

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Downgrades outpace upgrades in first quarter of 2013**

Standard & Poor's indicated that it downgraded 119 issuers and upgraded 73 issuers globally in the first quarter of 2013 relative to 182 downgrades and 112 upgrades in the same quarter last year. It said that the downgrades represented \$306.1bn in rated debt compared to \$2,938bn in the same quarter last year, while the upgrades covered \$194.7bn in fixed income relative to \$316bn in the first quarter of 2012. In parallel, S&P downgraded 113 corporate issuers, representing \$265bn in rated debt in the first quarter of the year compared to 169 corporate downgrades worth \$1,482bn in rated debt. It also downgraded six sovereigns for a total of \$41bn in the covered quarter relative to 13 downgrades worth \$1,456bn in the same quarter last year, of which four were in emerging markets, and two in each of Developed Europe; Eastern Europe, the Middle East & Africa; and in Latin America. It said that the 73 upgrades in the first quarter of 2013 were all corporate upgrades, similar to its upgrade action in the first quarter of 2012 that only affected corporate issuers. In parallel, it noted that the global downgrade ratio which is the proportion of downgrades to total rating actions, declined to 62% in the first quarter from 73% in the preceding quarter, and remained below the historical average of 63% since 1995.

Source: *Standard & Poor's*

#### MENA

##### **Equity markets up 5% in first four months of 2013**

Arab stock markets increased by 4.7% and GCC markets rose by 6.7% in the first four months of 2013 compared to increases of 10% and 11.7%, respectively, in the same period last year. Activity on the Dubai financial market increased by 31.6% in the first four months of 2013 and posted the best performance among Arab markets during the period. It was followed by the Kuwait bourse with a 25.2% improvement, the Abu Dhabi exchange with a 24.4% increase, the Damascus financial market with a 16.6% rise, the Muscat stock exchange with a 6.4% expansion, the Saudi Arabia equity market with a 5.6% growth, the Qatar exchange with a 3.8% rise, the Bahrain bourse with a 3.6% appreciation, the Beirut stock exchange with a 3.2% growth, the Amman stock market with a 2.1% increase and the Tunis bourse with a 0.9% improvement. In parallel, the Egyptian stock market dropped by 4.9% in the first four months of 2013 and posted the worst performance among Arab stock markets in the covered period. It was followed by the Palestine equity market with a 4.3% contraction, the Iraqi stock exchange with a 3.6% decrease and the Casablanca equity market with a 2.3% drop. In comparison, global equities increased by 9% and emerging market equities declined by 1.6% in the first four months of the year.

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

#### EMERGING MARKETS

##### **Developing economies account for 76% of global mobile subscriptions and 63% of Internet users**

The International Telecommunications Union indicated that developing economies have increased their share of mobile phone subscriptions in recent years, as they accounted for 76% of total mobile subscriptions at the end of 2012 compared to a 63.1% share at the end of 2007. It estimated mobile cellular penetration rates in developing economies at 84.3% at the end of 2012, relative to 39.1% in 2007 and compared to a penetration rate of 123.6% in developed economies and a global rate of 91.2% at end-2012. In parallel, developing countries account for 63.4% of Internet users worldwide at end-2012 compared to 47.3% in 2007, while the global number of internet users has almost doubled between 2007 and 2012 to around 2.5 billion users. It noted that 27.5% of the population in developing countries is online compared to 73.4% in developed countries and 35.7% for the global population. It said Internet user penetration is at 71.2% in Europe, followed by 57.2% in the Americas, 46.4% in the Commonwealth of Independent States, 33.7% in the Arab World, 28.8% in Asia & Pacific and 14.3% in Africa. It added that fixed broadband penetration levels in developing countries remain low at 5 subscriptions per 100 people compared to 26 subscriptions per 100 persons in developed countries. But the developing world's share of fixed broadband subscriptions is growing steadily, as it accounted for an estimated 49.5% of global subscriptions at end-2012 relative to 36.7% five years earlier.

Source: *International Telecommunications Union*

##### **BRICS' share of global FDI on the rise**

Foreign direct investments (FDI) to Brazil, Russia, India, China and South Africa (BRICS) reached \$263bn in 2012, constituting a 6.5% decrease from \$281bn in 2011, but a more than threefold increase from \$80.7bn in 2000. FDI to BRICS countries accounted for 20.1% of global FDI in 2012, up from 17.5% in 2011 and compared to 6% in 2000; while they accounted for 34.5% of total FDI to developing and transition economies last year relative to 30.7% in 2000. China attracted \$119.7bn in FDI, or 45.5% of FDI flows to BRICS last year; followed by Brazil with \$65.3bn (24.8%), Russia with \$44.1bn (16.8%), India with \$27.3bn (10.4%) and South Africa with \$6.4bn (2.4%). In parallel, FDI outflows from BRICS countries totaled \$126bn in 2012 compared to \$7bn in 2000; while they accounted 9% of world flows last year, up from 0.6% in 2000. China and Russia were the main source of FDI flows from BRICS countries last year with shares of 54% and 40%, respectively. Further, developed economies were the main recipient of FDI outflows from BRICS countries with 42% of the total.

Source: *UNCTAD*

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# POLITICAL RISK OVERVIEW - April 2013

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## EGYPT

Fighting between police forces and anti-government protesters continued as protesters attempted to assault the Muslim Brotherhood's (MB) headquarters in Alexandria and the presidential palace in Cairo. Also, Pro-MB and other Islamists partisans protested to demand a judicial purge that aims to remove judges linked to the Mubarak regime. As a response, the Minister of Justice and the presidential legal adviser resigned from their posts. In parallel, sectarian violence between Copts and Muslims left seven people dead in northern Cairo. President Mohammed Morsi dropped charges against journalists for "insulting" him, including TV satirist Bassem Youssef. In parallel, sectarian violence between Copts and Muslims continued in northern Cairo.

## IRAN

The latest round of nuclear talks between Iran and the P5+1 countries in Kazakhstan failed to achieve a breakthrough agreement. The proposed deal suggests a partial lifting of Western-imposed sanctions on Iran in exchange for a partial suspension of the latter's nuclear activities. Iran's ambassador to the International Atomic Energy Agency, Ali Asghar Soltanieh, announced that Iran would be a reliable partner in the Middle East if Western countries adopted a more co-operative approach in nuclear talks. Former nuclear negotiator Hassan Rowhani announced that he would run for President in the June elections.

## IRAQ

Fighting between Sunni protesters and government forces intensified, which raised fears that the political crisis would evolve into a conflict between government forces and protesters' armed factions. The Iraqi army killed more than 50 persons in a raid on a Sunni protest camp near the governorate of Kirkuk after an army officer was killed in clashes with protesters. The raid pushed protesters to proceed with a military reorganization as they consider that they need to defend themselves against security forces. Authorities in the Kurdistan region failed to reach an agreement with Baghdad regarding the issues that led to the withdrawal of Kurdish ministers from Baghdad. In parallel, the government made selective concessions to some groups of protesters, as it granted pensions and access to employment to partisans of the Baath regime.

## DEM REP CONGO

Authorities announced that they stopped an assassination plot against President Joseph Kabila on April 17th. Talks between the M23 rebel movement and the government remain stalled. The government suspended 12 senior army officers following a UN probe into mass rape allegations in the east of the country.

## LIBYA

Five persons were injured in a car bomb explosion outside the French embassy in Tripoli on April 22nd. Confrontations between government forces and armed groups continued, as over 100 armed persons raided the Ministry of Justice following a decision to transfer all detention centers to government control. The National Congress passed a law that criminalizes abductions and torture in an effort to hold armed groups accountable. Prime Minister Ali Zeidan announced plans to create a separate National Guard that is formed exclusively by members of revolutionary brigades as part of efforts to integrate armed groups into the state security forces.

## SOUTH SUDAN

South Sudan and Sudan agreed to open or reopen 10 border corridors and to establish a Joint Security Committee to deal with rebel demands and other disputes. The UN Mission in South Sudan deployed additional forces to the Jonglei region after an attack on the mission that killed 12 persons, including five UN troops. In parallel, the South Sudan Liberation Army rebels surrendered on April 26th, following a government announcement to grant a presidential amnesty to its members.

## SUDAN

The government and the Sudan People's Liberation Movement-North (SPLM-N) rebels failed to agree on the declaration of common intent presented by the African Union. The government called on SPLM-N rebels to stop their attacks on government forces and return to talks. In parallel, the government signed a peace deal with the Justice and Equality Movement (JEM) splinter faction led by Mohammed Bashar on April 6th. Following the agreement, fighting erupted between JEM and Bashar's forces that led to the killing of Bashar's commander Saleh Mohammed Jerbo who is indicted by the International Criminal Court for war crimes.

## SYRIA

Opposition forces seized a military base near Daraa, while regime forces increased successful counter-attacks in Damascus and Homs and broke a 6-month siege by opposition forces of Wadi al-Deif and Hamidiya military compounds outside Maarat al-Numan in the northern part of the country. The regime's Prime Minister, Wael Nader al-Halqi, survived a bomb attack on his convoy in Damascus on April 29th, in which 6 persons died; while a car bomb in central Damascus killed 13 persons on April 30th. The rebel armed group Jabhat al-Nusra refuted reports that it had merged with al-Qaeda in Iraq, but pledged allegiance to al-Qaeda central. The UN is set to investigate mounting allegations that the regime is using chemical weapons. The Prime Minister of the Syrian National Coalition, Mr. Ghassan Hitto, began talks to form an interim government and named Mr. George Sabra as interim leader.

## TUNISIA

Political tensions in Tunisia have relatively eased as the ruling An-Nahda party and centrist opposition forces agreed to hold the general elections on December 29, 2013. The Tunisian General Labour Union and left-wing parties did not participate in the talks. Also, An-Nahda Shura Council agreed on a mixed parliamentary and presidential political system. Fighting between police forces and protesters are expected to increase prior to the elections due to social and economic hardships.

## YEMEN

President Abd Rabbuh Mansur Hadi removed Ahmed Ali Saleh, the son of the former President, from his post as commander of the Republican Guard. He also appointed leaders for regional commands and exiled several formerly powerful commanders in military-attaché positions outside the country. Also, attacks against state security personnel continued across the country. A Yemeni court sentenced 11 convicted Al-Qaeda militants to up to 10 years in prison for forming armed gangs to destabilize the country. A court ordered the investigation of former president Ali Abdullah Saleh and 11 of his aides in connection with a March 2011 massacre of anti-government protesters.

*Source: International Crisis Group*



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# OUTLOOK

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## MENA

### Economies in transition to grow by 3% in 2013, face significant challenges

The International Monetary Fund projected real GDP growth in Egypt, Jordan, Morocco, Tunisia and Yemen at 2.9% in 2013. It said that the economic recovery this year of Arab countries in transition will be moderate and would be inadequate to generate the jobs needed to address their high unemployment level. It anticipated that fiscal deficits will decline only in countries that are implementing measures to increase revenues and contain wage and subsidy expenditures. It indicated that downside risks to the outlook remain elevated for economies in transition. First, it said that lower global growth, mainly in Europe, or a resumption of global financial risk aversion, would stop external inflows to these countries and weigh on their economic performance. Second, it noted that higher global food and fuel prices would weaken oil importers' already large fiscal and external deficits. Third, it added that the intensification of regional instability would result in a further decline in confidence and a lower growth rate for the region, mainly in Mashreq economies. Fourth, it said that setbacks in political transitions would increase uncertainty and further delay the needed fiscal adjustment and recovery of economic confidence, hold back private investment, reduce output, and weigh on foreign reserves.

In parallel, the IMF indicated that Arab countries in transition face significant challenges. It said that authorities need to address the large public-sector wage bills and reduce expensive subsidies given their low fiscal buffers and eroded foreign reserves. It encouraged governments to redirect the composition of expenditures and to raise revenues in a way that is fair and that encourages private-sector activity. It added that governments need to maintain macroeconomic stability, improve competitiveness and encourage confidence through fiscal consolidation, greater exchange rate flexibility and structural reforms. Further, the Fund encouraged authorities to draft a credible medium-term agenda that focuses on institutional and regulatory reforms to enhance the business environment, strengthen private sector activity and create economic and employment opportunities.

*Source: International Monetary Fund*

## AFRICA

### Sub-Saharan Africa's economic outlook faces external risks

The International Monetary Fund projected economic growth in Sub-Saharan Africa (SSA) at 5.6% in 2013 relative to an estimated growth of 4.8% in 2012 and compared to growth of 5.3% for developing nations and 3.3% for the global economy. It projected real GDP growth at 5.4% in 2013, when excluding South Africa, compared to an estimated growth rate of 5.1% in 2012. It attributed the strong economic performance of SSA to ongoing investments in infrastructure and productive capacity, robust consumption and the activation of new capacity in extractive industries. It noted that economies rich in natural resources, as well as low-income ones, are benefiting from robust domestic demand. It projected real GDP growth at 6.7% in 2013 for SSA's oil exporters compared to 6.5% in 2012; at 3.9% in mid-

dle-income countries relative to 3.6% last year; and at 6.9% in low-income countries compared to 4.6% in 2012. It forecast the average inflation level in SSA to moderate to 7.2% this year from 9.1% in 2012, assuming no new shocks to global fuel and food prices. It expected the region's overall current account deficit to widen to 3.5% of GDP in 2013 relative to 2.8% of GDP in 2012, mainly due to the deterioration of the terms of trade among oil exporters.

The IMF considered that external risks are the main threat to SSA's outlook. It said that the deterioration in the Eurozone crisis would weaken key commodity prices and negatively impact mineral exporters in SSA. It added that countries that regulate the prices of food and fuel products would face budgetary pressure in the event of food or oil price shocks. In parallel, the Fund considered that policy buffers in some of the region's fast-growing economies need to be replenished. As such, it encouraged authorities to strengthen their fiscal positions, mainly by addressing inefficient and poorly targeted price subsidies. Also, it called on authorities to implement reforms that promote economic diversification and employment, deepen the financial sector and address infrastructure gaps.

*Source: International Monetary Fund*

## SOUTH SUDAN

### Economic growth at 48% this year from resumption of oil production and exports

Business Monitor International projected South Sudan's real GDP to grow by 47.9% in 2013 compared to a contraction of 49.7% in 2012, making it the fastest-growing economy in the world this year. It attributed the high level of economic growth this year to statistical base effects, given the large recession in 2012 from the authorities' decision to shut down oil production in January 2012. It forecast exports and government revenues, which both are heavily dependent on oil receipts, to begin to normalize this year due to the resumption of oil production and exports. But it noted that oil production will take longer than expected to return to its full capacity level of more than 350,000 barrels per day, given the improper techniques that were used to shut off oil wells last year. As such, it forecast oil production to average a maximum of 175,000 b/d this year.

Also, BMI expected that major investments in South Sudan by the government, foreign donors and, to a much lesser extent, by the private sector would also drive economic growth in 2013. It anticipated that infrastructure will attract major investments, mainly the transport, education and healthcare sectors. It expected foreign donors to provide more than \$1.3bn to support the country's infrastructure projects, and for government consumption to grow by 8% in 2013. Further, it anticipated net exports to contribute 11.3 percentage points to real GDP growth this year due to the return of oil production. In parallel, BMI considered that the large increase in the country's overall GDP through oil revenues would stimulate significant increases in private consumption this year, both directly and indirectly, through government transfers to poorer citizens.

*Source: Business Monitor International*



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# ECONOMY & TRADE

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## KUWAIT

### **Sovereign ratings affirmed on strong balance sheet**

Standard & Poor's affirmed Kuwait's long- and short-term foreign and local currency sovereign credit ratings at 'AA/A-1+' with a 'stable' outlook. It said that the ratings are supported by the sovereign's high levels of wealth and very strong external and fiscal balance positions, which have been accumulated as a result of abundant natural resources and a prudent wealth management. It estimated the government's net asset position to be equivalent to around 2.5 times the country's GDP in 2013 and more than 350% of its current account receipts (CARs). It anticipated that the country's gross external financing needs will remain low, averaging around 50% of CARs plus usable reserves in the next four years. It estimated Kuwait's liquid external assets to be equivalent to more than 2.5 times its external debt this year. However, the agency said that the ratings are constrained by a challenging political environment, lack of transparency regarding decision-making and government assets, and limited monetary policy flexibility. It noted that the extremely limited disclosure on the size and structure of the government's assets is a rating weakness. It attributed the limited flexibility of the monetary policy to the exchange rate system, which pegs the local currency to an undisclosed basket of currencies. Further, it pointed out that Kuwait's creditworthiness is susceptible to any future sharp and sustained decline in global oil prices, given the large dependence of the economy on the hydrocarbon sector.

*Source: Standard & Poor's*

## TUNISIA

### **IMF deal to address public finance imbalances and external risks**

Business Monitor International anticipated that the \$1.75bn Stand-By Arrangement between the International Monetary Fund and Tunisia will improve the latter's fiscal and current account balances. It forecast the fiscal deficit to narrow to 7% of GDP in 2013 and to 5.8% of GDP in 2014 from 8.1% of GDP in 2012. It noted that the government has already implemented several measures to narrow the budget deficit this year, including raising fuel prices by 7%, reducing subsidies on state-produced milk, increasing taxes on alcohol, and imposing a 1% tax on monthly salaries of more than \$1,000. It added that the government would need to undertake more measures to further reduce the deficit this year as the IMF agreement stipulates, including more cuts to subsidies and further tax increases. But it noted that the government will avoid implementing drastic cuts, in order to calm frequent protests over the cost of living and over the government's handling of the economy. Further, it forecast the current account deficit to narrow to 7.3% of GDP in 2013 and to 6.6% of GDP in 2014 from 8.2% of GDP in 2012. It said that the IMF deal will help Tunisia avoid a balance of payments crisis this year, as it will improve investors' confidence in the sovereign risk profile and increase international donors' willingness to support the economy. It noted that this will ensure the sustainability of the country's external position.

*Source: Business Monitor International*

## DEM REP CONGO

### **Economic activity to slow down over the medium term**

Business Monitor International forecast real GDP growth in the Democratic Republic of Congo (DRC) to slow down to around 6% annually between 2014 and 2017 compared to an average growth rate of 7.4% between 2010 and 2013, due to lower global commodity prices, a maturing copper industry and rising domestic instability. It said that the expected slowdown in China's growth in the coming years, as the economy shift towards a growth model based on domestic consumption, would depress Chinese demand for copper, discourage foreign investment in the DRC, and reduce growth in the minerals sector. It added that foreign miners have overlooked the DRC's complex and volatile business environment in recent years due to the promise of rapid production increases and light taxation. But it noted that mining firms will be less willing to invest in the DRC given the expected fall in global commodity prices and the tense political environment. As such, it anticipated that the DRC's undiversified economy will struggle to attract FDI inflows similar to levels reached in recent years. In parallel, BMI cautioned that the deceleration of growth in the DRC's mining sector would weigh on overall growth over the medium-term, given the lack of other large-scale industries, the country's heavy dependence on imports, and large trade deficits.

*Source: Business Monitor International*

## AFRICA

### **Bilateral trade with China to reach \$385bn by 2015**

Standard Chartered Bank projected bilateral trade between China and Africa to reach \$248bn in 2013, constituting a rise of 25% from \$198.5bn in 2012. It forecast bilateral trade to increase to \$385bn in 2015, which would constitute a 35-fold increase from \$11bn in 2001. It said that a return to a marginally higher growth rate in China this year and stronger Chinese demand for African commodities would drive the rise in bilateral trade. It added that African demand for Chinese capital goods and manufactured exports is driven by investment needs in infrastructure and oil & gas exploration, and by growing consumption demand. Further, it expected the volume of trade settlement in the renminbi between China and Africa to significantly increase over the medium-term, supported by the growing level of bilateral trade. It anticipated that trade settlements in the Chinese currency with African countries to reach the equivalent of \$38.5bn in 2015, which would account for 10% of aggregate bilateral trade and compared to \$5.7bn, or 2.9%, of the total in 2012. In parallel, it said that China's importance as a trading partner and source of finance, as well as the increase of trade settlements in the renminbi, will push more African central banks to include the renminbi in their reserves. It noted that the acceleration of economic growth in China, a pick-up in bilateral trade with Africa, and a deepening of local knowledge of products denominated in the renminbi will drive a rapid regionalization of the renminbi in Africa. It expected that an increasing number of African central banks will use the renminbi to diversify their foreign exchange reserves.

*Source: Standard Chartered*



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# BANKING

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## EMERGING MARKETS

### Lending conditions improve in first quarter

The Emerging Markets Lending Conditions Index reached 50.6 in the first quarter of 2013 compared to 50.5 in the previous quarter and to 48.6 in the same quarter last year. The Lending Conditions Index for Africa & the Middle East (AME) region was the highest globally at 51.4 in the first quarter, up from 50.8 in the preceding quarter; the index for Emerging Europe (EE) increased to 51.3 from 50.4 in the fourth quarter of last year, that for Latin America (LA) regressed to 50 from 51.5 in the previous quarter; and the index for Asia increased to 49.9 from 49.4 in the preceding quarter. The improvements in the scores of AME and EE reflect a large increase in demand for loans, while the flat scores of LA and Asia reflect an improvement in their funding conditions that was offset by a decline in loan demand and a tightening in credit standards. The survey said that the Funding Conditions Index fell to 55.8 in the first quarter of the year from 57 in the fourth quarter of 2012, but remains above the 50 level that reflects a loosening of funding conditions. Also, the Trade Finance Index regressed to 54.6 in the first quarter of the year from 55.7 in the preceding quarter, but it still indicates that overall conditions for global trade finance continued to improve, especially in the AME region. Further, the Loans Demand Index improved to 51.1 from 50.8 in the preceding quarter, indicating acceleration in demand for loans. Also, the NPLs index improved to a six-quarter high of 49.1 from 46.2 in the fourth quarter of last year; while the Credit Standards index declined marginally by 46.4 in the first quarter of 2013 from 46.5, indicating that EM banks continued to tighten credit standards across all major loan categories.

Source: *Institute of International Finance*

## EGYPT

### Private sector lending up 6% in January 2013

Figures issued by the Central Bank of Egypt show that total assets reached EGP1,473.3bn at the end of January 2013, constituting an increase of 2.2% from end-2012 and a rise of 13% from end-January 2012. Loans totaled EGP524bn at end-January 2013 and increased by 7.1% from a year earlier. The private sector's aggregate lending reached EGP487.7bn and rose by 7.8% year-on-year; while public sector lending amounted to EGP36.3bn and declined by 1.6% from end-January 2012. Public-sector lending in foreign currency grew by 15.6% year-on-year, while public sector credit in local currency fell by 23.8% annually in January 2013. Further, total deposits reached EGP1,114bn and increased by 12.3% from end-January 2012, with private sector deposits totaling EGP989.7bn at end-January 2013 and rising by 13.6% year-on-year. Private sector deposits in foreign currency rose by 18.3% year-on-year to the equivalent of EGP222.8bn at the end of January 2013; while private sector deposits in local currency rose by 12.3% from end-January 2012 to EGP766.9bn. Public sector deposits totaled EGP124.2bn at end-January 2013, up by 2.4% annually. The dollarization rate of private sector deposits reached 22.5% at the end of January 2013 relative to 21.6% a year earlier. The private sector loans-to-deposits ratio was 49.3% at end-January 2013 relative to 51.9% a year earlier.

Source: *Central Bank of Egypt, Byblos Research*

## NIGERIA

### Banking sector's activity to maintain growth momentum

Business Monitor International anticipated that Nigeria's banking sector will maintain its growth momentum for 2013, supported by solid economic growth and a growing demand for financial services. It said that official programs, such as the plan that allows the government to assume a large part of the risk in lending to the agricultural sector, will help further expand the pool of potential banking clients and borrowers. It added that the introduction of Islamic banking last year offers room for further growth of the banking industry. BMI indicated that the banking sector continued to recover last year, but at a slower-than-anticipated pace. It noted that the sector's aggregate assets rose by 9.1% to NGN19.3 trillion, or \$124.4bn, at end-2012 and loans grew by 7.4% last year; with private-sector lending growing by 5.3% in 2012 compared to a contraction of 3.5% in 2011. Also, deposits increased by 14.7% to NGN13.1 trillion. It added that the expansion of assets and loans was below the expected growth rate of 12% for both indicators in 2012, while the increase in client deposits was in line with expectations. It noted that the perceived risk level of lending relative to holding government bonds is receding, as the growth in private sector credit significantly outperformed that of banks' government bonds portfolio. It added that the loan-to-deposit ratio stood at 74% at the end of 2012 compared to a ratio of over 100% in the lead-up to Nigeria's banking crisis in 2009. It forecast private-sector loans to grow by 12% and for client deposits to expand by 20% this year.

Source: *Business Monitor International*

## IRAN

### Pressure on currency persists

Business Monitor International indicated that Iran's decision to gradually allow fewer importers to buy US dollars at the official rate of IRR12,260 per dollar highlights the severity of pressure on foreign currency reserves and reflects a de-facto devaluation of the rial. It said that Iran stopped allocating US dollars at the official rate since April 24th to importers of medicines and staple goods, including meat, chicken, cooking oil and sugar. As such, it noted that all strategic imports, with the exception of wheat, barley and soya bean, will be imported using the rate of around 24,570 rial for the dollar. Further, it expected the confidence in the rial to weaken over the coming weeks, leading to the currency trading at IRR39,000 against the dollar on the black market compared to a current level of IRR35,900 to the dollar. Also, it raised its forecast for the average inflation rate to 28% in fiscal year 2013/14 as the government's decision would put upside pressure on prices. It pointed out that the low confidence in the rial and elevated inflationary pressures will continue to negatively affect private consumption and fixed capital formation. BMI anticipated that the authorities will be forced to stop allocating dollars at the official rate in the event of a faster-than-projected fall in the level of foreign currency reserves. It noted that this will transform Iran's foreign exchange system from a multiple-tier system to a two-tier system, with the official rate set at around IRR25,000 to the dollar.

Source: *Business Monitor International*



# ENERGY / COMMODITIES

## Brent oil prices to decrease by 5% in 2013

Global oil supply is projected to grow by an average annual rate of 2.1% in 2013 and 2014 due to expansions in North American and Iraqi production capacities. The Organization of Petroleum Exporting Countries' (OPEC) output growth is expected to slow down to 2.2% during the 2013-14 period, from 4.2% in 2012. In parallel, the crude oil market is anticipated to post its second consecutive annual surplus of 0.5 million barrels per day (b/d) this year, as supply outweighs demand. Crude oil prices are forecast to rise in the second half of 2013 due to stronger-than-expected global economic activity. Brent crude prices are forecast to average \$103.5 a barrel in the second quarter of 2013, while those of WTI crude oil are expected to reach \$88 a barrel on average during the same quarter. Overall, Brent crude prices are projected to decrease by 4.8% year-on-year to \$106.6 a barrel in 2013; while those of WTI crude oil are forecast to decline by 3.4% year-on-year to \$91 a barrel this year. The WTI-Brent price differential is projected to narrow during the 2013-14 period. In parallel, Brent ICE futures prices decreased by 5.8% in April to \$103.7 a barrel, WTI NYMEX futures prices regressed by 3% to \$94.6 a barrel, while prices of U.S. natural gas Henry Hub prices rose by 3% to \$4.3 per million British thermal unit in April 2013.

Source: *Economist Intelligence Unit, Byblos Research*

## Iraqi oil exports up 7.6% in April 2013

Iraq's crude oil exports reached an average of 2.6 million b/d in April 2013, constituting an increase of 7.6% from 2.417 million b/d in the previous month. Iraqi crude oil production rose by about 16% month-on-month to 3.1 million b/d in April, while it is forecast to reach 3.4 million b/d in 2014. Iraq is currently the second-largest crude oil producer among OPEC countries.

Source: *Thomson Reuters, Byblos Research*

## Qatar to have the world's largest condensate refinery by 2016

Qatar Petroleum (QP) signed a joint venture agreement with Total, Idemitsu, Cosmo, Marubeni and Mitsui for the construction of the Laffan Refinery 2 (LR2) project. The \$1.5bn project is expected to be completed in the second half of 2016. Under the agreement, QP will own 84% of the project, followed by Total with 10%, while the remaining companies would own the residual stake. LR2 is forecast to produce a capacity of about 146,000 b/d, similar to that of the LR1 project that became operational in 2009. The combined 300,000 b/d capacity of LR1 and LR2 would make the plant the world's largest condensate refinery. The LR2 project is consistent with Qatar's energy strategy to raise export proceeds from the sale of higher-value refined products.

Source: *Business Monitor International, Qatar Petroleum*

## Iran's oil exports reach a 26-year low in 2012

Iran's oil exports dropped by about 40% to an average of 1.5 million b/d in 2012, constituting its lowest level since 1986. As such, the country's oil revenues reached a three-year low of \$69bn in 2012, constituting a decline of 27.4% from \$95bn in 2011. The drop in Iranian oil exports was mainly attributed to Western-imposed sanctions. Iran's oil exports account for about 80% of the country's total export earnings and for about 55% of the government's revenue.

Source: *Financial Times, Energy Information Agency*

## Base Metals: Zinc prices to grow by 6% in second quarter of 2013

Global zinc production is anticipated to reach 13.5 million tons in 2013, constituting an increase of 6.8% from 12.6 million tons in 2012. China's zinc production is forecast to reach 5.2 million tons in 2013, equivalent to 38.5% of global supply. It would be followed by EU countries with 2.1 million tons (15.2%), India with 0.9 million tons (6.6%) and Canada with 0.7 million tons (5.5%). In parallel, global zinc demand is projected to grow by 4.7% year-on-year to 12.9 million tons in 2013. China's zinc consumption is anticipated at 5.7 million tons in 2013, equivalent to 44% of global demand. It would be followed by EU countries with 2 million tons (15.7%), the United States with 0.9 million tons (7%) and India with 0.6 million tons (4.8%). The zinc market is expected to remain in surplus in 2013 and 2014. Global zinc prices are forecast to grow by 6.4% year-on-year to an average \$2,050 per metric ton in the second quarter of 2013.

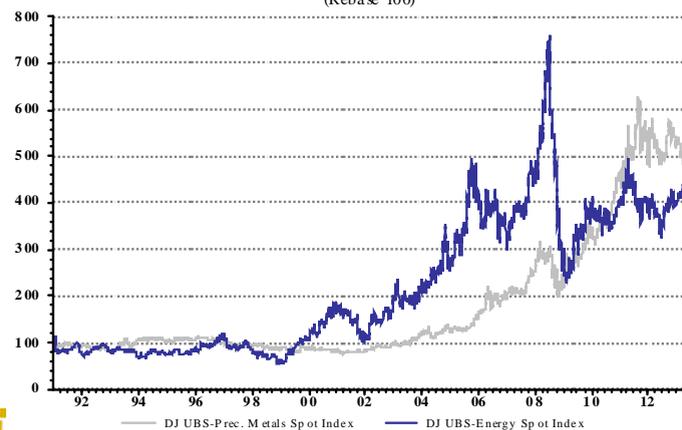
Source: *Economist Intelligence Unit, Byblos Research*

## Precious Metals: Gold prices to drop by 12% in 2013

Gold prices reached a two-year low of \$1388 a troy ounce on April 17 this year, constituting a decline of 13% from end-March 2013 and a drop of 16.5% from end-2012. The substantial drop in prices was mainly attributed to hedge fund managers' heavy divestures of their gold exchange traded funds' holdings, which were followed by a wave of automated stop-loss order selling. In addition, the Cypriot government's decision to sell most of its gold reserves has accentuated the fall in prices as investors assumed that some of the weak Eurozone economies, such as Italy and Spain, would follow suit. But prices have since recovered as consumers and retailers' demand significantly increased due to the metal's relatively lower prices. Gold prices are projected to trend higher over the coming six months due to a rise in long-term investors' demand. Gold prices are forecast to average \$1,470 a troy ounce in 2013, constituting a decline of 12.4% from \$1,677 a troy ounce on average in 2012. In parallel, the price of gold decreased by 7.6% in April to \$1,474.8 a troy ounce on April 30th, while that of silver regressed by 14.5% to \$24.2 a troy ounce over the same month. Also, palladium prices declined by 8.9% in April to \$699.7 a troy ounce and platinum prices fell by 4.2% to \$1,509.4 a troy ounce during the same month.

Source: *Standard Chartered, Byblos Research*

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



Source: *Thomson Reuters Datastream, Byblos Research*



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



# 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								
<b>Asia</b>													
Armenia	-	Ba2	BB-	-	-	-3.1	34.2	73.3	148.0	11.9	459	-9.8	4.7
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	A	BBB	-1.3	22.2	9.6	47.1	1.7	23.4	2.3	1.7
	Stable	Stable	Stable	Stable	Stable								
India	BBB-	Baa2	BBB-	BBB-	BB	-9.5	67.6	19.8	90.3	6.3	146.6	-3.8	1.5
	Negative	Stable	Negative	Stable	Stable								
Kazakhstan	BBB+	Baa2	BBB-	-	BB	3.5	12.4	66.8	131.8	17.5	611.8	6.2	5.7
	Stable	-	Stable	-	Stable								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa3	BBB-	-	BB	-0.5	18.9	86.2	141.0	22.8	285.4	1.1	3.6
	Stable	Stable	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	BBB-	B	-2.2	34.6	76.6	178.9	25.2	315.4	-3.7	1.0
	Stable	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	0.5	11.0	29.5	90.6	11.8	123.1	5.2	-0.1
	Stable	Positive	Stable	-	Stable								
Turkey	BB+	Ba1	BBB-	BB+	B	-1.5	36.8	42.5	178.8	33.0	341.1	-6.1	1.4
	Stable	Positive	Stable	Stable	Stable								
Ukraine	B	B3	B	-	CC	-4.5	38.3	78.5	143.5	34.3	472.2	-8.3	2.9
	Negative	Negative	Stable	-	Stable								

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	0.50	02-May-13	Cut 25bps	16-May-13
UK	Bank Rate	0.50	04-Apr-13	No change	09-May-13
Japan	O/N Call Rate	0-0.10	04-Apr-13	No change	26-Apr-13
Australia	Cash Rate	3.00	02-Apr-13	No change	07-May-13
New Zealand	Cash Rate	2.50	24-Apr-13	No change	13-Jun-13
Switzerland	3 month Libor target	0.00	14-Mar-13	No change	20-Jun-13
Canada	Overnight rate	1.00	17-Apr-13	No change	29-May-13
<b>Emerging Markets</b>					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	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	11-Apr-13	No change	09-May-13
Malaysia	O/N Policy Rate	3.00	07-Mar-13	No change	09-May-13
Thailand	1D Repo	2.75	03-Apr-13	No change	29-May-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	5.00	16-Apr-13	Cut 50bps	16-May-13
South Africa	Repo rate	5.00	20-Mar-13	No change	23-May-13
Kenya	Central Bank Rate	9.50	Apr-13	Cut 150bps	03-May-13
Nigeria	Monetary Policy Rate	12.00	19-Mar-13	No change	21-May-13
Ghana	Prime Rate	15.00	15-Apr-13	No change	26-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	17-Apr-13	No change	29-May-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	0.02	01-May-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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