

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

CEOs more positive about growth prospects

PricewaterhouseCoopers' annual Global CEO Survey for 2013 indicated that CEOs worldwide are more positive about a recovery in the global economy than they were last year, as only 28% of respondents expect the global economy to contract in 2013 compared to 48% of CEOs in the 2012 survey. But the survey indicated that CEOs' confidence about the prospects of revenue growth over the short-term continued to fall, as only 36% of respondents worldwide are very confident about the prospects for revenue growth over the next 12 months, down from 40% last year and 49% in 2011. In parallel, 75% of CEOs said that their businesses would be negatively affected by major social unrest in the country where they are based, followed by a recession in the U.S. (67%), a cyber attack or a major disruption of the Internet (63%), a natural disaster disrupting a major trading or a manufacturing hub (56%), a breakup of the Eurozone and military or trade tensions affecting access to natural resources (53% each), health crisis (52%) and a fall in China's annual GDP growth to below 7.5% (51%). Further, 81% of CEOs considered that uncertain or volatile economic growth constitute the main potential economic and policy threats to their business growth prospects, followed by their government's response to the fiscal deficit and public debt (71%), overregulation (69%) and capital market volatility (61%). Also, 62% of CEOs said that tax increases are the main potential business threat for their growth prospects, followed by the availability of key skills (58%), the costs of energy and raw materials (52%) and a shift in consumer spending (49%).

Source: PricewaterhouseCoopers

EMERGING MARKETS

Outlook on bank ratings improves in first quarter of 2013

Fitch Ratings indicated that there were 46 'negative' outlooks on the ratings of emerging market banks in the first quarter of 2013, compared to 49 in the fourth quarter of 2012, 58 in the third quarter and 51 in the second quarter of 2012. In parallel, the number of 'positive' outlooks totaled five in the first quarter of 2013, down from seven in each of the fourth and third quarters of 2012, and from six in the second quarter of last year. Also, the number of 'stable' outlooks decreased marginally to 295 in the first quarter of 2013 from 296 in the preceding quarter, but increased from 284 in the third quarter and 291 in the second quarter of last year. Overall, 82.4% of bank outlooks in emerging markets are 'stable', 12.9% are 'negative' and 1.4% are 'positive'. In parallel, 95% of outlooks in the Middle East & Africa are 'stable', 3% are 'negative' and 1% are 'positive'; while 82% of outlooks in Emerging Asia are 'stable' and 16.4% are 'negative'. Also, 77.8% of outlooks in Emerging Europe are 'stable' and 15.9% are 'negative'; while 73.2% of outlooks in Emerging Americas are 'stable', 18.3% are 'negative' and 5.7% are 'positive'. Further, Fitch has 2.2% of bank ratings in emerging markets on 'negative watch'.

Source: Fitch Ratings

MENA

Arab investment climate is third least attractive in the world

The Dhaman Investment Attractiveness Index for 2013 shows that Arab economies are the third least attractive destination for foreign direct investment globally. The index gave the region an average score of 28 points, better than only South Asia's score of 24.3 and Africa's score of 21 points. The index ranked the member countries of the OECD as the most attractive destination for FDI with a score of 49.1 points, followed by the East Asia & Pacific region (35.9 points), Europe & Central Asia (33.3 points) and Latin America & Caribbean (28.1 points). The index measures 114 sub-indicators that are grouped in three categories that are FDI Prerequisites, Underlying Factors and Externalities. The Arab region is the third least attractive globally on the Prerequisites category, which includes factors such as economic stability, financing capacity, proper governance and public management, and the social and corporate environment. It is better than South Asia and Africa on this category. Also, Arab economies are the fourth least attractive on the Underlying Factors category, which reflects the criteria adopted by firms to select an investment destination such as market size and exit barriers, human and natural resources, cost factors and infrastructure development. The Arab region is better than Latin America, South Asia, and Africa on this category. Finally, the Arab region is the second least attractive on the Externalities category, which represents various factors that differentiate countries in terms of competitive advantage and technological progress. It performed better than only Africa.

Source: Arab Investment & Export Credit Guarantee Corp.

Middle East airlines outperform peers from other regions in first quarter of 2013

Figures released by the International Air Transport Association indicate that Revenue-Passenger-Kilometers (RPK) for Middle East airlines, which measures actual passenger traffic, grew by 12.9% in the first quarter of 2013 compared to the same quarter last year, constituting the highest annual growth rate across regions. They were followed by African airlines with an 8.1% growth rate, Latin American airlines with 5.7%, Asia-Pacific airlines with 5.3%, European airlines with 1.9% and North American airlines with 1.8%. International travel on Middle East airlines grew by 13.9% annually in the first quarter of the year, followed by Latin American airlines (10.2%), African airlines (8.1%), Asia-Pacific airlines (3.4%), European airlines (2.2%) and North American airlines (1.5%). In parallel, Available-Seat-Kilometers (ASK) on Middle East airlines, which measures available passenger capacity, rose by 11.9% in the first quarter of 2013 from the same period last year. They were followed by African airlines with a 4.6% improvement, Latin American airlines with a 3.9% increase and Asia-Pacific airlines with a 3.9% rise; while North American airlines' capacity contracted by 0.1% and the ASK of European airlines fell by 0.6%.

Source: International Air Transport Association

OUTLOOK

IRAQ

Real GDP growth to stay above 8% over medium term, risks still elevated

The International Monetary Fund projected Iraq's real GDP growth at 9% in 2013 compared to 8.4% in 2012. It forecast hydrocarbon output to grow by 12.8% in 2013 compared to 11.2% in 2012, and for the non-hydrocarbon sector to increase by 6% in 2013 relative to 6.3% last year. It forecast the average inflation level at 4.3% in 2013 relative to 6.1% in 2012. It considered that Iraq's macroeconomic outlook will continue to be driven by developments in the hydrocarbon sector over the medium-term, and forecast oil production to increase to 3.33 million barrels per day (b/d) in 2013 from 2.95 million b/d in 2012. It anticipated that the annual economic growth rate will remain above 8% over the medium-term as oil production will gradually rise to 5.7 million b/d by 2018. But it noted that the Iraqi economy suffers from severe structural weaknesses, such as a small non-oil sector, public sector dominance of the economy, and a weak business environment.

The Fund forecast the fiscal surplus to narrow to 1.6% of GDP this year from 4.1% of GDP in 2012. It said that the rise in the fiscal breakeven oil price makes the fiscal performance very vulnerable to drops in oil prices and exports. It noted that the full execution of the 2013 budget raises fiscal risks, such as the possible depletion of fiscal reserves given the budget's large unfunded commitments. It projected gross foreign exchange reserves at \$80.1bn in 2013, equivalent to 9.7 months of imports, relative to \$70.3bn in 2012 or 9.3 months of imports cover. It also forecast fiscal reserves held at the Development Fund of Iraq at \$18.9bn this year compared to \$18.1bn last year. Further, it projected the current account surplus to narrow to 3.8% of GDP in 2013 from 7% of GDP in 2012.

The IMF considered that risks to Iraq's macroeconomic outlook remain high and include weak policy implementation, further deterioration of the political and security situation, a larger-than-anticipated decline in global oil prices, and delays in developing oil fields and oil export capacity. It considered that such risks would lead to lower oil revenues, a deterioration in the fiscal position, higher inflation rates and pressures to use foreign reserves for fiscal purposes. As a result, the IMF called on authorities to build fiscal buffers, strengthen the institutional framework, implement sustainable fiscal policies, and address risks from oil revenue volatility.

Source: International Monetary Fund

SUDAN

Economy to resume growth in 2013, current account deficit to narrow to 7% of GDP

The International Monetary Fund projected real GDP in Sudan to grow by 1.2% in 2013 and by 2.6% in 2014, relative to a contraction of 4.4% in 2012, and compared to growth of 2.7% and 3.7% in 2013 and 2014, respectively, for oil importers in the MENA region. It estimated the country's nominal GDP at \$50.6bn in 2013 and at \$59.8bn in 2014, relative to \$59.9bn in 2012. It forecast Sudan's annual average inflation rate at 28.4% in 2013 and 29.4% in 2014, relative to 35.5% in 2012. Also, it

forecast broad money to grow by 28% this year and 27.1% next year, relative to 40.3% in 2012.

In parallel, the Fund projected the fiscal deficit at 4% of GDP in 2013 and at 3.7% of GDP in 2014, relative to a deficit of 5% of GDP in 2012. It estimated public revenues to reach 9.9% of GDP in 2013 and 9.2% of GDP in 2014, compared to 9.7% of GDP in 2012, and for total expenditures to regress from 15.1% of GDP in 2012 to 14.8% of GDP this year and 13.6% of GDP next year. The IMF expected Sudan's public debt to reach 102.9% of GDP at end-2013 from 97.6% at end-2012. It also forecast total gross external debt to increase to 88.3% of GDP in 2013 from 72.1% of GDP in 2012. Further, the Fund estimated Sudan's exports of goods & services to increase from \$5.3bn in 2012 to \$5.6bn in 2013 and \$6.3bn in 2014; and for imports of goods & services to contract from \$10.6bn in 2012 to \$7.5bn in 2013 and \$8.3bn in 2014. It forecast the country's current account balance to post a deficit of \$3.5bn in each of 2013 and 2014, equivalent to 6.9% of GDP and 5.9% of GDP, respectively, and relative to a deficit of \$6.7bn or 11.2% of GDP in 2012. The Fund expected gross official reserves to improve to \$1.9bn in 2013 and \$2.1bn in 2014 from \$1.7bn at end-2012.

Source: International Monetary Fund

ARMENIA

Real GDP growth at 4.3%, fiscal deficit at 2.8% of GDP in 2013

The International Monetary Fund projected economic growth in Armenia at 4.3% for 2013 and 4.1% for 2014 compared to growth in oil-importing countries in Caucasia & Central Asia (CCA) of 6% in 2013 and 5.8% in 2014, and to growth in all CCA countries of 5.8% in 2013 and 6.1% in 2014. It forecast Armenia's annual average inflation rate at 4.2% in 2013 and 4% in 2014 relative to 2.5% in 2012, and compared to 4.7% and 5.5% for the region's oil-importing countries in 2013 and 2014, respectively. Also, it expected broad money to grow by 13.1% this year and 13% next year compared to 19.6% in 2012. The Fund projected the government's fiscal deficit to widen to 2.8% of GDP in 2013 and 2.3% of GDP in 2014, from 1.5% of GDP in 2012. It estimated public revenues at 22.9% of GDP in 2013 and 23.2% of GDP in 2014 relative to 22% of GDP in 2012, and total expenditures at 26.5% of GDP this year and 26.4% of GDP next year, compared to 24.5% of GDP last year.

The IMF expected Armenia's public debt to increase to 42.6% of GDP at end-2013 and 45.2% of GDP at end-2014 from 39.5% of GDP at end-2012. It also forecast total gross external debt at 79.1% of GDP at end-2013 and 81.7% of GDP at end-2014 relative to 78.9% of GDP in 2012, and compared to external debt in CCA countries of 45.2% of GDP in 2013 and 42.8% of GDP in 2014. Further, the Fund estimated Armenia's exports of goods & services to rise to \$2.8bn in 2013 and \$3.1bn in 2014 from \$2.6bn in 2012, and for imports of goods & services to grow to \$5.2bn in 2013 and \$5.4bn in 2014 from \$5bn in 2012. It projected the country's current account deficit at \$1bn or 9.6% of GDP in 2013 and at \$0.8bn or 8.2% of GDP in 2014, relative to \$1.1bn or 10.6% of GDP in 2012. The Fund expected the country's gross official reserves to reach \$1.6bn at end-2013 and \$1.7bn at end-2014, down from \$1.8bn at end-2012.

Source: International Monetary Fund

ECONOMY & TRADE

SYRIA

Hospitality sector hit hard by instability

Global hotel consulting firm HVS estimated the average occupancy rate at Damascus hotels at 15% in 2012, down from 21% in 2011 and 74% in 2010; and occupancy at Aleppo hotels at 2% last year, down from 15% in 2011 and 56% in 2010; while rates at Latakia hotels were 24% last year compared to 17% in 2011 and 44% in 2010. The average occupancy rates at Aleppo and Damascus hotels were the lowest and second-lowest rates among 45 cities in the Middle East; while rates at Latakia hotels were the fourth lowest in the region. In parallel, the average rate per room at Damascus hotels reached \$108 in 2012, constituting a drop of 35% from \$168 in 2011 and of 54% from \$233 in 2010; and the average rate at Aleppo hotels was \$66 last year, down by 42% from \$115 in 2011 and by 45% from \$120 in 2010; while rates at Latakia hotels were \$65 in 2012 relative to \$70 in 2011 and \$103 in 2010. Aleppo and Damascus hotels posted, respectively, the steepest and the third-steepest drops in the region in their average room rates last year. Further, revenues per available room (RevPAR) at Damascus hotels were \$16 in 2012 relative to \$35 in 2011 and \$172 in 2010, and those at Aleppo hotels reached \$2, down from \$17 in 2011 and \$67 in 2010; while the RevPAR at Latakia hotels stood at \$16 relative to \$12 in 2011 and \$46 in 2010. The contraction in RevPAR at Aleppo and Damascus hotels were the steepest and the second steepest in the Middle East.

Source: HVS, Byblos Research

JORDAN

Sovereign ratings downgraded on fiscal and current account deterioration

Standard & Poor's reduced Jordan's long-term foreign and local currency sovereign credit ratings to 'BB-' from 'BB' and kept the 'negative' outlook on the ratings. It also downgraded the transfer & convertibility assessment to 'BB+' from 'BBB-', and affirmed the short-term sovereign credit ratings at 'B'. It attributed the downgrade to the weakening of the country's external and fiscal profiles in the past two years due to lower foreign grants, weaker terms of trade and high global oil prices. It said that the government's actions have prevented a balance-of-payments crisis and are expected to stabilize the fiscal and external accounts in the medium-term. It noted that these actions include a series of fiscal measures and structural reforms, an agreement with the International Monetary Fund, an investment program with GCC economies equivalent to 15% of 2013 GDP, and an effective management of foreign currency reserves. But it noted that these measures will not reverse the deterioration in the current account and fiscal balances. It expected external vulnerabilities to remain, as the risk of losing donor supports persists and the country's terms of trade remain unfavorable. It forecast the fiscal deficit to widen to 4% of GDP in 2013, and for the net government debt to rise to 51% of GDP in 2014 from 44% of GDP in 2011. The agency said that it would downgrade the ratings in the event of a significant rise in Jordan's financing needs or deterioration in the domestic political environment.

Source: Standard & Poor's

SAUDI ARABIA

Non-oil private sector to grow by 7.6% in 2013

The International Monetary Fund indicated that Saudi Arabia's economy face several challenges that include creating jobs, addressing housing needs, and managing the rising domestic demand for natural resources. It considered that the government needs to reduce the reliance of nationals on public sector jobs, implement measures to increase the competitiveness of Saudi workers, and maintain solid growth in the non-oil private sector. It forecast the non-oil private sector to grow by 7.6% in 2013. It noted that the government is investing in the infrastructure sector and is adopting a number of measures to support small and medium-sized enterprises. Further, it expected domestic energy consumption to continue to grow in the coming years despite the implementation of measures to improve domestic energy efficiency and the development of alternative energy sources. As such, it encouraged authorities to gradually adjust energy prices in order to curb the growth of domestic energy consumption. In parallel, the Fund cautioned from increased inflationary pressures from strong economic growth. It expected the slowdown in government spending this year to help contain demand pressures. It noted that the government needs to adjust its macroprudential policy or slow down its capital spending projects in the event of higher-than-expected increase in inflation levels or the materialization of supply bottleneck.

Source: International Monetary Fund

TURKEY

Sovereign ratings raised to investment grade

Moody's Investors Service upgraded Turkey's government bond ratings by one notch to 'Baa3' from 'Ba1' with a 'stable' outlook. It also raised the long-term foreign currency bond ceiling to 'Baa1' from 'Baa2', the long-term foreign currency deposit ceiling to 'Baa3' from 'Ba2', and the short-term foreign currency deposit ceiling to 'P-3' from 'NP'. It maintained the country's short-term foreign currency bond ceiling at 'P-2' and the local currency bond and deposit ceilings at 'A3'. It attributed the upgrade to investment-grade level to expectations of further improvements in the country's key economic and public finance metrics over the coming years; as well as to progress on structural and institutional reforms that would reduce existing vulnerabilities to shocks to international capital flows over the long-term. It expected the decline in the public debt level to continue in coming years. It noted that Turkey's ability to finance its outstanding debt is supported by the relatively low and decreasing share of its foreign currency-denominated debt, which fell to 27.4% of the total in 2012 from 46.3% in 2003. It considered that the increase in the maturity profile of the government's debt stock has reduced its vulnerability to interest-rate increases. It pointed out that the improvements in Turkey's economic and fiscal metrics as well as the size, wealth, and diversification of its economy, strengthen its ability to withstand balance-of-payment risks in the short- to medium-term. It said that Turkey's economic strengths are stronger than many similarity-rated countries, but its external vulnerabilities are among the highest in its ratings category.

Source: Moody's Investors Service



BANKING

GCC

Islamic finance to fill gap from European banks' retrenchment

The Institute of International Finance anticipated that Gulf Cooperation Council (GCC) economies will increase their reliance on Sharia-compliant securities to finance projects in their economies. It said that the increased reliance in the GCC region on Islamic finance reflects the fall in lending from European banks to the region in the past two years, regional banks' strategy to limit their concentration risk, improvement in the region's macroeconomic environment, higher global oil prices, improved liquidity in the GCC's banking systems, and the region's large financing needs for infrastructure spending. However, the IIF indicated that GCC countries need to develop regulatory guidelines and standards specific to Islamic finance. It said that the industry is currently governed by a loose network of national regulatory bodies that guide regulatory issues, and by Sharia scholars and standard-setting entities that insure Sharia compliance. It noted that authorities' efforts to provide a robust regulatory framework for Islamic banking have not kept up with the rapid growth of the industry. As such, it considered that authorities need to address several issues facing the Islamic banking industry such as further improvements in oversight and in regulatory and risk management, the development of secondary markets, the availability of professionals with expert knowledge in Sharia-compliant finance, and greater consistency in applying standards across jurisdictions. Islamic banking assets at GCC commercial banks reached \$445bn in 2012, constituting a 14% increase from \$390bn in 2011.

Source: *Institute of International Finance, Ernst & Young*

EGYPT

Deposit dollarization to increase

Business Monitor International expected the dollarization rate of deposits in Egypt's banking sector to continue to increase over the coming months due to expectations of further depreciation of the Egyptian pound, lack of coordinated government policy, and political uncertainties. It expected authorities to impose more rigid capital controls in order to limit capital outflows, and to increase interest rates on local-currency deposits in the near-term in order to limit the dollarization of deposits. But it anticipated a loss of confidence in the banking sector, given the lack of policy clarity. In parallel, BMI indicated that the downward trend in the banking sector's loan-to-deposit ratio since 2010 reflects a significant increase in banks' liquidity. But it noted that the increase in liquidity is mainly due to subdued lending growth, as banks have continued to purchase high-yielding government securities. It added that the banking sector is mainly financing the budget deficit rather than lending to the private sector, despite credit demand from small and medium-sized enterprises. However, BMI anticipated that banks will have less incentives to subscribe to government securities over the coming months due to the expected decline in yields. As such, it expected banks to increase their lending to the private sector and projected credit growth at 9% in 2013.

Source: *Business Monitor International*

TURKEY

Ratings on main banks upgraded following sovereign uplift

Moody's Investors Service upgraded the long-term foreign currency deposit rating of Akbank, Denizbank, HSBC Bank, Ziraat Bankasi, Turk Ekonomi Bankasi, Turkiye Garanti Bankasi, Turkiye Halk Bankasi, Turkiye Is Bankasi, Turkiye Vakiflar Bankasi and Yapi Ve Kredi Bankasi by two notches to 'Baa3' from 'Ba2', and those of Asya Katilim Bankasi and Sekerbank by one notch to 'Ba1' from 'Ba2'. It attributed its ratings actions on the 12 banks to its earlier upgrade of Turkey's sovereign ratings to investment grade, adding that the banks' ratings were previously constrained by the foreign currency deposit ceiling. Also, the agency raised the standalone baseline credit assessment (BSA) of Akbank, Turkiye Garanti Bankasi, Turkiye Halk Bankasi and Turkiye Is Bankasi to 'baa3' from 'ba1', and kept the four bank's Bank Financial Strength Rating at 'D+' with a 'stable' outlook. It said that the four banks' standalone credit profiles improved due to the improvement in the sovereign's credit strength. It noted that the four banks benefit from strong franchises and financial profiles that help them address the challenges of a fast-evolving Turkish banking system. Further, it upgraded the long-term issuer and senior debt rating of Export Credit Bank of Turkey, a government-related issuer, to 'Baa3' from 'Ba1'; and its BCA to 'baa3' from 'ba1'. The agency indicated that it would downgrade the banks' ratings in the event of deterioration in the operating environment, or a weakening of the banks' standalone financial fundamentals or those of the national government.

Source: *Moody's Investors Service*

INDIA

Pressure on asset quality on the rise

Fitch Ratings anticipated that the Central Bank of India's recent 25 basis points rate cut will not significantly ease asset-quality pressures nor will it help Indian banks correct their funding imbalances. It identified the infrastructure sector as representing the biggest risk for Indian banks in the fiscal year ending in March 2014, which would put pressure on their asset quality and exacerbate their structural funding mismatches. It noted that the long-term nature of infrastructure assets leaves banks more exposed to asset and liability mismatches, as credit expansion has outpaced deposit growth. It added that the persistent negative real interest rates have channeled domestic savings to alternative investments, leading to an increase in the banking system's loans-to-deposit ratio to 78% at end-March 2013 from 72% at end-March 2010. It noted that banks' reliance on costly short-term funding, such as certificates of deposit and bulk deposits, would increase their refinancing risks as well as the volatility of their funding cost. It expected the growth of restructured loans to exceed that of non-performing loans (NPL) and assets. It noted that the infrastructure sector accounted for around 23% of corporate debt restructurings at end-March 2013, up from 20.5% a year earlier. It estimated the NPL ratio at 4.2% in FY2012/13 and expected it to marginally increase to 4.4% in FY2013/14 as bad loans start to stabilize due to a very gradual easing of cyclical pressures.

Source: *Fitch Ratings*



ENERGY / COMMODITIES

Natural gas prices to rise by 34% in third quarter of 2013

Global natural gas production is forecast to reach 3,505 billion cubic meters in 2013, constituting an increase of 3% from 3,405 billion cubic meters in 2012. North America's gas production is expected to reach 907 billion cubic meters in 2013, equivalent to 26% of global supply. It would be followed by Eastern Europe & the Commonwealth of Independent States with 822.7 billion cubic meters (23.5%), the Middle East region with 584 billion cubic meters (16.7%) and Asia & Australia with 524 billion cubic meters (15%). In parallel, global natural gas consumption is projected to rise by 3.3% to 3,427 billion cubic meters in 2013. The natural gas market is anticipated to remain in surplus in each of 2013 and 2014. U.S. natural gas prices are expected to rise over the 2013-14 period. The U.S. natural gas Henry Hub prices are forecast to grow by 34.4% year-on-year to \$3.87 per million British thermal units (Btu) on average in the third quarter of 2013, while European natural gas prices are projected to improve by 1.5% to \$11.3 per million Btu on average in the same quarter of the year.

Source: Economist Intelligence Unit, Byblos Research

Qatar establishes \$1bn energy fund

Three state-backed entities, Qatar Electricity & Water Company (QEW), Qatar Petroleum International (QPI) and Qatar Holding (QH), announced plans to set up a new \$1bn fund, Nebras Power, to invest in overseas energy infrastructure projects. Nebras Power will invest in the fields of power generation, water desalination and treatment, heating and cooling systems, provision of fuel as well as fuel loading and unloading equipments. The QEW would own 60% of the new company, while QPI and QH will hold a stake of 20% each.

Source: Qatar Holding, Thomson Reuters

Turkey to sign commercial contracts with firms in the KRG

Turkey indicated that private and state-owned Turkish companies plan to sign commercial contracts with U.S. and Russian companies that have established operations in the Kurdistan Regional Government (KRG) in 2013 for various projects such as oil and gas exploration. Also, Turkey announced that a Turkish company already had a contract in place with the U.S. energy company Exxon Mobil. The Iraqi central government considers that direct deals between the KRG and oil companies are illegal, while the KRG defends its rights to control its oil resources as indicated in the Iraqi federal constitution. Turkey currently acts as a transport hub for the KRG's oil exports to global markets.

Source: Thomson Reuters

Armenia to subsidize rise in gas tariffs by 30%

Armenia's sole importer of gas, ArmRusgasprom CJSC, submitted an application to the Public Services Regulatory Committee to raise the country's gas prices. It proposed a tariff increase of 67.4% on consumers who use up to 10,000 cubic meters per month and it suggested a tariff rise of 61.3% on larger consumers. The move comes as a result of a decision by Russia to raise prices by 50% on gas sold to Armenia. The government indicated that it would subsidize 30% of the rise in tariffs to assist vulnerable families.

Source: Arminfo Daily News
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Base Metals: Aluminium market to remain in surplus due to weaker demand

Global aluminium demand is forecast to grow by 3.3% year-on-year to 46.8 million tons in 2013, constituting the weakest annual performance since 2009, mainly due to weaker demand from China and the Eurozone. However, global aluminium consumption growth would likely recover to 4.5% in 2014 as growth in car ownership in countries such as China and India rises. China is projected to remain the metal's main consumer in 2013 as its demand would account for about 45% of global consumption. In parallel, global aluminium production is expected to reach 48.1 million tons in 2013, constituting an increase of 4.2% from 46.2 million tons in 2012. The aluminium market is anticipated to remain in surplus in each of 2013 and 2014. As such, global aluminium prices are forecast to average \$1,900 per metric ton in the second quarter of 2013, constituting a decrease of 4% from \$1,977 per metric ton on average in the same quarter last year. Overall, aluminium prices are projected to average \$2,013 per metric ton in 2013, constituting a decline of 0.3% from \$2,019 per metric ton in 2012.

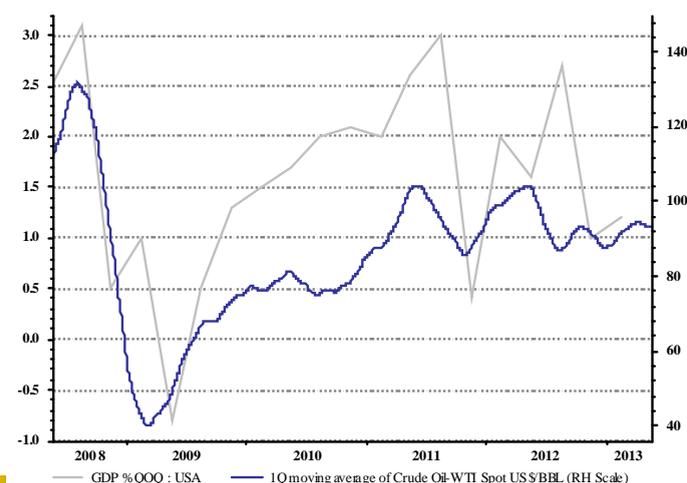
Source: Economist Intelligence Unit, Byblos Research

Precious Metals: Gold prices to ease in second quarter of 2013

Global gold consumption reached 963 tons in the first quarter of 2013, constituting a decrease of 13% from 1,107.5 in the same quarter last year, mainly due to investors' heavy divestures from gold Exchange Traded Funds. Global jewelry demand grew by 12.3% in the first quarter of this year, while total bar and coin investments' consumption rose by 10.3% year-on-year in the covered quarter due to a rise in Chinese and Indian consumption levels. In parallel, Central Banks' net purchases decreased by 5.2% year-on-year to 109.2 tons in the first quarter of 2013, while total gold technology demand contracted by 3.6% to 102 tons in the first quarter of 2013. Gold prices are anticipated to remain under pressure in the near term as the metal's role of a safe haven asset diminish. Also, global risk factors such as the U.S. debt ceiling would likely be insufficient to revive investors' demand. Gold prices are forecast to average \$1,400 a troy ounce in the second quarter of 2013, and to drop to an average of \$1,350 a troy ounce in the same quarter of 2014.

Source: World Gold Council, Julius Baer, Byblos Research

WTI Crude Oil vs. U.S. GDP Growth



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								
Africa													
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	Positive	-	Stable								
Egypt	CCC+	Caa1	B	B	CCC	-10.9	80.4	13.5	59.0	4.3	324.4	-3.1	0.6
	Stable	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								
Middle East													
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								
Asia													
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								
Central & Eastern Europe													
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+	Baa3	BBB-	BB+	B	-1.5	36.8	42.5	178.8	33.0	341.1	-6.1	1.4
	Stable	Stable	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	01-May-13	No change	19-Jun-13
Eurozone	Refi Rate	0.50	16-May-13	Cut 25bps	06-Jun-13
UK	Bank Rate	0.50	09-May-13	No change	06-Jun-13
Japan	O/N Call Rate	0-0.10	26-Apr-13	No change	22-May-13
Australia	Cash Rate	2.75	07-May-13	Cut 25bps	04-Jun-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
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	01-May-13	No change	19-Jun-13
Taiwan	Discount Rate	1.88	28-Mar-13	No change	20-Jun-13
South Korea	Base Rate	2.50	09-May-13	Cut 25 bps	13-Jun-13
Malaysia	O/N Policy Rate	3.00	09-May-13	No change	11-Jul-13
Thailand	1D Repo	2.75	03-Apr-13	No change	29-May-13
India	Reverse repo rate	7.25	03-May-13	Cut 25bps	17-Jun-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	4.50	16-May-13	Cut 50bps	18-Jun-13
South Africa	Repo rate	5.00	20-Mar-13	No change	23-May-13
Kenya	Central Bank Rate	8.50	07-May-13	Cut 100bps	July-13
Nigeria	Monetary Policy Rate	12.00	19-Mar-13	No change	21-May-13
Ghana	Prime Rate	15.00	26-Apr-13	No change	22-May-13
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	4.00	26-Apr-13	Cut 50bps	07-Jun-13
Brazil	Selic Rate	7.50	17-Apr-13	Raise 25 bps	29-May-13
Armenia	Refi Rate	8.00	14-May-13	No change	N/A
Romania	Policy Rate	5.25	02-May-13	No change	01-Jul-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	15-May-13	No change	June-13



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