

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Number of unemployed to rise to 208 million in 2015

The International Labor Organization projected the number of unemployed worldwide to increase by 3.1% from 201.5 million in 2013 to 207.8 million in 2015. It forecast the number of unemployed in advanced economies at 45.3 million in 2015, which would account for 21.8% of total number of unemployed worldwide, followed by East Asia with 40.8 million (19.6%), Sub-Saharan Africa with 28 million (13.5%), South Asia with 27.1 million (13%), Latin America & the Caribbean with 20.2 million (9.7%), Central and South-Eastern Europe (non-EU) & CIS with 14.9 million (7.2%), South-East Asia & the Pacific with 14.8 million (7.1%), the Middle East with 8.8 million (4.2%) and North Africa with 8 million (3.8%). It noted that the number of unemployed will marginally decrease in advanced economies and in Central and South-Eastern Europe (non-EU) & CIS by 0.4% and 0.7%, respectively, between 2013 and 2015. But it expected the number of unemployed to rise by 6.9% in Latin America & the Caribbean, 5.6% in South Asia, 5.4% in each of Sub-Saharan Africa and the Middle East, 4.3% in North Africa, 3.5% in South-East Asia & the Pacific and 3.3% in East Asia. In parallel, the ILO anticipated that employment rates across emerging and developing economies will return to pre-crisis levels in 2015; while employment rates in advanced economies will only return to pre-crisis rates in 2018.

Source: *International Labor Organization*

EMERGING MARKETS

Corporate debt maturing in 2013-17 totals \$395bn

Standard & Poor's indicated that \$395bn in emerging markets' (EM) corporate debt will mature between April 2013 and end-2017, with \$49.9bn maturing in 2013, \$67.1bn in 2014, \$92.8bn in 2015, \$79.2bn in 2016 and \$106.1bn in 2017. Emerging Asia has \$167.7bn in maturing debt during the covered period, or 42.5% of the maturing EM corporate debt; followed by Eastern Europe, the Middle East & Africa with \$121.9bn (30.9%), and Latin America with \$105.4bn (26.7%). In parallel, non-financial maturing corporate debt in EM totals \$271.54bn and accounts for 68.8% of the region's total corporate debt maturing during the 2013-17 period, while maturing financial corporate debt totals \$123.4bn and represents 31.2% of the total. Further, investment grade corporate debt in EM totals \$287.6bn or 72.8% of the region's corporate debt maturing during the covered period; while speculative-grade corporate debt in EM totals \$107.3bn or 27.2% of the total. Maturing corporate debt in the utility sector totals \$37.7bn and accounts for 13.9% of the total EM non-financial maturing corporate debt, followed by the oil & gas sector with \$37.1 (13.7%), forest products & building materials sector with \$29.3m (10.8%), the telecommunications sector with \$26.4bn, (9.7%) and metals, mining & steel sector with \$23.4bn (8.6%).

Source: *Standard & Poor's*

MENA

Private wealth to grow by 6.2% in 2012-17

The Boston Consulting Group projected private financial wealth in the Middle East & Africa (ME&A) to reach \$6.5 trillion in 2017 and to expand at a compound annual growth rate (CAGR) of 6.2% between 2012 and 2017. It said that the increase will be mainly driven by new wealth creation linked to strong economic growth in the region's oil exporters. It expected the region's private wealth to account for 3.8% of the global private financial wealth in 2017, higher than Latin America's share of 3.4% and Eastern Europe's share of 2.3%, but lower than that of North America (28%), Asia-Pacific excluding Japan (28.1%), Western Europe (23.7%) and Japan (10.6%). Also, it forecast the region's private wealth to grow faster than the global CAGR of 4.8%, Western Europe (2.5%), North America (2.1%), and Japan (1.1%), but to expand at a slower rate than Asia-Pacific excluding Japan (11.4%), Eastern Europe (11.3%) and Latin America (8.3%). In parallel, it said that the region's private wealth grew by 9.1% to \$4.8 trillion in 2012, driven by an 18.3% rise in wealth held in equities, a 9.2% increase in wealth held in bonds and a 5.2% growth in wealth held in cash and deposits. It noted that the ME&A region was the third largest source of offshore wealth last year with \$1.6 trillion, accounting for 18.8% of total offshore wealth worldwide. Further, it said that Qatar had the highest density of millionaires last year with 143 out of every 1,000 households in Qatar having a private wealth of a at least \$1m, Kuwait had the third highest density (115), Bahrain had the sixth largest (49), the UAE had the eighth highest (40), and Oman had the 11th largest (3.3).

Source: *Boston Consulting Group*

Equity markets up 8% in first five months of 2013

Arab stock markets increased by 8.4% and GCC markets rose by 11.1% in the first five months of 2013 compared to increases of 3.4% and 4.7%, respectively, in the same period last year. Activity on the Damascus financial market increased by 53.1% in the first five months of 2013 and posted the best performance among Arab markets during the period. It was followed by the Dubai financial market with a 46% improvement, the Kuwait bourse with a 40% increase, the Abu Dhabi exchange with a 34.7% rise, the Bahrain bourse with a 12.3% expansion, the Muscat stock exchange with an 11.4% growth, the Qatar exchange with a 10.5% rise, the Saudi Arabia equity market with an 8.9% appreciation and the Amman stock market with a 3.1% increase. In parallel, the Casablanca equity market dropped by 4.8% in the first five 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 Beirut stock exchange with a 3.6% decrease, the Iraqi equity market with a 2.6% drop, the Egyptian stock market with a 0.4% contraction and the Tunis bourse with a 0.2% decrease. In comparison, global equities increased by 8.6% and emerging market equities declined by 2.3% in the first five months of the year.

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

POLITICAL RISK OVERVIEW - May 2013

EGYPT

The political stalemate between President Mohammed Morsi's administration and opposing groups continued during the month. The president replaced two key ministers and increased the Muslim Brotherhood's strength in the Cabinet as the country struggles to obtain an International Monetary Fund loan. This move led the National Salvation Front to criticize the president's decree and continued to refuse any participation in the Cabinet unless Prime Minister Hesham Qandil gets replaced. Anti-government protests have reduced in number and frequency. A group of activists launched the "Rebellion" campaign in an attempt to gather 15 million signatures to demand early presidential elections, but it only gathered about 7 million votes so far. The Supreme Constitutional Court rejected a draft elections law that forbid the army and police personnel from their right to vote. President Morsi expected parliamentary elections to take place in October of this year following multiple delays.

IRAN

Nuclear talks between the International Atomic Energy Agency (IAEA) and Iran failed as the latter refused to grant the IAEA access to its nuclear sites. Iranian chief negotiator Saeed Jalili told the EU foreign policy chief Catherine Ashton that the Islamic Republic is ready to hold nuclear talks with the P5+1 countries. The IAEA indicated that Iran has installed about 700 advanced centrifuges in the Natanz nuclear plant. Iran executed two individuals accused of being Mossad and CIA agents. The Guardian Council approved a list of 8 candidates for the June 14 presidential elections.

IRAQ

The ongoing political crisis saw a rise in violence as more than 1,000 people were killed this month in sectarian attacks and bombings, which constituted the deadliest month in five years. The prospects of a political breakthrough failed as Prime Minister Nouri al-Maliki and Parliamentary Speaker Osama al-Nijafii continued to blame each other over the rise in domestic violence. Iraqi armed forces launched a military operation in the west to tackle the dangers of a potential spillover from the Syrian conflict. Kurdish ministers have attended a Cabinet meeting for the first time in two months.

DEM REP CONGO

The first UN intervention brigade troops arrived in the DRC on May 13 with a mandate to attack rebel groups. Fighting between the M23 rebel movement and the army resumed on the outskirts of the eastern city of Goma. The M23 rebel movement repeated its call for a ceasefire, while it warned that it could easily target Goma's international airport.

LIBYA

The General National Congress (GNC) passed a Political Isolation law on May 5 that bans individuals affiliated with the old regime from occupying political positions for the next 10 years. The implementation of the law would result in a major change in the Cabinet's formation, as 30 current GNC members would be replaced. The GNC's president and former Qadhafi-era diplomat, Mohammed Magharief, resigned his post on May 28th. Interior Affairs Minister Omar al-Khadraoui announced a new security plan for foreign embassies as security threats rise. The International Criminal Court rejected Libya's admissibility challenge in Saif al-Islam Qadhafi case, stating that Libya is not ready to conduct the trial.

SOUTH SUDAN

South Sudan accused Sudan of their involvement in the killing of Abyei's former chief Kuol Deng Kuol and of a UN peacekeeper. The South Sudan Democratic Army captured the town of Boma in the Jonglei state. The UN indicated that more than 23,500 persons have fled the fighting in the Jonglei state. The United States and several European countries urged the government to find a political solution to the conflict. The African Union-United Nations Mission in Darfur extended its peacekeeping mandate by six months.

SUDAN

UN humanitarian chief Valerie Amos indicated that about 300,000 people have fled their homes in Darfur since the beginning of the year due to violence. The JEM-Bashar splinter rebel group's leaders, Mohammed Bashar and Arku Tugod Dahiya, were killed in a fight with the Justice and Equality Movement in the Bahay area of Chad. Fighting erupted between government forces and the Sudan Revolutionary Front rebels near the regional capital of Kadugli. President Omar al-Bashir threatened to close the oil pipeline leading to Port Sudan if South Sudan continues to provide support to Sudanese rebels.

SYRIA

Fighting intensified between Syrian rebels and government troops backed by Hizbollah fighters in the western city of al-Qusayr. Casualties and displacements continue to rise as fighting between the Syrian military and opposition forces escalates. Regime forces retook the strategic town of Khirbet Ghazaleh on May 8 after two months of bombardment. The U.S. and Russia agreed to convene a new peace conference in Geneva in June. The Syrian government agreed "in principle" to attend the conference, but the Syrian National Coalition (SNC) threatened to boycott it if Hizbollah and Iran keep on "invading" Syria. The SNC failed to elect a new leader during talks in Istanbul. The UN General Assembly adopted a resolution condemning the ongoing violence in Syria. The UN Security Council added Syrian militant group Jabhat al-Nusra to its global sanctions list because of its links to al-Qaeda. The EU lifted an arms embargo on Syria to help the opposition. Russia indicated that it would honor a contract to deliver S-300 anti-aircraft missile system to the Syrian government. Israel warned that it would strike any Russian arms shipment to Syria.

TUNISIA

Tensions between the An-Nahda government and the Salafist group Ansar al-Sharia increased during the month. Clashes between police forces and Ansar al-Sharia's supporters erupted as authorities banned the Islamist group from staging its annual meeting. The fighting resulted in one casualty, 15 wounded and 274 persons arrested in the cities of Tunis and Kairouan. Tunisian troops were deployed in the Mount Chaambi region to hunt an al-Qaeda-affiliated group supposed to be responsible for planting landmines in the area.

YEMEN

The southern separatist movement Hiraak staged a large pro-separation demonstration in the southern city of Aden. Police forces have forcibly dispersed protesters attempting to storm a hotel in Aden where the National Dialogue meeting was being held. Hundred of protestors staged a sit-in outside the prosecutor's office in Sanaa demanding the release of detainees who were arrested for their participation in the 2011 uprising.

Source: International Crisis Group



OUTLOOK

UAE

Non-oil growth at 4.5% in 2013, foreign assets to reach \$562bn

The Institute of International Finance projected real GDP growth in the UAE at 3.6% in 2013 compared to 4.8% in 2012 due to a decline in the annual growth level of crude oil production to 1.1% in 2013 from 7.1% in 2012. It forecast hydrocarbon output to expand by 1.5% in 2013 compared to growth of 6.5% last year, and for the non-hydrocarbon sector to grow by 4.5% in 2013 relative to a growth rate of 4% in 2012. It said non-hydrocarbon growth will be supported by higher government capital spending in Abu Dhabi and continued robust activity in Dubai's trade, tourism and transportation sectors. It noted that progress in structural reforms, the strengthening of federal institutions, and the enhancement of transparency and governance would increase the growth level in the non-hydrocarbon sector to over 5% in the medium-term.

Also, the IIF forecast the UAE's fiscal surplus to narrow to 9.2% of GDP in 2013 from 11.3% of GDP last year, under the assumption of an average oil price of \$108 per barrel (p/b). It attributed the narrowing of the surplus to a stable crude oil production level and a projected 5% increase in government spending this year. It expected the fiscal breakeven oil price to rise to \$67 p/b in 2013 from \$63.7 p/b in 2012 and compared to \$43.9 p/b in 2008. It also expected the current account surplus to narrow to \$52.6bn, or 13.6% of GDP in 2013, from \$54.2bn or 14.6% of GDP in 2012; and for net foreign assets to increase to \$435bn in 2013 from \$387bn in 2012. In parallel, the IIF forecast the UAE's public foreign assets at \$562bn by the end of 2013, which would mitigate the adverse impact of lower global oil prices. It said under a scenario where global oil prices drop by \$23 to \$85 p/b starting in 2014, the UAE's current account and fiscal surpluses would shift to a deficit by 2018. As a result, it expected gross foreign assets to continue to increase and to only decline by 2018 under this scenario. It said that the UAE will be less affected by such a drop in oil prices than other oil exporters in the region, given its relatively diversified economy, lower breakeven oil price and higher fiscal flexibility.

Source: Institute of International Finance

SOUTH SUDAN

Resumption of oil production to change economic outlook

The International Monetary Fund projected real GDP in South Sudan to grow by 32.1% in 2013 and 49.2% in 2014, following a contraction of 53% in 2012, due to the anticipated resumption of oil production and exports. It expected the country's real non-oil GDP to grow by 10% in 2013 and by 5% in 2014, compared to a contraction of 16% in 2012. The Fund forecast South Sudan's annual average inflation rate at 15.5% in 2013 and 5.9% in 2014, compared to 45.1% in 2012. It expected the country's real per capita GDP to increase by 29.5% in 2013 and by 46.3% in 2014, relative to a contraction of 55.2% in 2012. It estimated total investment at 7.5% of GDP in 2013 and 9.2% in 2014, up from 7.1% of GDP in 2012. The Fund projected the central government's fiscal balance to shift to surpluses of 7.8% of GDP in 2013 and 33.4% of GDP in 2014 when including grants, rela-

tive to a deficit of 14.9% of GDP in 2012. Also, it projected the central government's fiscal balance to shift to surplus of 3.4% of GDP in 2013 and 28.1% of GDP in 2014 when excluding grants, compared to a deficit of 20.1% of GDP in 2012. It estimated public revenues to rise from 27.5% of GDP this year to 55.3% of GDP in 2014, and for total expenditures to increase from 24.1% of GDP in 2013 to 27.2% of GDP in 2014.

Further, the Fund estimated South Sudan's exports of goods & services to rebound from 8.9% of GDP in 2012 to 28.3% of GDP in 2013 and 55.7% of GDP in 2014; and for imports of goods & services to increase from 18.5% of GDP in 2012 relative to 21.2% of GDP in 2013 and 32.9% of GDP in 2014. As such, it anticipated South Sudan's trade balance to post surpluses of 11.4% of GDP in 2013 and 30.3% of GDP in 2014 relative to a deficit of 7.2% of GDP in 2012. Further, it forecast the current account to shift to a surplus of 0.2% of GDP in 2013 and 11% of GDP in 2014 from a deficit of 6% of GDP in 2012.

Source: International Monetary Fund

AFRICA

Favorable economic prospects, challenges remain

Moody's Investors Service indicated that favorable economic prospects in Sub-Saharan Africa (SSA) and a gradual implementation of structural transformation counterbalance the region's vulnerability to fluctuations in global commodity prices. It projected the average real GDP growth in SSA at 5.2% in 2013 and 5.3% in 2014. It noted that SSA countries have been able to absorb a larger share of resource wealth over the past decade, which improved their living standards. It expected this trend to continue and to be supported by a set of structural factors that include net FDI inflows, improved resource wealth management, favorable funding conditions and a potentially large growth-supportive and long-term demographic shift. However, the agency indicated that these positive trends are offset by a lack of export product diversification, a large trade exposure to China in some cases, persistent infrastructure bottlenecks in the transport and energy sectors, as well as governance challenges.

Moody's added that most SSA countries continue to have a limited capital-absorption capacity, while their ability for servicing external debt remains largely untested in a less supportive global liquidity environment. It pointed out that SSA's oil-exporting countries, such as Angola and Nigeria, benefit from a strong growth outlook supported by improved fiscal management and moderate public debt ratios. But it noted that these factors are counterbalanced by a persistent low level of export diversification, institutional limitations and a persistent susceptibility to event risks. It considered that the growth outlook for SSA's mineral-rich countries such as Ghana benefits from many new resource projects that will come on-stream over the next few years. However, it noted that most mineral-rich countries are still in the process of rebuilding their fiscal and external reserve buffers. It added that SSA's non-resource economies face a more subdued growth outlook given their challenge to balance investment needs with fiscal and external prudence.

Source: Moody's Investors Service

ECONOMY & TRADE

WORLD

Volume of letters of credit flat in 2012

The aggregate volume of letters of credit sent through SWIFT totaled 4,634,608 in 2012, constituting a marginal increase of 0.1% from 4,631,906 in 2011. Letters of credit sent from the Asia-Pacific region stood at 3,059,274 and accounted for 66% of the global volume, followed by the Eurozone with 402,418 (8.7%), the Middle East with 354,491 (7.6%), Africa with 333,961 (7.2%), Non-Eurozone economies with 224,680 (4.8%), Latin America with 130,356 (2.81%) and North America with 129,428 (2.79%). Also, the aggregate number of L/Cs sent from Latin America increased by 3% in 2012, followed by Asia Pacific (+2%), and the Middle East and North America (+1% each); while L/Cs sent from the Eurozone dropped by 13%, followed by Africa and the Non-Eurozone economies (-2% each). In parallel, the aggregate value of letters of credit sent through SWIFT reached \$2.9 trillion in 2012, constituting a rise of 2.6% from \$2.8 trillion in 2011. Letters of credit in US dollars accounted for 81.7% of total value last year, followed by those in Euros with 6.6%, the Chinese Yuan with 4.9%, the Japanese Yen with 1.8%, the Croatian Kuna with 0.6% and the Saudi Arabian Riyal with 0.4%.

Source: Citigroup

MENA

Ratings' gap between oil importers and exporters to further widen

Fitch Ratings indicated that the gap between average sovereign ratings of hydrocarbon importers and exporters in the MENA region is currently at its widest level since the agency started to assign sovereign ratings in the region in 1997. It said that the credit profiles of Gulf Cooperation Council (GCC) economies have benefited from rising global oil prices and production levels, which led to an increase in their oil export revenues to \$700bn in 2012 from an average of \$375bn per year between 2004 and 2010. It noted that the rise in revenues helped GCC countries strengthen their sovereign balance sheets, build fiscal buffers, improve their external financing positions and significantly enhance their physical infrastructure. It forecast Brent crude prices to average \$105 a barrel in 2013, supported by rising demand from emerging markets and small supply growth outside of North America and Iraq. It expected GCC countries' oil revenues to remain elevated and to continue supporting their economic and fiscal performance. In contrast, it pointed out that the credit profiles of many of the MENA region's hydrocarbon importers have suffered from weaker domestic economic growth and have been affected by political unrest. As a result, it anticipated that the gap between the average sovereign ratings of regional energy importers and exporters would further widen.

Source: Fitch Ratings

GCC

Profits of cement producers up 17% annually in first quarter of 2013

The aggregate net profits of cement companies operating in the GCC economies reached \$585.3m in the first quarter of 2013, representing a 16.9% increase from the same quarter of 2012, as

operating profits increased by 13.8% year-on-year to \$554.8m and sales rose 13.8% to \$1.4bn in the first quarter of the year. The rise in net profits is attributed to a 34% increase in net profits of Oman's cement sector. Saudi Arabia's cement sector accounted for 75% of overall profits, followed by Qatar with 8%, Oman with 7% and Kuwait and the UAE with 5% each. The aggregate debt of cement companies fell by 3.9% year-on-year to \$2.1bn in the first quarter of 2013, with the debt-to-assets ratio at 13.8% and the equity-to-assets ratio at 72.3%. In parallel, cement prices in the GCC averaged around \$66.1 per ton in the first quarter of 2013, posting a 0.9% decline from \$66.7 per ton in the same quarter last year mainly due to marginal drops in cement prices of Saudi Arabia and Kuwait. Further, the sector's capacity is expected to reach 123 million tons per year at end-2013 and 124.4 million tons per year at end-2014 compared to 117.1 million tons per year at end-2012. Saudi Arabia's cement capacity is expected to reach 61.8 million tons per year at end-2013 which represents 50.2% of the GCC's total capacity; followed by the UAE with 33.3%, Kuwait with 5.2%, Qatar and Oman with 5% each and Bahrain with 1.2%.

Source: Global Investment House

NIGERIA

Fiscal buffers insufficient in case of severe downturn

Moody's Investors Service indicated that Nigeria's sovereign ratings balance the economy's robust growth prospects and the government's limited debt levels against low per capita income, weak institutions, slow progress in executing structural reforms, and high fiscal vulnerability to adverse oil price shocks. It said that Nigeria's high dependence on oil exports, which account for 85% of its total merchandise exports and between 60% and 70% of its fiscal revenues, exposes its economy to global oil price volatility. It pointed out that the country continues to face a chronic infrastructure deficit that weighs on productivity and competitiveness despite high investment levels. It noted that increased violence in the northern parts of the country would stall foreign investment and weigh on spending by state and local governments. The agency pointed out that the lack of transparency in economic policy-making, mainly in consolidated budgeting and public financial management; a high incidence of corruption; and limited political will and capacity to execute critical structural reforms exacerbate risks from weak economic fundamentals. Further, it said that legislation to revise the fiscal regime in the petroleum industry and to deregulate the downstream oil & gas sector has been delayed, which held up significant foreign investment in the context of declining productivity in the sector. In parallel, Moody's considered Nigeria's fiscal buffers to be insufficient given that savings from oil revenues in the Excess Crude Account (ECA) have historically been volatile, while discretionary withdrawals from the ECA by both federal and state governments have undermined its credibility. It added that spending by the ECA has often been procyclical, and prevented the necessary consolidation of expenditures to preserve fiscal buffers for a structural downturn in global oil prices.

Source: Moody's Investors Service

BANKING

SAUDI ARABIA

Lending up 16% year-on-year in April 2013

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR1,795.4bn at the end of April 2013, constituting a growth of 3.5% from the end of 2012, and a rise of 12.7% from end-April 2012. Private sector loans totaled SAR1,054.8bn at end-April 2013 and grew by 2% month-on-month, by 5.6% from end-2012 and by 16% year-on-year, mainly driven by consumer and corporate lending that grew by annual rates of 20.3% and 12%, respectively. In parallel, aggregate deposits reached SAR1,313.4bn at the end of April, and increased by 4.2% from end-2012 and by 14.5% from end-April 2012. Demand deposits represented 62.5% of total deposits as banks are replacing time deposits with demand deposits. The loans-to-deposits ratio increased to 80.3% in April 2013 from 79.3% at the end of each of 2012 and April 2012. Also, the sector's aggregate profits reached SAR3.1bn in April 2013, up 2.8% month-on-month, but down 2.3% year-on-year.

Source: Saudi Arabian Monetary Agency, EFG Hermes

EGYPT

Private sector lending up 8% in February 2013

Figures issued by the Central Bank of Egypt show that total assets reached EGP1,494.7bn at the end of February 2013, constituting an increase of 1.5% from the preceding month, a growth of 3.7% from end-2012, and a rise of 13% from end-February 2012. Loans totaled EGP526.6bn at end-February 2013 and increased by 7.1% from a year earlier. The private sector's aggregate lending reached EGP492.1bn and rose by 8% year-on-year; while public sector lending amounted to EGP34.6bn and declined by 4.8% from end-February 2012. Public-sector lending in foreign currency grew by 11.8% year-on-year, while public sector credit in local currency fell by 25.6% annually in February 2013. Further, total deposits reached EGP1,128.6bn and increased by 12.9% from end-February 2012, with private sector deposits totaling EGP1,000.5bn at end-February 2013 and rising by 14% year-on-year. Private sector deposits in foreign currency rose by 17.3% year-on-year to the equivalent of EGP222.9bn at the end of February 2013; while private sector deposits in local currency rose by 13.1% from end-February 2012 to EGP777.7bn. Public sector deposits totaled EGP128.1bn at end-February 2013, up by 5.1% annually. The dollarization rate of private sector deposits reached 22.3% at the end of February 2013 relative to 21.6% a year earlier. The private sector loans-to-deposits ratio was 49.2% at end-February 2013 relative to 51.9% a year earlier.

Source: Central Bank of Egypt, Byblos Research

LIBYA

Banking sector's profits up 30% in first quarter of 2013

Figures issued by the Central Bank of Libya show that total assets of commercial banks reached LYD84bn, or \$67.3bn, at the end of March 2013, constituting an increase of 1.6% from end-2012 and a rise of 14.9% from end-March 2012. Commercial banks' lending reached LYD15.8bn, or \$12.7bn at

end-March 2013, up by a marginal 0.2% from end-2012 and compared to growth of 19.5% from end-March 2012. Liquid assets totaled LYD57.8bn, or \$46.3bn at end-March 2013, constituting an increase of 1.7% from end-2012 and a rise of 8.5% from end-March 2012; while they accounted for 68.8% of total assets. Total loans accounted for 18.8% of total assets at end-March 2013, up from 18.1% of the total a year earlier. In parallel, commercial banks' aggregate deposits totaled LYD67.5bn, or \$54bn at end-March 2013, constituting an increase of 1% from end-2012 and a growth of 15.2% from end-March 2012. Demand deposits accounted for 81.9% of total deposits at end-March 2013, followed by time deposits for 17.1%, and saving deposits for 1% of the total. Total deposits accounted for 80.3% of total liabilities at end-March 2013. The loans-to-deposits ratio reached 23.4% at end-March 2013, compared to 23.6% at the end of 2012 and 22.6% at end-March 2012. In parallel, commercial banks' net profits reached LYD185.8m, or \$148.7m, in the first quarter of 2013, constituting a rise of 29.5% from LYD143.5m in the same quarter last year, and relative to net earnings of LYD572.3m in 2012. The aggregate pre-tax return on equity reached a non-annualized rate of 4.3% in the first quarter of 2013 compared to a rate of 3.4% in the same quarter last year, and relative to an annualized rate of 13.7% in 2012; while pre-tax return on assets reached a non-annualized rate of 0.2% in the first quarter of the year, unchanged from last year, and relative to an annualized rate of 0.7% in 2012.

Source: Central Bank of Libya, Byblos Research

UKRAINE

Negative outlook on banking sector to persist

Moody's Investors Service maintained its 'negative' outlook on the Ukrainian banking system for the next 12 to 18 months due to the continued challenging domestic operating environment, very weak asset quality, poor profitability, and tighter funding conditions. It anticipated that banks operating in Ukraine will continue to operate in a challenging economic environment as economic activity is expected to remain subdued due to weak external demand for the country's key export commodities. It noted that such an environment will cause asset quality to remain very weak in the next 12 to 18 months. It forecast problem loans at around 35% of gross loans in 2013, unchanged from last year, and mainly driven by weak export prices and stagnant real estate prices. It considered that loan-loss provisions, which covered only around 40% of total problem loans last year, are insufficient to cover potential credit losses. Further, it expected banks' profits to marginally increase this year as their earnings will be affected by increased loan-loss provisioning, shrinking margins and limited cost-cutting ability. It noted that net interest margins declined to 4.5% in 2012 from 5.3% in 2011, and expected the negative trend to persist in 2013. It added that deposit growth started to slow down last year following strong growth in recent years. It expected the downward trend in deposit growth to continue this year, which would tighten funding conditions. It anticipated that the elevated risks of a current account crisis and uncertainties over the stability of the local currency would negatively affect depositors' confidence.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Brent prices to decrease by 4% in third quarter and by 7% in 2013 due to weaker demand

Global oil demand is expected to ease during the 2013-14 period, mainly due to a weak macroeconomic environment and a rise in oil-to-gas substitution. In addition, the substitution from oil to gas in the transportation, petrochemicals and industrial sectors is projected to accelerate. As such, global oil demand is forecast to reach a peak by 2020. The Organization for Economic Co-operation and Development (OECD) countries' consumption is anticipated to remain weak, mainly due to slower-than-expected economic growth, while non-OECD countries' demand would likely continue to drive oil demand growth. Brent crude oil prices are forecast to drop by 4% year-on-year to \$105 a barrel in the third quarter of 2013, while those of WTI crude oil are expected to decline by 2.4% to \$90 a barrel on average during the same quarter. Overall, Brent crude prices are projected to decrease by 6.9% year-on-year to \$104 a barrel in 2013. In parallel, Brent ICE futures prices decreased by 0.5% in May to \$101.1 a barrel, WTI NYMEX futures prices regressed by 2.5% to \$92.2 a barrel, while prices of U.S. natural gas Henry Hub prices declined by 6.5% to \$4.02 per million British thermal unit in May 2013.

Source: Citigroup, Byblos Research

GCC countries to sign gas contracts for \$68bn in coming five years

The Gulf Cooperation Council (GCC) countries, mainly the UAE, Qatar, and Saudi Arabia, plan to award DH250bn, or \$68bn, worth of gas contracts during the next five years to raise gas production. The energy demand mix in the Middle East is expected to shift in the next 30 years, as gas is forecast to constitute 49% of total energy demand in 2025 relative to 45% of the total in 2010. Gas is projected to have an increasingly significant role in the energy fuel mix as technological advancements help extract, develop and process gas more effectively and efficiently.

Source: Deloitte

Iran's oil output reaches 25-year low in May 2013

Iranian crude oil production is estimated to have reached an average of 2.55 million barrels per day (b/d) in May 2013, constituting a drop of about 3.8% from the preceding month, and representing the lowest level of monthly production since 1989. The drop in output was mainly attributed to a reduction in oil exports due to a further tightening of Western sanctions. As such, the country's losses from export revenues were estimated at \$300m in May. In parallel, Iran's oil production reached about 3.5 million b/d and its exports amounted to 2.5 million b/d prior to Western-imposed sanctions in 2011.

Source: Financial Times, Thomson Reuters, Byblos Research

Sudan to receive oil on credit from Iraq

Iraq agreed to export crude oil to Sudan on credit in an attempt to ease the country's fuel shortages. The deal's technical issues such as volumes and payments are currently under negotiation. Sudan suffered from a large drop in its crude output following the independence of South Sudan in July 2011. Sudan's current crude oil production is estimated at an average of 130,000 barrels per day. Iraq is currently the second-largest crude oil producer among OPEC countries.

Source: Thomson Reuters, Byblos Research

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

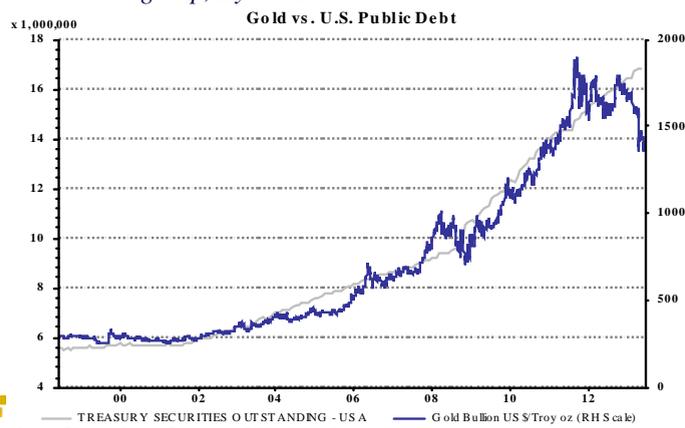
The zinc market is expected to post surpluses of 391,000 tons and 365,000 tons in 2013 and 2014, respectively, as supply outweighs demand. Global zinc demand is anticipated to reach 12.8 million tons in 2013, constituting an increase of 3.7% from 12.3 million tons in 2012. China's zinc consumption is forecast to reach 5.6 million tons in 2013, equivalent to 44.1% of global demand. It would be followed by EU countries with 2 million tons (15.7%) and the United States with 0.9 million tons (7.1%). The metal's demand outlook is projected to improve this year, as China's economic growth accelerates and consumption in the U.S. and Japan rises. But constraints to the outlook such as the Eurozone's economic hardship and developing countries' slower economic growth would likely remain in the coming period. In parallel, zinc prices are expected to improve during the 2013-14 period as fiscal and economic uncertainties ease and investors' risk appetite returns. Global zinc prices are forecast to rise by 6.4% year-on-year to \$2,006 per metric ton on average in the third quarter of 2013.

Source: Economist Intelligence Unit, Byblos Research

Precious Metals: Gold prices to decline by 7% in 2013 as inflation risk diminishes

Gold prices declined by 16.2% during the first five months of 2013, compared to a marginal drop of 0.6% over the same period last year. The drop in prices was mainly attributed to investors' heavy divestures of their gold holdings as they shifted into other asset classes. The rise in gold prices in the last five years were mainly driven by inflation concerns due to the expansion of the world's Central Banks' balance sheet through Quantitative Easing programs. In addition, the U.S. Federal Reserve is anticipated to end its asset purchase program earlier-than-expected, which is likely to place further downward pressures on gold prices. Gold prices are projected to average \$1,580 a troy ounce in the second quarter of 2013, constituting a decline of 2.1% from \$1,613 a troy ounce on average in the same quarter last year. Overall, gold prices are forecast to decrease by 6.8% to \$1,555 a troy ounce on average in 2013 and to \$1,435 a troy ounce in 2014. In parallel, the price of gold decreased by 5.6% in May to \$1,393 a troy ounce on May 31st, while that of silver regressed by 8.2% to \$22.2 an ounce over the same month. Also, platinum prices declined by 3.2% to \$1,461.8 a troy ounce, while palladium prices rose by 7.7% to \$753.7 a troy ounce in May 2013.

Source: Citigroup, 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-	Ba2	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
	Positive	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	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	29-May-13	No change	17-Jul-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	2.50	29-May-13	Cut 25 bps	10-Jul-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	8.00	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	0.01	01-Jun-13	Cut 1bps	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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