

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### Volume of letters of credit flat in first quarter of 2013

The aggregate volume of letters of credit sent through SWIFT totaled 1,155,839 in the first quarter of 2013, constituting a marginal increase of 0.9% from the same quarter of last year. The number of letters of credit sent from the Asia-Pacific region stood at 792,161 and accounted for 68.5% of the global volume, followed by the Eurozone with 90,780 (7.9%), Africa with 82,749 (7.2%), the Middle East with 82,465 (7.1%), Non-Eurozone economies with 52,427 (4.5%), Latin America with 28,492 (2.5%) and North America with 26,765 (2.3%). Also, the aggregate number of L/Cs sent from Asia Pacific increased by 5.9% in the first quarter of the year; while L/Cs sent from the Middle East dropped by 15.4%, followed by North America (-11.5%), the Eurozone (-9.4%), Latin America (-5.4%), Africa (-3.6%), and the Non-Eurozone economies (-3.3%). In parallel, the total number of reimbursement authorizations stood at 141,079 in the first quarter of 2013, constituting a 15% decrease from the same quarter of 2012. The volume of authorizations in the Asia-Pacific region reached 79,343 in the covered period and accounted for 56.2% of the global aggregate volume, followed by the Middle East with 26,719 (18.9%), Africa with 17,469 (12.4%), Latin America with 11,487 (8.1%), Non-Eurozone countries with 3,333 (2.4%), the Eurozone with 1,952 (1.4%), and North America with 776 (0.6%).

Source: Citigroup

##### Corporate default rate at 2.8% at end-May 2013

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.8% at the end of May 2013, unchanged from end-2012 and down from 3% at the end of May 2012. It said that 34 corporate issuers have defaulted so far this year, of which 18 companies from North America, 12 firms from Europe and four corporates from Latin America. It forecast the global speculative-grade default rate at 3.1% at the end of 2013 and at 2.5% at the end of May 2014. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 1.7% at the end of May 2013, up from 1.4% in the preceding month, and down from 2.1% a year earlier. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 7.3% at the end of May 2013, down from 8% at end-April and from 18.6% a year earlier. In parallel, Moody's indicated that liquidity quality will remain a source of credit strength of speculative-grade corporates in most sectors across Europe, the Middle East and Africa (EMEA) provided sustained access to the bond market. It added that the liquidity of most EMEA corporates has remained healthy despite a moderate erosion of credit quality over the past 12 months. It noted that €53bn in investment- and speculative-grade debt will mature by March 2014, which reflects the growing rated EMEA high yield market. It said that the increase in the magnitude of near-term maturities elevates the risk associated with an extended period of market access.

Source: Moody's Investors Service

#### EMERGING MARKETS

##### Private capital inflows to increase by 6.1% to \$1,250bn in 2013

The World Bank projected net private capital inflows to developing countries at \$1,250.2bn in 2013, constituting an increase of 6.1% from \$1,178.3bn in 2012. It expected net private inflows to be equivalent to 4.7% of developing economies' aggregate GDP in 2013 relative to 4.9% of GDP in 2012. It forecast net equity inflows to grow by 4.4% to \$791.1bn, driven by an increase of 7.4% in net FDI to \$719.3bn that will offset an 18.5% drop in portfolio equity flows to \$71.8bn. Also, it forecast net private debt inflows at \$459.1bn in 2013 relative to \$420.2bn in the previous year. Also, the Bank forecast net private capital inflows to developing economies to reach \$1,290.7bn in 2014 and \$1,391.7bn in 2015, and to be equivalent to 4.4% of GDP in 2014 and 4.3% of GDP in 2015. In parallel, it forecast net private capital inflows to the East Asia & Pacific region at \$471.9bn in 2013, which would account for 37.7% of capital inflows to developing economies, followed by Latin America & the Caribbean with \$359.4bn (28.7%), Europe & Central Asia with \$255.2bn (20.4%), South Asia with \$90.6bn (7.2%), Sub-Saharan Africa with \$58bn (4.6%), and the Middle East & North Africa with \$15.2bn (1.2%). It forecast net private capital inflows to Europe & Central Asia to grow by 22.8% in 2013, followed by SSA with a 20.1% rise, South Asia (+4.3%) and East Asia & the Pacific (+3.1%); while it expected net inflows to Latin America & the Caribbean to drop by 0.4% and those to the MENA region to contract by 10.1%.

Source: World Bank

##### Bond and equity inflows at \$49bn in first five months of 2013, AUM at \$1,359bn

Capital flows to emerging market equity and bond funds posted net inflows of \$48.7bn in the first five months of 2013, with bond inflows at \$25.2bn and equity inflows at \$23.5bn. Emerging Europe, the Middle East & Africa (EMEA) attracted \$9.9bn or 39.1% of inflows to bond funds; followed by Emerging Asia with \$8bn, or 31.6% of the total; and Latin America with \$7.4bn, or 29.3% of the total. Further, Emerging Asia attracted \$19bn in inflows to equity funds in the first five months of the year and accounted for 80.9% of equity inflows to emerging markets, followed by the EMEA region with \$2.3bn (9.8%) and Latin America with \$2.2bn (9.3%). Mexico was the biggest recipient of bond inflows with \$2.7bn, or 10.5% of total inflows into emerging market bond funds; while Korea was the largest recipient of equity inflows with \$4.9bn or 21.1% of total inflows into equity funds. In parallel, assets under management (AUM) in emerging markets totaled \$1,359.2bn at the end of May 2013, with bonds reaching \$362.8bn and equities totaling \$996.4bn. The EMEA region had \$141.4bn in bond-related AUM, followed by Latin America with \$134.1bn, and Emerging Asia with \$87.4bn. Further, Emerging Asia had \$654.9bn in equity-related AUM, followed by the EMEA region with \$172.9bn, and Latin America with \$168.6bn.

Source: Barclays Capital

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# OUTLOOK

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## MENA

### Growth revised downward to 2.5% in 2013

The World Bank revised downward its projections for real GDP growth in the Middle East & North Africa to 2.5% in 2013 from a January forecast of 3.4% compared to growth of 5.1% for developing nations and 2.2% for the global economy. It said that the deceleration in growth reflects a second year of recession in Iran, subdued growth in Egypt, and a modest recovery in Algeria. The World Bank's growth forecast for the MENA geographic region becomes 2.6% in 2013 when including GCC economies ex-Qatar. It expected the region's developing oil exporters to grow by 3.1% in 2013 compared to 3.5% in 2012, and projected real GDP growth in developing oil importers at 3.1% in 2013 relative to 3.5% in 2012. Also, it forecast economic growth in GCC countries ex-Qatar at 3.8% in 2013 compared to 5.3% in 2012. It projected the MENA region's current account balance to post a deficit of 3.3% of GDP this year compared to a deficit of 1.9% of GDP in 2012, and forecast the fiscal deficit at 6.4% of GDP in 2013 from 6.5% of GDP in 2012.

The World Bank considered that prospects for the region over the medium-term are contingent on the gradual easing of social unrest and ongoing uncertainty, and on stronger demand in the Eurozone. But it said that the impact of a weak recovery in the Eurozone is significantly smaller than that of increased social and political tensions, and of the failure to address growing macroeconomic imbalances. It warned that the MENA's developing countries will continue to lag other developing countries and that growth rates will remain low even when calm is restored due to the absence of social and political consensus needed to undertake the necessary structural reforms. Further, it pointed out that a gradual decline in global oil prices to \$80 per barrel by June 2014 would decelerate the real GDP growth of the region's developing oil exporters by 1.4 percentage points in 2014, deteriorate their overall current account balance by 3.5 percentage points of GDP and reduce their fiscal balance by 2.1 percentage points of GDP in 2014. In contrast, it said that real GDP growth for the region's developing oil importers would increase by 0.5 percentage points, their current account would improve by 0.5 percentage points of GDP and their fiscal balance would strengthen by 0.2 percentage points of GDP in 2014. *Source: World Bank*

## SAUDI ARABIA

### Non-oil growth at 5.8%, fiscal surplus at 8.1% of GDP in 2013

The Institute of International Finance projected real GDP growth in Saudi Arabia at 4.2% in 2013, down from a growth rate of 6.8% in 2012 due to a 2% decline in crude oil production from 9.8 million barrels per day (b/d) in 2012 to 9.6 million b/d in 2013. As such, it forecast hydrocarbon output to contract by 1.5% in 2013 compared to growth of 5.7% last year, and for the non-hydrocarbon sector to grow by 5.8% in 2013 relative to a growth rate of 7.1% in 2012. It said that non-hydrocarbon growth will be supported by private consumption, investment, and continued structural reforms. It added that the low public debt level, large stock of foreign exchange assets and continued structural reforms would support the strong growth of the non-

hydrocarbon sector, even in the event of a drop in global oil prices. It expected inflationary pressures to remain limited, with the average inflation rate rising slightly to 3.5% in 2013 from 2.9% in 2012. Further, it said that reducing the high unemployment rate continues to pose a major challenge to the authorities. It considered that authorities need to reinforce and expand their ongoing efforts to reorient work incentives and promote private sector employment of nationals.

The IIF expected the fiscal surplus to narrow to 8.1% of GDP this year from 12.8% of GDP due to a decline in the average Brent oil price to \$108 per barrel (p/b) from \$112 p/b last year, and to a 2.5% fall in the volume of crude oil exports. It expected the fiscal breakeven oil price to rise to \$84 p/b in 2013 from \$78 p/b in 2012. It noted that the high level of wages and implicit subsidies are limiting the flexibility of fiscal policy, and would erode fiscal sustainability over the medium-term. It warned that the continued strong growth in the domestic consumption of petroleum products would significantly reduce the volume of oil exports. It projected the current account surplus to fall from \$179bn or 24.6% of GDP in 2012, to \$140bn or 18.9% of GDP in 2013. It forecast SAMA's foreign assets at \$754bn in 2013, equivalent to 101% of GDP, relative to \$664bn in 2012. *Source: Institute of International Finance*

## Dem Rep Congo

### Economic growth to reach 8% in 2013, weaker mining prospects to affect growth in the long term

Business Monitor International projected real GDP growth in the Democratic Republic of Congo (DRC) at 8.1% in 2013 compared to 7.1% in 2012, supported by rising exports and expanding private consumption. But it noted that the DRC's outlook is vulnerable to weak domestic governance and a slowdown in China's economic growth. It forecast economic growth to trend lower at around 6% in coming years due to slowing Chinese demand, poor domestic governance, and a worsening business environment. BMI forecast private consumption to grow by 5.6% in real terms this year relative to an estimated growth of 4.5% in 2012. It noted that the DRC's large population, falling inflation levels and political stability across most of the country resulted in an increase in spending. Further, it anticipated that government spending would grow by 10% this year compared to growth of 1% in 2012 due to the projected rise in military spending and improving budget execution. It attributed the small increase in government spending last year to the late endorsement of the 2012 budget and the poor execution of the government's financial commitments.

In parallel, BMI said that investment spending in the DRC has risen significantly in recent years due to both the construction of mining installations by the private sector and rising government spending on transport infrastructure. As such, it forecast investment to be equivalent to 24.1% of GDP in 2013 relative to 3.5% of GDP in 2000. However, it noted that investment's contribution to real GDP growth will slow down over the coming years as slowing Chinese demand for industrial metals and lower global copper prices would reduce foreign investment in the mining sector.

*Source: Business Monitor International*



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## ECONOMY & TRADE

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### SYRIA

#### Economic activity to contract by 10% in 2013

The World Bank forecast Syria's real GDP to contract by 10% in 2013, following contractions of 30% in 2012 and 3.2% in 2011. Syria's projected contraction for 2013 would make it the worst performing economy among 11 countries in the MENA region and one of two economies to contract this year along with Iran (-1.1%). Further, the World Bank forecast Syria's current account deficit at 8.8% of GDP in 2013 compared to deficits of 8.2% of GDP in 2012 and 1.7% of GDP in 2011. Syria's projected current account deficit for this year would be the fourth widest in the region after Jordan that has a forecast deficit of 15.4% of GDP, Lebanon (14.7% of GDP) and Morocco (9.7% of GDP). The World Bank indicated that domestic prices rose significantly last year as a result of the conflict and of international sanctions. It noted that the annual inflation rate rose from 15.4% in January to nearly 50% in September 2012. In parallel, the World Bank projected Syria's real GDP to contract by 2% in 2014, which would be the worst economic performance in the MENA region next year, and would make it the only regional economy to post a contraction. It also expected Syria to post the fourth widest current account deficit at 7.5% of GDP in 2014, behind Jordan (14.2% of GDP), Lebanon (13.6% of GDP) and Morocco (8.8% of GDP).

Source: World Bank

### BAHRAIN

#### Sovereign ratings on review for possible downgrade

Moody's Investors Service placed Bahrain's 'Baa1' government issuer rating on review for possible downgrade. It attributed its decision to the fiscal implications of Bahrain's high and rising break-even oil price, weaker medium-term growth prospects, and higher debt-to-GDP level over the long-term. It said that Bahrain's break-even oil price of \$118.7 per barrel this year exceeds the projected average oil price of \$106 p/b, which would widen the fiscal deficit to between 4% of GDP and 5% of GDP in each of 2013 and 2014 from 2.6% of GDP in 2012. It considered that Bahrain's public finances are less flexible and its shock-absorption capacity is lower than that of similarly-rated peers. Further, it anticipated that continued political and social tensions would dampen confidence and investment in the economy, and would ultimately weaken long-term growth prospects. It noted that Bahrain's economy remains dependent on the oil and financial sectors, both of which suffer from uncertain growth prospects. Also, it said that low growth prospects, high government expenditures and weaker global oil prices would increase the public debt to more than 60% of GDP by 2018. Overall, the agency considered that Bahrain's economic fundamentals, including its economic strength, have significantly deteriorated. But it noted that the ratings remain supported by a strong positive net international investment position, continued current account surpluses and large external financial assistance from GCC economies.

Source: Moody's Investors Service

### UAE

#### Economic recovery eases Dubai's debt dynamics

Merrill Lynch indicated that the recovery of domestic economic activity and continued fiscal consolidation in the Emirate of Dubai are improving the government of Dubai's debt dynamics. It estimated the direct debt stock of the Dubai government at \$50.5bn, which consists of \$23.3bn or 46.2% in bilateral and syndicated loans, \$20bn or 39.6% in related party debt and \$7.2bn or 14.2% in bonds. As such, it said that Dubai's debt composition is benign given the low share of market debt out of total debt. But when including the government's guarantees of \$7.8bn in government-related entities' debt (GREs), Dubai's overall debt level becomes equivalent to 64% of GDP. It pointed out that Dubai still faces the risks of deterioration in the global economic environment or in liquidity conditions, as well as potential further GRE bailouts that would shift liabilities to the sovereign balance sheet. It noted that Dubai's debt sensitivity to the global environment is pronounced as growth and interest rate shocks as well as the deterioration in the fiscal position would raise the debt level, excluding guarantees, from a current level of 55.5% of GDP to 65% of GDP by 2021. In parallel, Merrill Lynch anticipated that Dubai's 2013 budget would help reduce vulnerabilities and achieve a balanced fiscal position by 2014. But it noted that the government's fiscal deficit target of 0.4% of GDP for 2013 would be challenged by higher-than-budgeted capital expenditures.

Source: Merrill Lynch

### CÔTE d'IVOIRE

#### Positive economic outlook for 2013

The International Monetary Fund indicated that Côte d'Ivoire's economic prospects for this year are positive, as the expected increase in public spending would support robust economic activity. It noted that the country's economic performance was better than expected in 2012, with a real GDP growth rate of 9.8%, an average inflation rate of 1.3%, and a better-than-anticipated budget execution. It expected the inflation level to remain moderate at around 3% this year and for the fiscal position to continue to improve. It forecast the current account deficit to moderately widen, but it noted that high FDI inflows will continue to partly finance the widening deficit. The Fund considered that the authorities' main challenge is to maintain the current growth momentum over the medium-term. It said that the National Development Plan for 2012-15 focuses on stimulating investments while simultaneously preserving fiscal and debt sustainability. It noted that the implementation of measures to further improve the business climate, regularize domestic arrears, and reform the financial sector would support the expansion of the private sector. The IMF pointed out that Côte d'Ivoire has made significant progress in implementing structural reforms last year, mainly by reducing subsidies to the energy sector, improving the business climate and strengthening the energy sector. But it noted that some reforms were delayed, such as formulating a medium-term wage bill strategy, restructuring state-owned banks, drafting a strategy to settle domestic arrears debt, and adopting a new electricity code.

Source: International Monetary Fund



# BANKING

## SAUDI ARABIA

### Ratings on 11 banks affirmed, outlook on three banks revised to 'negative'

Fitch Ratings affirmed the long-term Issuer Default Ratings (IDR) of Al Rajhi Bank, National Commercial Bank (NCB), Riyadh Bank and SAMBA Financial Group (SAMBA) at 'A+', that of Arab National Bank (ANB), Banque Saudi Fransi (BSF) and Saudi British Bank (SBB) at 'A', and that of Saudi Hollandi Bank (SHB), Saudi Investment Bank (SIB), Alinma Bank and Bank Aljazira at 'A-'. It also affirmed the viability rating of Al Rajhi Bank, NCB, Riyadh Bank, SAMBA, ANB, BSF and SBB at 'a', that of SHB at 'bbb', that of SIB and Alinma Bank at 'bbb-' and that of Bank Aljazira at 'bb+'. It revised the outlook on the long-term IDRs of BSF, ANB and SBB to 'negative' from 'stable', while it kept the 'stable' outlook on the remaining banks' ratings. It attributed the outlook revision on the three banks' ratings to their lower capital ratios and lower capital buffers compared to peers, mainly in the context of strong loan growth. It added that BSF and SBB suffer from higher loan concentrations, while ANB has a higher cost-to-income ratio compared to peers. But the agency anticipated that the three banks will not need to absorb losses in the foreseeable future given their low NPL ratios and high loan-loss reserve coverage. Further, Fitch indicated that the 11 banks benefit from a stable operating environment, a conservative and hands-on regulator, and high barriers to entry into the Saudi Arabian banking market.

Source: Fitch Ratings

## EGYPT

### Private sector lending up 9% in March 2013

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,531.9bn at the end of March 2013, constituting an increase of 2.5% from the preceding month, a growth of 6.3% from end-2012, and a rise of 13.6% from end-March 2012. Loans totaled EGP532.6bn at end-March 2013 and increased by 3.9% from end-2012 and by 8.2% from a year earlier. The private sector's aggregate lending reached EGP497.8bn and rose by 8.7% year-on-year; while public sector lending amounted to EGP34.8bn and increased by 1.5% from end-March 2012. Public-sector lending in foreign currency grew by 1.7% from end-2012 and by 24.4% year-on-year, while public sector credit in local currency fell by 5.7% from end-2012 and by 25.3% annually in March 2013. Further, total deposits reached EGP1,147.8bn and increased by 5.2% from end-2012 and by 14.2% from end-March 2012, with private sector deposits totaling EGP1,023.7bn at end-March 2013 and rising by 5.6% from end-2012 and by 16.2% year-on-year. Private sector deposits in foreign currency rose by 19.5% year-on-year to the equivalent of EGP224.1bn at the end of March 2013; while private sector deposits in local currency rose by 15.3% from end-March 2012 to EGP799.6bn. Public sector deposits totaled EGP124.1bn at end-March 2013, unchanged year-on-year. The dollarization rate of private sector deposits reached 21.9% at the end of March 2013 relative to 21.3% a year earlier. The private sector loans-to-deposits ratio was 48.6% at end-March 2013 relative to 52% a year earlier.

Source: Central Bank of Egypt, Byblos Research

## TUNISIA

### Bank ratings lowered on sovereign downgrade

Moody's Investors Service downgraded the long-term local currency deposit ratings of Arab Tunisian Bank (ATB), Banque Internationale Arabe De Tunisie (BIAT) and Banque De Tunisie (BdT) to 'Ba2' from 'Ba1', and lowered the three banks' long-term foreign currency deposit ratings to 'Ba3' from 'Ba2'. It affirmed the long-term local and foreign currency deposit ratings of Société Tunisienne de Banque (STB) at 'B1' and Amen Bank at 'Ba3'. It noted that all the ratings have a 'negative' outlook, reflecting both the fragile operating environment and the similar outlook on the sovereign ratings. Also, the agency downgraded the standalone credit rating of ATB and BdT to 'ba3' from 'ba2' and that of BIAT to 'b1' from 'ba3', and placed them on review for downgrade; while it maintained that of Amen Bank at 'b2' and STB at 'caa3'. It attributed the downgrades to the government's weakening capacity to provide support to the banks as well as to the fragile domestic operating environment that will continue to weigh on the banks' asset quality, profitability and capitalization metrics. It expected the asset quality of ATB, BdT and BIAT to weaken due to the challenging operating environment and high credit growth, which would negatively weigh on their profitability. It considered that the ratings on STB and Amen Bank already take into account specific and operating environment challenges.

Source: Moody's Investors Service

## NIGERIA

### Most banks can handle significant rise in NPLs

The International Monetary Fund's stress tests show that most banks operating in Nigeria would handle a significant increase in non-performing loans (NPLs), but few individual banks could suffer from undercapitalization. The IMF's first stress test projects a 200% increase in the banking sector's aggregate NPLs and in major sectors financed by banks such as oil & gas, general commerce, real estate & construction and general loans, in case the global economy slows down and global oil prices fall to \$50 per barrel. Under this scenario, it noted that the naira would depreciate by 30% against the US dollar and the stock index would decline by 30%. The IMF's second stress test forecasts a 100% increase in the sector's NPLs, a 30% depreciation of the naira against the US dollar and other currencies, and a 50% fall in the stock market index, in case continuous terrorist attacks affect economic activity and public confidence. The Fund's third stress test anticipates a structural deterioration of the Nigerian banking sector with a 200% increase the sector's NPLs and a 50% fall in the stock market index, in case of an economic deterioration in other African countries where Nigerian banks' subsidiaries and branches operate. The IMF's fourth stress test expects a decline in banks' capital and liquid assets in case the value of the AMCON bonds falls and contingent fiscal liabilities of the government increase. It said that severe increases in overall NPLs would result in the undercapitalization of just a few banks. It attributed the general resilience of most banks to their high capitalization and currently low NPL levels. It anticipated that most banks would handle significant liquidity pressure and absorb moderate potential losses due to their current excess liquidity.

Source: International Monetary Fund



# ENERGY / COMMODITIES

## Brent prices to trade above the key \$100-a-barrel level in second half of 2013

Brent crude oil prices are projected to remain above \$100 a barrel for the rest of the year, despite weak market dynamics. The general consensus has been that demand would likely rebound in the second half of 2013, which would lead to a rise in oil prices. Overall, the global oil market would remain fundamentally weak this year as demand remains relatively soft, while members of the Organization of the Petroleum Exporting Countries increase production to offset the upcoming season's peak demand. In addition, the oil market is expected to experience a larger-than-usual rise in seasonal demand this summer. In parallel, geopolitical events such as the spillover of the Syrian uprising into the region would likely provide further support for oil prices. Brent crude prices are forecast to average \$105 a barrel in the third quarter of 2013, while those of WTI crude oil are anticipated at \$90 a barrel on average during the same quarter. Overall, Brent crude prices are projected to fall by 6.9% to \$104 a barrel on average in 2013, while those of WTI crude oil are forecast to decrease by 4.4% annually to average \$90 a barrel this year.

Source: Citigroup, Byblos Research

## KRG's oil pipeline to Turkey ready by end-September 2013

The Kurdistan Regional Government (KRG) announced that the construction of its new oil pipeline to Turkey will be completed by the end of September 2013. The pipeline is originally designed to carry up to 300,000 b/d of oil, but it is forecast to have an export capacity of about one million b/d by the end of 2015 and 2 million b/d by 2019. The pipeline would allow the KRG to raise its level of exports to global oil markets. The KRG currently uses trucks to transport its crude oil across the border to Turkey. The KRG's current oil production is about 300,000 b/d and it is forecast to rise by 33% to 400,000 b/d by end-2013.

Source: Thomson Reuters, Byblos Research

## Iraqi oil production to rise by 45% by end-2014

Iraq aims to raise its oil production by about 45% to 4.5 million barrels per day (b/d) by the end of 2014. The rise in Iraqi output excludes contribution from the KRG. In parallel, Iraq launched a new national energy strategy in June 2013 that projects the country's crude oil production to triple to 9 million b/d by 2020, below previously set expectations of 12 million b/d by 2017. Iraq has been able to rapidly raise its crude oil output after signing mega-projects with some of the world's largest oil firms. Iraq currently holds the world's fifth largest oil reserves.

Source: Thomson Reuters, Gulf Times

## Middle East accounts for 48% of world's proven oil reserves

The Middle East region's proven oil reserves were estimated at 807.7 billion barrels at end-2012, equivalent to 48.4% of the world's oil reserves. As such, Saudi Arabia holds the region's largest proven oil reserves with 265.9 billion barrels or 32.9% of the region's total reserves. It is followed by Iran with 157 billion barrels, equivalent to 19.4% of the region's total, Iraq with 150 billion barrels (18.6%), Kuwait with 101.5 billion barrels (12.6%), and the UAE with 97.8 billion barrels (12.1%).

Source: BP, Byblos Research

## Base Metals: Steel prices to decline in third quarter of 2013

Global steel production is expected to grow by 4.8% in 2013 compared to 1.1% in 2012 due to stronger global economic growth. China is anticipated to remain the metal's main producer during the 2013-14 period. China's steel production is forecast to reach 758.1 million tons in 2013, equivalent to 47.6% of global supply. It would be followed by non-China Asian countries with 289 million tons (18.1%), EU countries with 165.2 million tons (10.4%) and the North American Free Trade Agreement member countries with 125.8 million tons (7.9%). Steel prices in Asia are expected to remain the lowest among other regions, mainly due to the metal's excess supply in the region. Also, global steel prices are forecast to remain low during the 2013-14 period due to a modest growth in the metal's demand and to lower prices of raw materials. The steel market is projected to shift to a surplus in each of 2013 and 2014. In parallel, EU hot rolled coil steel prices are anticipated to average \$550 a metric ton in the third quarter of 2013, constituting a decrease of 13.1% from an average \$633 a metric ton in the same quarter of 2012.

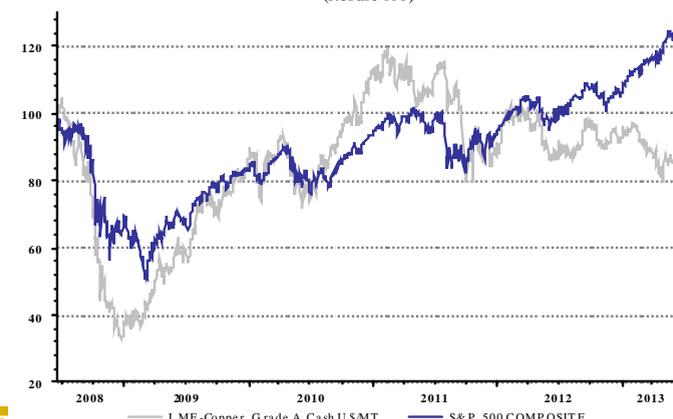
Source: Economist Intelligence Unit, Byblos Research

## Precious Metals: Gold prices to decrease by 14% in third quarter and by 11% in 2013

Gold prices are forecast to maintain a downward trend during the 2013-14 period due to stronger-than-expected global economic recovery, especially the resilience of the U.S. economy to fiscal tightening, which has led many investors to shift their capital away from gold and into asset classes with better yields. The official sector is expected to remain a net buyer of gold during the 2013-14 period, compensating for some of the selling of ETFs. Central banks have been net buyers of gold since early 2009 as they attempt to diversify their reserve asset portfolios away from foreign exchange, mainly away from the U.S. dollar. Gold prices are anticipated to stabilize by the second half of 2013, but downside risks would remain evident through 2014. In parallel, gold prices are projected to average \$1,420 a troy ounce in the third quarter of 2013, constituting an increase of 14.1% from an average of \$1,652 a troy ounce in the same quarter last year. Gold prices are forecast to drop by 11.1% year-on-year to an average of \$1,483 a troy ounce in 2013 and to further decline to \$1,403 a troy ounce on average in 2014.

Source: Economist Intelligence Unit, Byblos Research

Copper vs. S&P 500 Index  
(Rebase 100)



Source: Thomson Reuters Datastream, Byblos Research



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
<b>Africa</b>													
Algeria	-	-	-	-	BB	-3.9	8.6	3.2	8.1	1.1	2.6	6.2	2.0
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	BB	7.0	28.0	15.9	32.4	3.0	49.1	8.5	0.3
	Stable	Stable	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								
<b>Middle East</b>													
Bahrain	BBB	Baa1	BBB	BBB+	BB	-1.5	32.4	147.5	399.2	16.2	905.0	3.7	-4.1
	Stable	Negative	Stable	Negative	Stable								
Iran	-	-	B+	BB-	CCC	-3.5	14.6	3.2	13.1	17.6	19.1	-1.6	3.8
	-	-	Stable	Negative	Stable								
Iraq	-	-	-	-	CCC	-1.9	76.2	70.9	94.9	-	83.1	23.1	1.5
	-	-	-	-	Stable								
Jordan	BB-	Ba2	-	BB	CCC	-7.1	79.7	57.9	47.8	6.4	213.8	-16.1	5.4
	Negative	Negative	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	A	28.2	6.9	19.0	16.7	12.4	142.9	40.5	-4.4
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B	B1	B	B	CCC	-9.7	140.7	102.1	131.1	19.2	118.0	-12.6	1.1
	Negative	Stable	Stable	Stable	Stable								
Oman	A	A2	-	A	A	7.0	4.9	18.2	23.5	3.4	101.7	11.3	3.8
	Negative	-	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	6.5	35.6	69.7	94.4	11.6	704.8	32.9	0.2
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	A	15.5	5.7	13.7	21.8	2.1	13.3	28.3	2.1
	Positive	Stable	Positive	Stable	Stable								
Syria	-	-	-	-	CC	-16.3	48.5	-	87.7	-	-	-13.3	0.3
	-	-	-	-	Negative								
UAE	-	Aa2	-	AA-	BB	4.4	22.4	51.1	36.6	4.4	476.9	16.4	1.0
	-	-	-	Stable	Stable								
Yemen	-	-	-	B-	CC	-5.7	44.9	17.8	72.4	-	157.5	-2.7	
	-	-	-	Negative	Stable								



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
<b>Asia</b>													
Armenia	-	Ba2	BB-	-	-	-3.1	34.2	73.3	148.0	11.9	459	-9.8	4.7
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	A	BBB	-1.3	22.2	9.6	47.1	1.7	23.4	2.3	1.7
	Stable	Stable	Stable	Stable	Stable								
India	BBB-	Baa2	BBB-	BBB-	BB	-9.5	67.6	19.8	90.3	6.3	146.6	-3.8	1.5
	Negative	Stable	Negative	Stable	Stable								
Kazakhstan	BBB+	Baa2	BBB-	-	BB	3.5	12.4	66.8	131.8	17.5	611.8	6.2	5.7
	Stable	-	Stable	-	Stable								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa3	BBB-	-	BB	-0.5	18.9	86.2	141.0	22.8	285.4	1.1	3.6
	Stable	Stable	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	BBB-	B	-2.2	34.6	76.6	178.9	25.2	315.4	-3.7	1.0
	Stable	-	Stable	Negative	Stable								
Russia	BBB	Baa1	BBB	-	BBB	0.5	11.0	29.5	90.6	11.8	123.1	5.2	-0.1
	Stable	Positive	Stable	-	Stable								
Turkey	BB+	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	06-Jun-13	No change	04-Jul-13
UK	Bank Rate	0.50	06-Jun-13	No change	04-Jul-13
Japan	O/N Call Rate	0-0.10	11-Jun-13	No change	11-Jul-13
Australia	Cash Rate	2.75	04-Jun-13	No change	02-Jul-13
New Zealand	Cash Rate	2.50	13-Jun-13	No change	25-Jul-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
<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	27-Jun-13
South Korea	Base Rate	2.50	13-Jun-13	Cut 25 bps	11-Jul-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	07-Jun-13	No change	12-Jul-13
Brazil	Selic Rate	8.00	29-May-13	No change	10-Jul-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	7.00	06-Jun-13	Cut 50bps	N/A
Russia	Refi Rate	8.25	10-Jun-13	No change	Jul-13



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