy needs. The tax exemption is set to expire at the end of June 2013. The Syrian Cabinet indicated that diesel, fuel oil and gas imports from Iran would be exempted from custom duties, taxes and other fees. The EU and the U.S. have imposed sanctions on Syrian oil and oil derivatives, prohibiting their import and export. Syria's oil production averaged about 400,000 barrels a day prior to the start of the civil uprising in March 2011. But oil production has since decreased by about 50% from its pre-crisis level.

Source: Syrian Arab News Agency, Thomson Reuters

OPEC's oil production reaches 16-month low in March 2013

The Organization of Petroleum Exporting Countries' (OPEC) crude oil production averaged 30.55 million b/d in March 2013, constituting a marginal decrease of 0.2% from 30.62 million b/d in the preceding month. OPEC's oil output in March constituted its lowest level since October 2011. The decline in production was mainly attributed to a drop of about 13% in Nigeria's oil output due to a rise in oil theft.

Source: Bloomberg, Byblos Research

Libya's oil output to rise by 21% by end-2013

Libya announced plans to increase its oil production to 1.7 million b/d by the end of 2013, constituting an increase of 21.4% from current output levels of 1.4 million b/d. Libya's oil production was disrupted for most of 2011 due to the civil uprising, but began to recover relatively fast following the end of the conflict that year. Libya holds Africa's largest proven oil reserves.

Source: Thomson Reuters, U.S. Energy Information Administration

Base Metals: Aluminium prices to rise in 2013

Global aluminium production is forecast to reach 51.1 million tons in 2013, constituting an increase of 6.1% from 48.2 million tons in 2012. China's aluminium production is projected to reach 23.3 million tons in 2013, equivalent to 45.5% of global supply. It would be followed by North America with 5.1 million tons (10%), Western European countries with 4.1 million tons (8%) and the Rest of the World (RoW) with 18.7 million tons (36.6%). In parallel, global aluminium demand is expected to reach 49.6 million tons in 2013, constituting an increase of 6.3% from 46.7 million tons in 2012. China's aluminium consumption is anticipated at 21.9 million tons in 2013, equivalent to 44.2% of global demand. It would be followed by Western European countries with 6.5 million tons (13.1%), North America with 6.2 million tons (12.5%) and the RoW with 15 million tons (30.2%). The aluminium market is anticipated to post a surplus of 1.5 million tons in 2013 as the metal's supply outweighs demand. Global aluminium prices are forecast to grow by 1.4% year-on-year to $1,950 a metric ton in the second quarter of 2013.

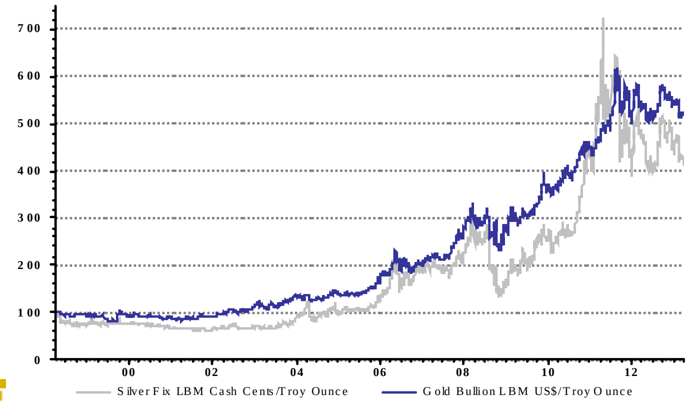
Source: Barclays Capital, Byblos Research

Precious Metals: Silver prices to stagnate in 2013

Global silver fabrication demand is projected to reach 25,605 tons in 2013, constituting a marginal decrease of 0.1% from 25,618 tons in 2012. As such, silver industrial consumption is expected to grow by 1.4% to 14,289 tons in 2013, while jewelry and silverware purchases are forecast to rise by 1.6% year-on-year to 6,495 tons in 2013. Further, the implied physical demand for silver is anticipated at 6,741 tons in 2013, constituting a rise of 4.3% from 6,464 tons in 2012, mainly due to lower silver prices. In parallel, global silver mine production is anticipated to grow by 2.5% year-on-year to 25,587 tons in 2013, while global old silver scrap supply is forecast to decrease by 1.1% to 6,459 tons this year. As such, Global silver production is expected to reach 32,347 tons in 2013, constituting a rise of 0.8% from 32,081 tons in 2012. Silver prices are forecast to average $30.3 a troy ounce in 2013, constituting a decrease of 2.6% from an average $31.1 a troy ounce in 2012. In parallel, the price of silver decreased by 0.6% in March to $28.3 a troy ounce on March 28th, while that of gold rose by 0.7% to $1,595.7 a troy ounce over the same month. Also, platinum prices fell by 0.7% in March 2013 to $1,574.6 a troy ounce while palladium prices improved by 4.9% to $768.3 a troy ounce on March 28th.

Source: Barclays Capital, Byblos Research

Silver Prices vs. Gold Prices
(Rebase 100)



Source: Thomson Reuters Datastream, Byblos Research

COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	EIU	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Africa													
Algeria	-	-	-	-	BB								
	-	-	-	-	Stable	-3.9	8.6	3.2	8.1	1.1	2.6	6.2	2.0
Angola	BB-	Ba3	BB-	-	BB								
	Stable	Stable	Stable	-	Stable	7.0	28.0	15.9	32.4	3.0	49.1	8.5	0.3
Egypt	B-	Caa1	B	B	CCC								
	Negative	Negative	Negative	Negative	Stable	-10.9	80.4	13.5	59.0	4.3	324.4	-3.1	0.6
Ethiopia					B								
	-	-	-	-	Stable	-2.3	22.2	18.2	111.2	-	-	-6.1	0.2
Ghana	B	-	B+	-	B								
	Stable	-	Negative	-	Stable	-5.6	44.9	21.5	36.2	-	-	-9.1	3.2
Ivory Coast	-	-	-	-	B								
	-	-	-	-	Stable	-3.7	62.6	18.8	33.4	-	-	-3.1	0.3
Libya	-	-	B	-	B								
	-	-	Stable	-	Stable	19.4	-	6.5	16.5	2.5	-	21.8	-
Mauritania	-	-	-	-	-								
	-	-	-	-	-	-2.4	85.1	84.6	91.9	2.8	560.0	-23.6	0.01
Morocco	BBB-	Ba1	BBB-	BBB-	B								
	Negative	Negative	Stable	Stable	Stable	-5.9	58.9	30.8	64.6	4.6	180.2	-8.5	2.5
Nigeria	BB-	Ba3	BB-	-	B								
	Stable	Stable	Stable	-	Positive	-0.4	14.7	4.8	6.9	0.5	-	3.5	1.9
Sudan	-	-	-	-	C								
	-	-	-	-	Stable	-4.0	112.1	84.8	159.6	-	-	-7.8	-
Tunisia	BB-	Ba1	BB+	BBB	CCC								
	Negative	Negative	Negative	Stable	Stable	-5.5	46.7	53.6	103.1	9.3	299.8	-8.7	2.4
Middle East													
Bahrain	BBB	Baa1	BBB	BBB+	BB								
	Stable	Negative	Stable	Negative	Stable	-1.5	32.4	147.5	399.2	16.2	905.0	3.7	-4.1
Iran	-	-	B+	BB-	CCC								
	-	-	Stable	Negative	Stable	-3.5	14.6	3.2	13.1	17.6	19.1	-1.6	3.8
Iraq	-	-	-	-	CCC								
	-	-	-	-	Stable	-1.9	76.2	70.9	94.9	-	83.1	23.1	1.5
Jordan	BB	Ba2	-	BB	CCC								
	Negative	Negative	-	Negative	Positive	-7.1	79.7	57.9	47.8	6.4	213.8	-16.1	5.4
Kuwait	AA	Aa2	AA	AA-	A								
	Stable	Negative	Stable	Stable	Stable	28.2	6.9	19.0	16.7	12.4	142.9	40.5	-4.4
Lebanon	B	B1	B	B	CCC								
	Negative	Stable	Stable	Stable	Stable	-9.7	140.7	102.1	131.1	19.2	118.0	-12.6	1.1
Oman	A	A2	-	A	A								
	Negative	-	-	Stable	Stable	7.0	4.9	18.2	23.5	3.4	101.7	11.3	3.8
Qatar	AA	Aa2	-	AA-	AA								
	Stable	Stable	-	Stable	Stable	6.5	35.6	69.7	94.4	11.6	704.8	32.9	0.2
Saudi Arabia	AA-	Aa3	AA-	AA-	BBB								
	Stable	Stable	Positive	Stable	Stable	15.5	5.7	13.7	21.8	2.1	13.3	28.3	2.1
Syria	-	-	-	-	CC								
	-	-	-	-	Negative	-16.3	48.5	-	87.7	-	-	-13.3	0.3
UAE	-	Aa2	-	AA-	BB								
	-	-	-	Stable	Stable	4.4	22.4	51.1	36.6	4.4	476.9	16.4	1.0
Yemen	-	-	-	B-	CC								
	-	-	-	Negative	Stable	-5.7	44.9	17.8	72.4	-	157.5	-2.7	-

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross 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-	-	-								
	-	Negative	Stable	-	-	-3.1	34.2	73.3	148.0	11.9	459	-9.8	4.7
China	AA-	Aa3	A+	A	BBB								
	Stable	-	Stable	Stable	Stable	-1.3	22.2	9.6	47.1	1.7	23.4	2.3	1.7
India	BBB-	Baa2	BBB-	BBB-	BB								
	Negative	Stable	Negative	Stable	Stable	-9.5	67.6	19.8	90.3	6.3	146.6	-3.8	1.5
Kazakhstan	BBB+	Baa2	BBB-	-	BBB								
	Stable	-	Stable	-	Stable	3.5	12.4	66.8	131.8	17.5	611.8	6.2	5.7
Central & Eastern Europe													
Bulgaria	BBB	Baa3	BBB-	-	BB								
	Stable	Stable	Stable	-	Positive	-0.5	18.9	86.2	141.0	22.8	285.4	1.1	3.6
Romania	BB+	Baa3	BBB-	BBB-	BB								
	Stable	-	Stable	Negative	Stable	-2.2	34.6	76.6	178.9	25.2	315.4	-3.7	1.0
Russia	BBB	Baa1	BBB	-	BBB								
	Stable	Positive	Stable	-	Stable	0.5	11.0	29.5	90.6	11.8	123.1	5.2	-0.1
Turkey	BB+	Ba1	BBB-	BB+	B								
	Stable	Positive	Stable	Stable	Stable	-1.5	36.8	42.5	178.8	33.0	341.1	-6.1	1.4
Ukraine	B	B3	B	-	CCC								
	Negative	Negative	Stable	-	Stable	-4.5	38.3	78.5	143.5	34.3	472.2	-8.3	2.9

Sources: International Monetary Fund; Economist Intelligence Unit; Institute of International Finance; Moody's Investors Service; Byblos Research - The above figures are estimated for 2012

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	20-Mar-13	No change	01-May-13
Eurozone	Refi Rate	0.75	07-Mar-13	No change	04-Apr-13
UK	Bank Rate	0.50	07-Mar-13	No change	04-Apr-13
Japan	O/N Call Rate	0-0.10	07-Mar-13	No change	04-Apr-13
Australia	Cash Rate	3.00	05-Mar-13	No change	02-Apr-13
New Zealand	Cash Rate	2.50	14-Mar-13	No change	24-Apr-13
Switzerland	3 month Libor target	0.00	14-Mar-13	No change	20-Jun-13
Canada	Overnight rate	1.00	06-Mar-13	No change	17-Apr-13
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	20-Mar-13	No change	01-May-13
Taiwan	Discount Rate	1.88	28-Mar-13	No change	20-Jun-13
South Korea	Base Rate	2.75	14-Mar-13	No change	11-Apr-13
Malaysia	O/N Policy Rate	3.00	07-Mar-13	No change	09-May-13
Thailand	1D Repo	2.75	20-Feb-13	No change	03-Apr-13
India	Reverse repo rate	7.50	19-Mar-13	Cut 25bps	03-May-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	26-Mar-13	No change	16-Apr-13
South Africa	Repo rate	5.00	20-Mar-13	No change	23-May-13
Kenya	Central Bank Rate	9.50	12-Mar-13	Cut 150bps	Apr-13
Nigeria	Monetary Policy Rate	12.00	19-Mar-13	No change	21-May-13
Ghana	Prime Rate	15.00	Feb-13	No change	15-Apr-13
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.00	08-Mar-13	Cut 50bps	26-Apr-13
Brazil	Selic Rate	7.25	06-Mar-13	No change	17-Apr-13
Armenia	Refi Rate	8.00	26-Mar-13	No change	N/A
Romania	Policy Rate	5.25	28-Mar-13	No change	02-May-13
Bulgaria	Base Interest	0.01	01-Apr-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	03-Apr-13	No change	May-13

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