

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **M&A technology deals up by 58% to \$36.4bn in first quarter of 2013**

Figures released by Ernst & Young show that a total of 661 technology merger & acquisition deals were announced worldwide in the first quarter of 2013, down by 5.4% from 699 deals in the preceding quarter and by 12.5% from 755 deals in the same quarter last year. Private equity deals totaled 615 and accounted for 93% of total announced deals in the first quarter, while corporate deals represented the remaining 46 deals or 7% of the total. The aggregate value of global technology M&A deals rose by 23.8% quarter-on-quarter and by 57.8% year-on-year to \$36.4bn in the first three months of the year. The surge in the overall deal value is attributed to the \$24.4bn announced deal to take Dell Inc. private. Excluding the Dell deal, the aggregate value of global technology M&A deals fell by 59% quarter-on-quarter and by 48% year-on-year to \$12bn in the first three months of the year. Also, the global average deal value increased by 58% quarterly and by 93% annually to \$309m; but decreased by 47% quarter-on-quarter and by 36% year-on-year to \$103m, when excluding the Dell deal. The value of private equity deals stood at \$25.6bn and accounted for 70.3% of total announced deal value in the covered quarter, while the value of corporate deals reached \$10.8bn or 29.7% of the total.

Source: Ernst & Young

##### **Greenfield FDI down 33.5% to \$565bn in 2012**

Figures released by fDi Markets estimated the value of global Greenfield FDI projects at \$565bn in 2012, constituting a decrease of 33.5% from \$850bn in 2011 and compared to a marginal annual increase of 0.5% in 2011. The large decrease in global capital investment is mainly attributed to a slower economic growth in China that led companies to cut back on capital-intensive investments. Direct job creation from Greenfield FDI declined by 28.8% to 1.62 million last year, following a 3.4% increase in 2011. In parallel, there were a total of 11,789 Greenfield FDI projects in 2012, constituting a drop of 16.4% from 14,095 projects in 2011. Europe attracted 3,740 FDI projects last year, representing 33% of the global number of Greenfield FDI projects. It was followed by Asia-Pacific with 3,740 projects (31.7%), North America with 1,671 projects (14.2%), the Middle East & Africa (ME&A) with 1,370 projects (11.6%) and Latin America & the Caribbean (LAC) with 1,117 projects (9.5%). The number of Greenfield FDI projects fell last year in all regions, with Europe posting the steepest decline with a drop of 20.8%, followed by LAC (-19.5%), Asia-Pacific (-15%), the ME&A region (-11.8%) and North America (-9.5%). Further, Europe was the source of 46.4% of Greenfield FDI projects globally in 2012, followed by North America with 26.7%, Asia-Pacific with 19.8%, the ME&A region with 5.5% and LAC with 1.6%. The number of Greenfield FDI projects from the ME&A region increased by 9.3% last year, constituting the only increase in outward FDI from all regions. FDI Markets is a database that tracks cross-border Greenfield investments across the world.

Source: fDi Markets

#### EMERGING MARKETS

##### **Share of global insurance premiums to rise to 27.4% by 2020**

Global reinsurer Munich Re projected primary life insurance premiums in Emerging Asia (EA) to grow at a compound annual growth rate (CAGR) of 13.9% between 2013 and 2020, followed by growth of 11.9% in Latin America (LA), 8.6% in Eastern Europe (EE), 7.5% in the Middle East & North Africa, 4.9% in Sub-Saharan Africa (SSA), 2.2% in Mature Asia-Pacific (MAP), 2% in North America (NA) and 1.8% in Western Europe (WE). Further, it forecast primary personal & commercial (P&C) insurance premiums in EA to post a CAGR of 10.2% during the covered period, followed by EE (6.3%), SSA (5.8%), LA (5.7%), the MENA (4.7%), MAP (2.8%), NA (2.6%) and WE (1.3%). Further, it expected the share of mature markets in global insurance premiums to fall to 72.6% by 2020 from 83% in 2012, and that of emerging markets to increase to 27.4% from 17% in 2012. It forecast WE's market share at 25.9% in 2020, followed by NA with 25.4%, MAP (21.3%), EA (16.1%), LA (5.4%), EE (3.2%), SSA (1.5%) and the MENA region (1.2%). It expected the share of mature markets in global primary life insurance premiums to fall from 85% in 2012 to 72% in 2020 and their share in global P&C primary insurance premiums to drop from 80% to 73% in 2020. In parallel, it projected global growth in primary insurance premiums at 2.8% this year and 3.6% in 2014 relative to growth of 1% in 2012.

Source: Munich Re

#### MENA

##### **Resolution of construction disputes takes 14.6 months**

Built asset consultancy firm EC Harris indicated that the aggregate value of disputes in the construction sector of the Middle East region totaled \$65m in 2012, constituting a decrease of 42.2% from \$112.5m in 2011 and relative to \$56.3m in 2010. It noted that the region's construction disputes were the highest among all regions globally and were higher than the global average of \$31.7m last year. It noted that the time required to solve a construction dispute in the Middle East was the longest in the world and averaged 14.6 months in 2013, up from nine months in 2011 and 8.3 months in 2010, and higher than the global average of 12.8 months last year. It attributed the extended period for dispute resolution in the region to the large number of disputes as well as to the limited number of experts available in the region who would help speed up the process of resolving such conflicts. It said that the failure to properly administer contracts is the main cause of disputes in Middle East construction projects, followed by the failure to make interim awards on extensions of time and compensation, employer-imposed change, inadequacy between the contract in place and the project's characteristics, and third party or *force majeure* events. Further, it pointed out that party-to-party negotiation is the most common method to solve disputes in the Middle East, followed by arbitration and adjudication.

Source: EC Harris

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# OUTLOOK

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## SYRIA

### **Economic activity to contract by 11% in 2013**

Business Monitor International projected Syria's real GDP to contract by 10.9% in 2013 and by another 2.3% in 2014 compared to a contraction of 11.1% in 2012, due to the impact of the prevailing conflict and the ongoing international sanctions on the hydrocarbon industry. It forecast economic growth to remain below potential and to average 0.7% during the 2013-17 period. BMI indicated that the government's finances are gradually worsening, as reflected by the fourfold increase in the price of fuel and the suspension of loans to cotton growers. As such, it forecast government consumption to decline by 5% in 2013. Also, BMI anticipated private consumption to contract by 12% in 2013 following a decrease of 16% last year, and to remain constrained for all income levels over the coming quarters. It noted that Syrians' purchasing power is rapidly eroding due to the combination of high unemployment and elevated inflation. It said that high inflation levels reflect lower production, rising customs tariffs and a decline in the value of the Syrian pound. It added that official inflation rates underestimate the increase in prices, as they are based on the prices of items as set by the government, while the majority of consumer goods are sold in the market at much higher prices. Further, BMI expected fixed investment to drop by 11% in 2013 as ongoing violence and international sanctions have kept foreign investment at a minimum, while the fall in fiscal revenues will maintain public investment at low levels over the coming quarters.

In parallel, BMI expected Syria's net export position to weigh on headline growth in 2013, with total exports falling by 7% in 2013 and overall imports decreasing by 5%. It considered that the opposition's ability to restart oil production will remain limited despite the lifting of the oil embargo on oil produced in areas under its control. It attributed the fall in exports to international sanctions on the hydrocarbon sector; and the drop in imports to the disruption of trade lines, the ongoing depreciation of the currency, and the impact of sanctions.

*Source: Business Monitor International*

## LIBYA

### **Non-hydrocarbon economy to grow by 25% in 2013, challenges persist**

The International Monetary Fund projected Libya's real GDP to grow by 20.2% in 2013 compared to a growth rate of 104.5% in 2012. It forecast hydrocarbon output to expand by 16.7% in 2013 relative to growth of 211.4% last year, and for the non-hydrocarbon sector to grow by 24.5% in 2013 compared to growth of 43.7% in 2012. It forecast the annual average inflation rate at 2% in 2013 down from 6.1% in 2012. The IMF considered that the country faces several challenges that include persistent political and security uncertainties, a pronounced vulnerability to fluctuations in global oil prices, managing the political transition, and simultaneously supporting reconstruction efforts and maintaining macroeconomic stability. It noted that credible and efficient institutions, as well as a favorable business environment, will be crucial to generate employment opportunities in the private sector and reduce hydrocarbon dependency.

The Fund projected the government's fiscal surplus at 19.2% of GDP in 2013 relative to 20.8% of GDP in 2012. It estimated public revenues at 73% of GDP and total expenditures at 53.7% of GDP in 2013. It anticipated capital expenditures to increase from 5.3% of GDP in 2012 to 10.8% of GDP in 2013. But it noted that wages and subsidies, which represent the bulk of public spending, are eroding policy buffers, undermining the fiscal position, and reducing the fiscal space for priority infrastructure spending. As such, it supported the authorities' efforts to implement an extensive subsidy reform. The IMF also welcomed the authorities' intentions to adopt a comprehensive reform strategy for public financial management and to develop a medium-term framework that would help ensure fiscal sustainability. Further, it urged authorities to integrate the sovereign wealth fund system into the fiscal framework as well as to enhance transparency and accountability in the governance of the Libyan Investment Authority. It forecast the country's current account balance to post a surplus of \$24.9bn in 2013, equivalent to 26.3% of GDP; and expected net foreign currency reserves to reach \$142.7bn at end-2013, or to 40 months of import cover.

*Source: International Monetary Fund*

## NIGERIA

### **Non-oil GDP growth to average 7.6% in 2013-14**

The International Monetary Fund projected Nigeria's real GDP growth at 7.2% in 2013 and 7% in 2014, up from 6.3% in 2012. In parallel, it forecast growth at 5.4% in 2013 and 5.7% in 2014 for Sub-Saharan Africa and at 6.6% in 2013 and 6.8% in 2014 for the region's oil exporting countries. It expected the country's real non-oil GDP to grow by 7.5% in 2013 and 7.6% in 2014, up from 7.1% in 2012, and relative to a growth rate of 7.2% in oil exporting countries this year and 7.5% next year. The Fund forecast Nigeria's annual average inflation rate at 10.7% in 2013 and 8.2% in 2014, relative to 12.2% a year earlier and compared to an average inflation rate of 9% in 2013 and 7.3% in 2014 for oil exporting economies. It projected the country's real per capita GDP growth at 4.3% in 2013 and 4.2% in 2014 compared to 3.5% in 2012. Also, it estimated the growth of broad money at 16.2% this year and 18.2% next year, compared to 10% last year. It added that claims on the non-financial private sector grew by 11.4% and 3% in 2011 and 2012, respectively.

In parallel, the Fund forecast the fiscal balance to post a surplus of 0.4% of GDP in 2013, but to shift to a deficit of 0.6% of GDP in 2014, relative to a surplus of 0.9% of GDP in 2012. It estimated public revenues to decline from 27.4% of GDP this year to 25.9% of GDP in 2014, and for public expenditures to decrease from 27% of GDP in 2013 to 26.5% of GDP in 2014. The IMF projected total investment at 23.6% of GDP in 2013 and 24.3% of GDP in 2014, relative to 22.1% of GDP in 2012. Also, it expected the country's current account to post a surplus of 5.5% of GDP in 2013 and 4.8% of GDP in 2014, compared to a surplus of 6.6% of GDP in 2012. In comparison, it forecast the region's oil exporting countries to post current account surpluses of 3.8% of GDP this year and 2.7% of GDP next year. Further, the Fund expected Nigeria's gross official reserves to reach 6.8 months of imports of goods & services at end-2013 and 7.8 months at end-2014, up from 6.1 months of imports cover at end-2012.

*Source: International Monetary Fund*



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## ECONOMY & TRADE

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### TUNISIA

#### **Sovereign ratings downgraded on political uncertainties and pressure on public finances**

Moody's Investors Service downgraded Tunisia's government debt ratings by one notch to 'Ba2' from 'Ba1' and maintained its 'negative' outlook on the ratings. It also lowered the country ceiling for foreign currency bonds to 'Baa3' from 'Baa2' and the country ceiling for foreign currency bank deposits by two notches to 'Ba3' from 'Ba2'. Further, the agency downgraded the debt ratings of the Central Bank of Tunisia to 'Ba2' from 'Ba1' with a 'negative' outlook. It attributed the downgrades to persistent political uncertainty, the weak state of the undercapitalized state-owned banks, and pressure on the balance of payments and public finances. It said that a renewed period of political instability would have further negative consequences on the economic recovery, on fiscal metrics and on the wider reform agenda. It estimated Tunisia's official foreign currency reserves at only 95 days of import cover, and expected the current account deficit to remain wide in coming years. Also, it pointed out that large state-owned banks suffer from severe asset quality problems and are largely undercapitalized. It noted that the government will receive the equivalent of up to 5% of GDP from the International Monetary Fund for the recapitalization of banks. But it expected the restructuring process to be slow, as reflected by the delays in the creation of an Asset Management Company that would buy NPLs from state-owned banks.

*Source: Moody's Investors Service*

### UAE

#### **Up to 50% of ADIA's portfolio invested in North America, 20-year returns at 7.6%**

The Abu Dhabi Investment Authority (ADIA), the emirate's sovereign wealth fund, indicated that its global investment portfolio is diversified across more than 24 asset classes and sub-categories that include listed equities, fixed income, real estate, private equity, alternatives and infrastructure. It said that approximately 75% of its assets are managed by external fund managers whose activities are monitored daily, and that nearly 55% of its assets are invested in index-replicating strategies. ADIA noted that the 20-year and 30-year annualized rates of return in US dollar terms for its portfolio were 7.6% and 8.2%, respectively, at end-2012 compared to 6.9% and 8.1%, respectively at end-2011. It said that North America represents between 35% and 50% of its portfolio, followed by Europe with a 20% to 35% range, emerging markets with a range of 15% to 25%, and Developed Asia with a 10% to 20% range. Further, developed markets' equities account for 32% to 42% of its portfolio, followed by emerging markets equities and government bonds (10% to 20% each), credit, alternatives and real estate (5% to 10% each), private equity (2% to 8%), and infrastructure and small cap equities (1% to 5% each). In parallel, ADIA stated that it carries out its investments independently and without reference to the government of the Emirate of Abu Dhabi or other entities that also invest on the government's behalf. It added that it is not involved with, nor has any visibility on matters relating to the spending requirements of the Abu Dhabi government.

*Source: Abu Dhabi Investment Authority*

### SAUDI ARABIA

#### **Outlook revised to 'positive' on strong fundamentals**

Standard & Poor's affirmed Saudi Arabia's long- and short-term foreign and local currency sovereign credit ratings at 'AA-' and 'A-1+', respectively, and revised the outlook to 'positive' from 'stable'. It kept the transfer & convertibility assessment at 'AA+'. It said that the 'positive' outlook reflects a possible upgrade in the next 24 months if domestic economic growth remains strong. It noted that sustained solid growth would help reduce the country's social challenges such as the high unemployment level, and would enhance productivity and competitiveness. It pointed out that improved growth prospects for the non-oil economy would strengthen the economy's resilience to external shocks such as a decline in global oil prices. It noted that the government has supported the non-oil economy with public spending, which improved private-sector activity. It added that authorities have channeled much of the public spending towards physical and infrastructure projects, which has supported the country's economic diversification. The agency said the ratings are supported by the kingdom's very strong fiscal and external positions. It added that prudent management of high oil revenues allowed the government to eliminate its debt and generate additional fiscal space for countercyclical policies. It forecast the fiscal surplus at 11% of GDP and the current account surplus at 20% of GDP this year.

*Source: Standard & Poor's*

### INDIA

#### **Sovereign ratings affirmed, outlook still 'negative'**

Standard & Poor's affirmed India's long-term sovereign credit rating at 'BBB-' and its short-term rating at 'A-3', and maintained the 'negative' outlook on the long-term rating. It said that the ratings are supported by India's long-term growth prospects, favorable demographic profile, and high foreign exchange reserves. But it noted that they are mainly constrained by the country's wide fiscal deficit and high debt level. It projected the general fiscal deficit to remain around 7% of GDP in the current fiscal year ending in March 2014, and to exceed 9% of GDP when including losses at state-owned electricity companies. It did not anticipate significant progress in fiscal and public sector reforms, adding that the government is not likely to implement drastic measures due to the May 2014 elections and to the current political gridlock. Also, it forecast the consolidated gross public debt at 72% of GDP in the current fiscal year and for debt servicing to absorb around 23% of government revenues. It expected the current account deficit to slightly improve to 4% of GDP in the current fiscal year due to lower global oil and gold prices. As a result, it forecast India's gross external financing needs to slightly increase to 94% of current account receipts plus international reserves in the current fiscal year. Further, it noted that India's external position deteriorated in the past two years but remained resilient, with its foreign exchange reserves currently covering about six months of current account payments, down from eight months in each of 2008 and 2009.

*Source: Standard & Poor's*



# BANKING

## JORDAN

### Capital adequacy ratio at 18.6%, NPLs at 8.4%

Figures released by the International Monetary Fund indicate that the risk-weighted capital adequacy ratio of banks operating in Jordan reached 18.6% at the end of June 2012, relative to 19.3% at the end of 2011 and 20.3% at end-2010. The sector's liquidity ratio regressed to 148.4% at end-June 2012 from 152.9% at end-2011 and 161.4% at end-2010; while the sector's loans-to-deposits increased to 68.5% at end-June 2012 from 65% at the end of 2011 and 64.2% at the end of 2010. Also, the loans-to-GDP ratio was nearly unchanged at 77.3% at the end of June 2012, relative to 77.4% at end-2011 and 77% at end-2010. In parallel, foreign currency deposits represented 24.9% of total deposits, increasing from 21.6% at end-2011 and 21.7% at end-2010; while foreign currency loans accounted for 10.8% of total loans at the end of June 2012 and declined from 11.4% at end-2011 and 11.8% at end-2010. Also, the sector's non-performing loans reached 8.4% of total loans at end-June 2012, relative to 8.5% at end-2011 and 8.2% at end-2010. Further, the sector's provisions-to-NPLs ratio stood at 63.2% at the end of June 2012 compared to 52.3% at end-2011 and 52.4% at end-2010. In parallel, the banks' annualized return on assets reached 1.2% in June 2012, compared to 1.1% in each of 2011 and 2010; while their annualized return on equity reached 9.6% in June 2012, relative to 8.3% in 2011 and 8.8% in 2010.

Source: *International Monetary Fund*

## EGYPT

### Government increasingly relying on Central Bank financing

Standard & Poor's anticipated that the 9% depreciation in the Egyptian pound and the government's increased reliance on the Central Bank of Egypt (CBE) to finance its operations would raise inflationary pressures and erode the purchasing power of the population. It considered that relying on the CBE would further reduce the government's willingness to implement measures to alleviate fiscal and external pressures, which would put downward pressure on the sovereign ratings. It forecast the fiscal deficit at 11% of GDP this year, reflecting the government's large financing needs. It said that the domestic banking sector has been the main investor in government securities and expected Egyptian banks to continue to roll over their existing high levels of government debt, which would reduce available lending to the private sector. It pointed out that retail deposits have increased despite the challenging economic environment and potential confidence issues in the banking sector, as banks are focusing on financial intermediation in the retail segment. It considered that the rise in deposits would support banks' willingness and ability to finance the government. However, it said that banks' subscription to government securities has not been sufficient to meet all of the government's domestic funding needs, as indicated by the downward trend in the share of commercial banks' holdings of government securities. It noted that this shortfall has resulted in a rise of holdings of government debt by the CBE since 2011.

Source: *Standard & Poor's*

## UAE

### Banking sector liquidity improves

Figures issued by the Central Bank of the UAE show that total assets reached AED1,877.2bn at the end of March 2013, constituting an increase of 1.6% from the preceding month, a rise of 4.8% from the end of 2012, and a growth of 7.8% from end-March 2012. Loans totaled AED1,125.8bn and rose by 0.7% from the preceding month and by 2.4% from end-2012. Total lending posted an annual growth of 4.8%, reflecting a recovery in lending, mainly in Dubai. Corporate lending increased annually by 4.8% in March, and personal lending grew by 5% year-on-year; while public sector lending rose by 1.9% in the first quarter of the year to AED124.9bn. In parallel, aggregate deposits reached AED1,238bn at end-March 2013 and increased by 6% from end-2012 and by 8% year-on-year. The loans-to-deposits ratio was 90.9% at end-March 2013 relative to 94.1% at the end of 2012 and 93.7% at the end of March 2012, which reflects improved liquidity in the banking system. Total investments by banks reached AED167.2bn at the end of March 2013 and posted a 12.3% growth year-on-year.

Source: *Central Bank of the UAE, EFG Hermes*

## QATAR

### State support and public sector spending to benefit banking sector

Fitch Ratings expected Qatari banks to remain well capitalized and to maintain their healthy profitability and margins in 2013. It said the banks' large capital buffers would allow them to support the anticipated lending growth this year and to absorb unexpected losses. It noted that the average Tier One capital ratio for rated banks, which represent 81% of the sector's total assets, remain high at 16.8% at end-2012 despite falling from 19% at end-2011. But it noted that banks' internal capital generation is limited due to their high dividend pay-out ratios, which would push banks to raise capital in order to maintain their capital ratios at current levels. It noted that total credit facilities increased by 26.6% in 2012, mainly driven by public sector borrowing to finance large infrastructure projects that accounted for 43% of total credit facilities at end-2012. It anticipated that the large pipeline of lending opportunities for major projects and related contracting activities would continue to increase banks' credit volumes and enhance their profitability, despite the pressure on their margins from low interest rates and high competition. In parallel, Fitch said that Qatari banks' asset-quality ratios are among the best in the MENA region and expected them to remain healthy this year. But it considered that rapid credit growth is the primary concern for asset quality, even though the public sector is the main driver of lending growth. It noted that rising past due and restructured loans at some banks reflect potential future problems. Further, it expected domestic deposits to remain the main funding source for banks, but it forecast an increase in foreign wholesale and deposit funding, which would weaken banks' funding profiles. It cautioned from the use of short-term foreign funding for long-term financing, which would worsen banks' asset and liability maturity profiles and leave them susceptible to economic shocks or to a loss of confidence that would cause a withdrawal of foreign funding.

Source: *Fitch Ratings*



# ENERGY / COMMODITIES

## Brent oil prices to drop by 5% in third quarter of 2013

Global oil consumption is projected to reach 90.9 million barrels per day (b/d) in 2013, constituting a rise of 1.2% from 89.8 million b/d last year. North America's oil consumption is forecast to reach 23.7 million b/d in 2013, equivalent to 26.1% of global demand. It would be followed by European countries with 13.4 million b/d (14.7%), non-China Asian countries with 11.7 million b/d (12.9%), and China with 10 million b/d (11%). In parallel, global oil production is expected to grow by 1.4% to 91.2 million b/d in 2013. The crude oil market is anticipated to post an annual surplus of 0.32 million barrels per day (b/d) this year and to increase to 1.32 million b/d in 2014, as supply outweighs demand. Also, the stocks-to-consumption ratio is projected to decline from 8.47 weeks in 2012 to 8.23 weeks in 2013. Crude oil prices are projected to remain under pressure in coming periods, as Brent crude prices are forecast to drop by 4.9% year-on-year to \$105 a barrel in the third quarter of 2013, while those of WTI crude oil are expected to decline by 2% to \$90.3 a barrel on average during the same quarter. The WTI-Brent spread is anticipated to narrow during the 2013-14 period.

Source: Economist Intelligence Unit, Byblos Research

## MENA investments in power sector to reach \$283bn over the 2014-18 period

Total investments in the MENA power sector are projected at \$282.6bn during the 2014-18 period, of which \$166.9bn or 59.1% would be allocated to new capacity generation, while \$115.7bn or 40.9% would go towards power transmission and distribution. As such, the GCC countries' investments are projected to reach \$121bn, or 42.8% of the total, followed by Mashreq countries with \$73.7bn (26.1%), Iran with \$42.7bn (15.1%), Maghreb states with \$41.3bn (14.6%) and the Rest of Arab World with \$3.9bn (1.4%).

Source: Arab Petroleum Investments Corporation, Byblos Research

## Syria's oil output down 95% by May 2013

The Syrian Ministry of Petroleum & Mineral Resources indicated that Syria's crude oil output reached 20,000 barrels per day (b/d) in May 2013, constituting a decline of about 94.7% from the output at the start of the civil uprising in March 2011. In parallel, the country's gas production stood at about 15 million cubic meters per day in May, constituting a decrease of about 50% from 30 million cubic meters per day prior to the civil unrest. It attributed the significant drop in production to Western-imposed sanctions and to ongoing domestic violence.

Source: The Associated Press, CNBC Arabia, Byblos Research

## Iraqi oil exports below target in May 2013

Iraq's crude oil exports remained unchanged month-on-month at an average of 2.6 million b/d in May 2013, but below the government's target level of 2.9 million b/d, mainly due to attacks on the northern Kirkuk pipeline. Also, Iraqi crude oil production rose by about 1.6% month-on-month to 3.15 million b/d in May. In parallel, Iraq indicated that it would take legal actions against companies operating in the Kurdistan Regional Government in an attempt to stop their crude oil sales via Turkey. Iraq is currently the second-largest crude oil producer among OPEC countries.

Source: Thomson Reuters, Shafaq News, Byblos Research

## Base Metals: Copper prices to decrease by 14% in 2013 due to the metal's weak demand

The global refined copper market is anticipated to post an annual surplus of 100,000 metric tons in 2013 and to shift to a deficit of 50,000 metric tons in 2014. Copper prices are expected to remain volatile over the 2013-14 period. Also, copper prices are forecast to average \$7,613 a metric ton in 2013, constituting a decrease of 13.8% from \$8,833 a metric ton in 2012 as demand for the metal remains weak, particularly in the United States, Europe and South Korea. Copper prices are projected to average \$7,500 a metric ton in the third quarter of 2013, and to rise to \$7,750 a metric ton on average in the fourth quarter of the year. Global copper consumption is anticipated at 20.4 million metric tons in 2013, constituting an increase of 3% from 19.8 million metric tons in 2012. In parallel, global copper production is projected to reach 20.5 million metric tons this year, constituting a rise of 3.2% from 19.9 million metric tons in 2012. The stocks-to-consumption ratio is expected to rise slightly to 6.5 weeks in 2013, from 6.4 weeks in 2012.

Source: Standard Chartered, Byblos Research

## Precious Metals: Gold prices to decline systematically in 2013 and 2014

Gold prices are projected to decline over the 2013-14 period as the metal increasingly loses its role as a safe-haven asset. As such, gold prices are forecast to decrease by 9% year-on-year to \$1,518 a troy ounce on average this year. Further, gold prices are expected to decline by 7.6% year-on-year to \$1,403 a troy ounce on average in 2014 as global economic growth sustains its pace of recovery. In addition, the prospects of monetary policy tightening by the world's central banks would likely lead investors to shift out of gold into other asset classes, which would put further downward pressure on the metal's prices. As such, gold prices are forecast to average \$1,350 a troy ounce by the middle of 2015. In parallel, global gold production is projected to grow by 2.5% in 2013 as it recovers from supply disruptions that affected some parts of the world in the last two years. Also, global gold consumption is expected to decline by 6.1% in 2013, after a decrease of 6.2% in 2012, while it is anticipated to recover in 2014 due to the metal's lower prices and a stabilization in ETFs gold holdings.

Source: Economist Intelligence Unit, 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
Angola	BB-	Ba3	BB-	-	BB	7.0	28.0	15.9	32.4	3.0	49.1	8.5	0.3
Egypt	CCC+	Caa1	B	B	CCC	-10.9	80.4	13.5	59.0	4.3	324.4	-3.1	0.6
Ethiopia	-	-	-	-	B	-2.3	22.2	18.2	111.2	-	-	-6.1	0.2
Ghana	B	-	B+	-	B	-5.6	44.9	21.5	36.2	-	-	-9.1	3.2
Ivory Coast	-	-	-	-	B	-3.7	62.6	18.8	33.4	-	-	-3.1	0.3
Libya	-	-	B	-	B	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	-5.9	58.9	30.8	64.6	4.6	180.2	-8.5	2.5
Nigeria	BB-	Ba3	BB-	-	B	-0.4	14.7	4.8	6.9	0.5	-	3.5	1.9
Sudan	-	-	-	-	C	-4.0	112.1	84.8	159.6	-	-	-7.8	-
Tunisia	BB-	Ba2	BB+	BBB	CCC	-5.5	46.7	53.6	103.1	9.3	299.8	-8.7	2.4
<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
Iran	-	-	B+	BB-	CCC	-3.5	14.6	3.2	13.1	17.6	19.1	-1.6	3.8
Iraq	-	-	-	-	CCC	-1.9	76.2	70.9	94.9	-	83.1	23.1	1.5
Jordan	BB-	Ba2	-	BB	CCC	-7.1	79.7	57.9	47.8	6.4	213.8	-16.1	5.4
Kuwait	AA	Aa2	AA	AA-	A	28.2	6.9	19.0	16.7	12.4	142.9	40.5	-4.4
Lebanon	B	B1	B	B	CCC	-9.7	140.7	102.1	131.1	19.2	118.0	-12.6	1.1
Oman	A	A2	-	A	A	7.0	4.9	18.2	23.5	3.4	101.7	11.3	3.8
Qatar	AA	Aa2	-	AA-	AA	6.5	35.6	69.7	94.4	11.6	704.8	32.9	0.2
Saudi Arabia	AA-	Aa3	AA-	AA-	A	15.5	5.7	13.7	21.8	2.1	13.3	28.3	2.1
Syria	-	-	-	-	CC	-16.3	48.5	-	87.7	-	-	-13.3	0.3
UAE	-	Aa2	-	AA-	BB	4.4	22.4	51.1	36.6	4.4	476.9	16.4	1.0
Yemen	-	-	-	B-	CC	-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								
<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+	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	22-May-13	No change	11-Jun-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
<b>Emerging Markets</b>					
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	23-May-13	No change	18-Jul-13
Kenya	Central Bank Rate	8.50	07-May-13	Cut 100bps	July-13
Nigeria	Monetary Policy Rate	12.00	21-May-13	No change	23-Jul-13
Ghana	Prime Rate	16.00	22-May-13	Raise 100bps	21-Jun-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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