

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bond and equity inflows at \$21bn in first half of 2013, AUM at \$1,263bn

Capital flows to emerging market equity and bond funds posted net inflows of \$20.9bn in the first half of 2013, with bond inflows at \$12.8bn and equity inflows at \$8.1bn. Emerging Europe, the Middle East & Africa (EMEA) attracted \$5bn or 38.9% of inflows to bond funds; followed by Emerging Asia with \$4.9bn, or 38.2% of the total; and Latin America with \$2.9bn, or 22.9% of the total. Further, Emerging Asia attracted \$9.1bn in inflows to equity funds in the first half of the year, while the EMEA region posted \$0.55bn in outflows from equity funds and Latin America showed \$0.45bn in equity outflows. China was the biggest recipient of bond inflows with \$1.9bn, while Korea was the largest recipient of equity inflows with \$3.8bn in the covered period. Also, Brazil was the largest source of equity outflows of \$2.9bn, followed by Russia with \$1.9bn. In parallel, assets under management (AUM) in emerging markets totaled \$1,262.9bn at the end of June 2013, with bonds reaching \$354.1bn and equities totaling \$908.8bn. The EMEA region had \$140.3bn in bond-related AUM, followed by Latin America with \$128.9bn, and Emerging Asia with \$84.8bn. Further, Emerging Asia had \$600.9bn in equity-related AUM, followed by the EMEA region with \$157.6bn, and Latin America with \$150.3bn.

Source: Barclays Capital

MENA

Country risk level in Arab world unchanged in second quarter of 2013

Euromoney magazine's quarterly survey on global country risk shows that the risk level in the Arab world was nearly unchanged, as the average score of 19 Arab economies reached 42.40 points in the second quarter of 2013 compared to 42.45 points in the preceding quarter. The region's risks remain higher than the global risks level that averaged 43.35 points in the second quarter of the year. The GCC countries' average score regressed marginally to 66.93 points from 66.98 points in the preceding quarter, while the average score of non-GCC Arab countries declined to 31.08 points from 31.13 points in the first quarter of 2013. The Arab world's Political Risks level remained at 12.11 points, worse than the global average of 13.95 points in the second quarter of 2013; while the Economic Performance score was 13.80 points, better than the global average of 13.53 points. Further, the region's Credit Ratings averaged 3.10 points relative to the global average of 3.19 points; while the Access to Bank Finance & Capital Markets score reached 3.95 points, well below the global average of 4.41 points. Qatar is the country with the best country risk ratings in the Arab world and ranked in 18th place globally, followed by Kuwait (20th), Oman (26th) and the UAE (28th); while the lowest-ranked countries in the region are Sudan that came in 153rd place, followed by Mauritania (155th), Syria (158th) and Djibouti (181st).

Sources: *Euromoney*, *Byblos Research*

Arab economies trail most of the world in innovation

INSEAD's Global Innovation Index for 2013 shows that the average score for the 15 Arab countries included in the survey reached 32.5 points in 2012, almost unchanged from 32.6 in 2011 and compared to a global average of 37.4 points. The index rates the innovation state of each country on a scale of 0 to 100, with 100 being the most innovative market. It covers the innovation input and output of countries; including an economy's institutions, human capital & research, infrastructure, market and business sophistication; as well as scientific and creative outputs. The Arab region's average score was lower than that of North America (59 points), Europe (47.6 points), South East Asia & Oceania (43.1 points), and North Africa & West Asia (35.6 points); but was above that of Central & South Asia (28 points) and Sub-Saharan Africa (27.4 points). Also, the average score of GCC countries was 40 points, while that of non-GCC Arab countries stood at 28.7 points. The UAE was the Arab world's top-ranked country on the index and came in 38th place globally, followed by Saudi Arabia in 42nd place and Qatar in 43rd place. In contrast, Algeria (138th), Sudan (141st) and Yemen (142nd) were the lowest ranked Arab economies and came at the bottom of the global rankings. The rankings of two Arab countries improved, 12 declined, and one remained unchanged from the previous survey.

Source: *INSEAD*, *Byblos Research*

Private equity fundraising down 61.5% to \$365m in 2012

The MENA Private Equity Association indicated that private equity funds in the MENA region raised \$365m in 2012, constituting a decrease of 61.5% from \$949m raised in 2011 and compared to \$1.3bn raised in 2010. It said that the decline in the value of raised capital partly reflects the general lack of deal flow in the region, as regional private equity players continue to focus on preserving and enhancing the value of their existing portfolios and preparing for successful exits. A total of 14 funds raised capital in 2012 compared to 20 funds in 2011, with the average close per fund decreasing to \$26m last year from \$47m in 2011. The top 10 funds raised \$358m last year or 96.7% of the total, including eight growth capital funds that raised a total of \$250m and two venture capital funds that raised a combined \$108m. In parallel, private equity funds invested a total of \$720m last year compared to \$646m in 2011, with the average transaction size marginally increasing to \$8m in 2012 from \$7.5m in 2011. There were three investments with a value greater than \$100m, two of which were in the oil & gas sector. The information technology sector attracted 36 deals last year, followed by industrial manufacturing with 8 deals, food & beverage and services with 7 deals each, healthcare with 6 deals, media with 5 deals, financial services and oil & gas with 4 deals each. Morocco attracted 15 deals last year, followed by Lebanon with 14 deals, Egypt and the UAE with 11 deals each, Tunisia with 9 deals, Palestine with 7 deals and Jordan with 5 deals.

Source: *MENA Private Equity Association*

OUTLOOK

EMERGING MARKETS

Economic growth revised downward to 5% for 2013, risks of sustained slower growth on the rise

The International Monetary Fund reduced its projection for growth in emerging markets and developing economies to 5% in 2013 from an April forecast of 5.3%. It said that the projected growth for 2013 constitutes a marginal increase from 4.9% in 2012, but it remains below the high growth rates posted in 2010 and 2011. It said that major emerging market economies have continued to underperform in the second half due to infrastructure bottlenecks, slower external demand growth, lower commodity prices, financial stability concerns and weaker policy support. It noted that the recent increases in the interest rates of advanced economies and asset price volatility, along with weaker domestic activity, have led to some capital outflows, equity price declines, rising local yields, and currency depreciation.

The Fund also revised downwards its growth projections in Developing Asia to 6.9% from an April forecast of 7.2%, lowered its estimate to 5.1% from 5.5% for Sub-Saharan Africa, reduced its forecast to 3% from 3.4% for Latin America & the Caribbean, revised its forecast to 3% from 3.1% for the MENA region and lowered its projection to 2.8% from 3.4% for the Commonwealth of Independent States. It maintained its growth forecast at 2.2% for Central & Eastern Europe.

In parallel, the IMF indicated that risks of lower growth rates in emerging markets and developing economies over a longer period of time have increased due to the protracted effects of domestic capacity constraints, slowing credit growth and weak external conditions. It cautioned from sustained capital flow reversals in emerging markets and from lower growth rates in case of an increase in financial markets' volatility and a further rise in associated yields. It said that many emerging market economies face a trade-off between macroeconomic policies to support weak activity, and policies aimed to contain capital outflows. It considered that macro-prudential and structural reforms would help alleviate the impact of such policy trade-off.
Source: International Monetary Fund

Emerging Europe and CIS countries are most exposed to liquidity squeeze

Standard & Poor's expected that countries in Emerging Europe and the members of the Commonwealth of Independent States (CIS) would be the most exposed to the deterioration in global funding conditions. The agency analyzed external liquidity risks using three indicators that are gross financing needs, external short-term debt and the current account balance. Based on the external financing requirements and the stock of external short-term debt, it said that Emerging Europe and the CIS countries would be the most exposed to a liquidity squeeze. It projected the external financing needs of Emerging European economies and CIS countries to average 109% of their current account receipts (CARs) and usable reserves during the 2012-13 period; followed by the Middle East & North Africa region (96%), Sub-Saharan Africa (SSA) (92%), Latin America (84%), and emerging market sovereigns in Asia-Pacific (82%).

S&P noted that the external short-term debt stock by remaining maturity was equivalent to 166% of usable foreign exchange reserves among CIS countries last year, followed by Emerging Europe (116%), the MENA region (63%), SSA (55%), Asia-Pacific (48%) and Latin America (47%). However, based on the current account balance, it pointed out that countries in the MENA region would be the most vulnerable to a liquidity squeeze, as the region would post an average current account deficit of 6.1% of GDP in 2013, followed by the CIS countries with 3.8% of GDP, Emerging Europe with 3.1% of GDP, Latin America with 1% of GDP and SSA with 0.5% of GDP; while it projected Asia-Pacific's current account balance to post a surplus of 0.7% of GDP this year. It said that Ukraine, Georgia and Turkey ranked among the top most vulnerable countries on the three indicators, while China, Russia and Angola ranked among the emerging markets' least exposed sovereigns.

Source: Standard & Poor's

EGYPT

Economic stability and fiscal sustainability depend on a quick and orderly transition

Barclays Capital expected Egypt to face two likely scenarios over the coming six months. Its first scenario assumes that divisions among the country's political and religious classes would delay the formation of a civilian government. It said that this would postpone necessary amendments to the constitution and the enactment of an electoral law in the next three to four months, which would undermine the political transition process and lengthen it beyond the end of 2013. Under this scenario, it expected further delays in the implementation of reforms and the indefinite postponement of discussions with the IMF. As such, it anticipated that Egypt would continue to rely on stop-gap bilateral funding from Gulf economies, mostly from Saudi Arabia and the UAE, to meet its external financing needs and prevent a currency crisis. It said that delays in the implementation of planned fiscal reforms would negatively affect the country's fiscal and debt sustainability prospects. It considered that meeting a fiscal deficit target of 11% of GDP in FY2013/14 would be too optimistic under this scenario. It added that a longer transitional period with an unclear political and governance outlook would keep capital flows away from Egypt and force the government to continue to rely on higher-cost domestic sources and short-term external borrowing to fund its deficit.

Barclays Capital's second scenario assumes that a national unity government would be formed and would include national figures and technocrats. Under this scenario, it considers that the government would prioritize the economic recovery and the elections, and would work with regional and international partners to support a broad-based economic revival plan after building a domestic consensus around it. It said that the government would proceed with fiscal consolidation measures and would rely on a mix of financing from regional bilateral and multilateral funding over the short-term. It noted that the government would pursue discussions with the IMF on the implementation of reforms. However, it considered that the government would proceed with its own reform plan and timetable, financed from regional sources, in case of a lack of political consensus on an IMF-endorsed reform plan.

Source: Barclays Capital



ECONOMY & TRADE

GCC

Insurance premiums to reach \$38bn in 2017

Alpen Capital projected total insurance premiums generated in the Gulf Cooperation Council (GCC) countries to reach \$37.5bn in 2017 and to post a compound annual growth rate (CAGR) of 18.1% during the 2012-17 period. It also forecast aggregate insurance premiums in the GCC at \$19bn in 2013, \$26.3bn in 2014 and \$26.3bn in 2015 relative to \$16.3bn in 2012. It projected premiums generated in Saudi Arabia to post a CAGR of 26.5% during the 2012-17 period, followed by the UAE with 14%, Oman with 12.3%, Qatar with 11.8%, Bahrain with 10.2% and Kuwait with a 7% growth rate. It forecast non-life insurance premiums in the GCC to reach \$35.1bn in 2017 and to grow at a CAGR of 20%, and for life premiums to total \$2.4bn and to expand at a CAGR of 1.2% during the 2012-17 period. Further, it expected the non-life segment to account for about 93.6% of total premiums in 2017 compared to 86.5% in 2012. It projected the penetration of non-life insurance to increase from 0.9% of GDP in 2012 to 1.9% of GDP in 2017, and for the life insurance penetration to remain unchanged at around 0.1% of GDP in 2017. Also, it expected the non-life insurance density to increase from \$318 in 2012 to \$703.2 in 2017, and to grow at a CAGR of 17.2% during the 2012-17 period; while it forecast that of the life insurance to drop from \$49.2 in 2012 to \$48.1 in 2017, and to post a CAGR of -0.5% during the same period.

Source: Alpen Capital

EGYPT

Ratings downgraded on rising political uncertainties, outlook 'negative'

Fitch Ratings downgraded Egypt's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'B-' from 'B' with a 'negative' outlook. It also lowered the country ceiling to 'B-' from 'B' and affirmed the short-term IDR at 'B'. It attributed the downgrade to the risks of a significant rise in domestic political instability, which would affect sovereign creditworthiness and economic performance. It said that the significant deterioration in the domestic political environment would make it harder for authorities to implement the required fiscal and structural reforms to reach a deal with the IMF. It anticipated that heightened uncertainties and political tensions would delay the economic recovery and would further negatively affect public finances. It noted that the drop in revenues and the rapidly-growing spending on subsidies, wages and salaries have significantly eroded the government's fiscal flexibility. It estimated the budget deficit at 13.5% of GDP in FY2012/13, highest among Fitch-rated sovereigns. It considered that the proposed technocratic government will find it politically difficult to cut spending and increase taxes in order to reduce the deficit to below 10% of GDP. It noted that Egypt's foreign exchange reserves have stabilized at a low level of less than three months of current account payments due to substantial financial support from regional bilateral donors and the implementation of exchange controls in January 2013. But it added that private sector activity has been disrupted by serious shortages of foreign currency.

Source: Fitch Ratings

ARMENIA

FDI down 7% to \$489m in 2012

Foreign direct investment (FDI) in Armenia totaled \$489.1m in 2012, constituting a decrease of 6.9% from \$525.5m in 2011 compared to a decline of 6.7% in aggregate FDI inflows to the 12 economies of the Commonwealth of Independent States (CIS). FDI inflows to Armenia totaled \$570.1m in 2010, \$777.5m in 2009 and \$935.4m in 2008. Net FDI to Armenia was \$473.3m in 2012 relative to \$447.5m in 2011 and \$561.8m in 2010. Armenia was the fourth smallest recipient of FDI in nominal terms among CIS countries in 2012, and was one of eight CIS economies that saw a decrease in FDI last year. FDI inflows to Armenia accounted for 0.1% of aggregate FDI to emerging markets and for 0.6% of total FDI in CIS countries. Also, FDI flows to Armenia were equivalent to 4.9% of GDP in 2012 down from 5.2% of GDP in 2011, the fifth highest in the CIS, while FDI flows to the CIS accounted for 3.1% of the region's GDP last year, down from 3.6% of GDP in 2011. FDI flows to Armenia accounted for 17.3% of gross fixed capital formation, the sixth highest such ratio in the CIS region. In comparison, FDI flows as a percentage of gross fixed capital formation were equivalent to 14.4% in CIS countries, 9% in developing economies and 8.3% on a global basis in 2012.

Source: UNCTAD, Byblos Research

CÔTE d'IVOIRE

Public revenues to increase by 13.3% annually between 2013 and 2017

Business Monitor International projected Côte d'Ivoire's fiscal deficit to narrow to 2.6% of GDP in 2017 from an estimated deficit of 3.3% of GDP in 2013. It attributed the narrowing of the deficit to solid economic growth and improving security conditions. It forecast real GDP growth to average 8.1% between 2013 and 2017, driven by a rise in foreign investment, reforms to the cocoa sector, and the expansion of new industries such as oil and mining. As such, it expected public revenues to increase by 25.4% in 2013 and to rise by 13.3% annually during the 2013-17 period. It considered that the 2011 fiscal deficit of 6.4% of GDP was a result of the 2010-11 crisis rather than the start of a new period of high deficits. It added that Côte d'Ivoire has a good record of fiscal discipline with an average fiscal deficit of 1.2% of GDP between 1997 and 2010. In parallel, it noted that the high growth in government revenues will allow the government to significantly increase capital spending. It expected the government to dedicate an increasing share of public spending to capital and development programs, which would further support economic activity and social development. It anticipated capital spending to absorb 33.4% of total spending in 2017, up from 26.1% in 2013 and 14.5% in 2009. It noted that the increase in capital spending would improve the country's competitiveness over the long-term.

Source: Business Monitor International



BANKING

UAE

Banking sector sound, risks from lending to GREs persist

The Institute of International Finance indicated that banks operating in the UAE are well capitalized, their profitability increased and their liquidity situation eased. It said that the sector's risk-weighted capital adequacy ratio improved to 21% at end-2012 from 20.8% at the end of each of 2010 and 2011, while the Tier-One ratio rose to 17.6% at end-2012 from 16.3% at end-2011 and 16.1% at end-2010. It noted that the sector's loans-to-deposits ratio decreased to 92.4% at end-2012 from 101.1% at the end of 2011 and 98.3% at end-2010. It added that banks' return on assets reached 1.6% in 2012, up from 1.5% in 2011 and 1.4% in 2010; while their return on equity reached 11.8% in 2012, up from 1.4% in each of 2010 and 2011. It pointed out that the sector's NPLs peaked at 8.7% in 2012 relative to 7.6% in 2011, but it expected them to decline this year. It added that banks' current provisions cover 90% of total NPLs up from 88% in 2011 and 83% in 2010. Further, it said that stress tests show that most banks would handle a significant increase in NPLs, and that only few banks would fall below the mandated minimum capital adequacy requirement in the event of extreme shock. However, it indicated that lending to non-financial public enterprises or Government Related Entities (GREs) remains the fastest growing element of bank loans, with loans to GREs representing 16.3% of the sector's total loans in 2012 relative to 7.5% in 2006. It cautioned from further credit expansion to GREs with weak balance sheets. It said that the implementation of the planned mortgage lending regulation and loan-concentration limits to GREs is crucial to prevent a repeat of the 2008 real estate market crash.

Source: *Institute of International Finance*

KUWAIT

Outlook on banking sector remains 'stable'

Moody's Investors Service maintained its outlook on Kuwait's banking sector at 'stable', given the benign operating environment that is supported by high oil revenues and government spending. It expected the operating environment to remain accommodative over the 12 to 18 months, which would support the sector's robust capitalization and large liquidity. It expected credit growth to be moderate at between 5% and 8% in 2013, but to rise to between 8% and 10% in 2014 as business opportunities related to the tendering of infrastructure projects increase. It forecast the sector's Tier-One capital ratio to remain close to the 15.3% level reached at end-2012. It noted that banks hold sufficient capital to absorb losses under stress scenarios. It expected the banks to remain predominantly funded by deposits and to continue to benefit from access to government-related deposits that fund around 25% of assets. It anticipated liquid assets to remain at around 30% of the system's assets. Further, the agency expected the sector's NPLs ratio to stabilize within the 5% to 6% range, down from 10.4% in 2009. However, it considered that elevated single-party and industry concentrations, as well as the lack of transparency about the level of restructured and rescheduled loans, continue to remain key downside risks for the sector's asset quality.

Sources: *Moody's Investors Service*

BAHRAIN

Banks' ratings on review for possible downgrade

Moody's Investors Service placed on review for downgrade the 'Baa2' and 'Prime-2' local and foreign currency deposit ratings of National Bank of Bahrain (NBB) and BBK Bank, as well as the 'Ba1' long-term local and foreign currency issuer ratings of BMI Bank, and the 'Ba3' issuer ratings of Bahrain Islamic Bank (BIB). It also placed on review for downgrade BIB's standalone banks financial strength rating of 'E+/b3' and BBK's senior debt ratings. The agency's decision follows similar action on the sovereign rating due to the fiscal implications of the country's high and rising break-even oil price, weaker medium-term growth prospects, and higher debt-to-GDP level over the long-term. It attributed its decision to place on review the deposit, issuer and debt ratings to the weakening of the sovereign's capacity to provide support to the banks in case of need. Also, it said that the placement on review of BIB's BFSR reflects the extensive recapitalizing needs of the bank as well as the potential weakening in the support capacity of its key Bahraini sovereign-related shareholders, which would affect the timing amount and nature of the recapitalization. It noted that BIB's has very weak non-performing financing and loss covered levels that reached 27% and 25%, respectively, at end-2012. It pointed out that a downgrade of Bahrain's sovereign ratings would lead to a re-assessment of the rating uplift that is currently incorporated in the ratings of the four banks. It noted that substantial erosion in the banks' franchises or financial fundamentals would lead to a negative rating action.

Source: *Moody's Investors Service*

CHINA

Rise in interbank rate temporary

Standard & Poor's considered that the increase in China's interbank rate to 11% on June 20th from about 5% in early June to be a temporary liquidity phenomenon. It attributed the recent increase in the interbank rate to a rise in the banks' short-term liquidity demand, a reduction in liquidity supply in the market, and to the unexpected decision by the People's Bank of China (PBOC) not to intervene immediately. It said that the rate fell to below 7% in late June following the PBOC's decision to intervene. It considered that the PBOC's decision to delay its intervention to be a deliberate policy choice aimed at slowing the growth of wealth management products (WMPs) at some banks. It pointed out that some banks in China have generally been more aggressive than larger banks in issuing WMPs, and have been using the interbank market to fund their liquidity needs. It noted that the PBOC's delayed intervention was a signal to the more aggressive banks that liquidity will not always be available in unlimited supply and at low rates. It added that these banks found it more difficult and costly to meet their short-term liquidity needs when liquidity in the market started to dry up in mid-June. It expected the interbank rate to further decrease over the near-term. But it cautioned from other risks facing the Chinese financial system such as a significant rise in non-performing assets. It said that loan-loss provisioning has increased, but added that credit continues to grow quickly due in part to widespread implicit government guarantees.

Source: *Standard & Poor's*



ENERGY / COMMODITIES

Global oil consumption to grow by 1% in 2013

Global oil consumption is forecast to reach 90.1 million barrels per day (b/d) in 2013, constituting a rise of 1% from 89.2 million b/d in 2012. The Organization for Economic Cooperation and Development (OECD) countries' consumption is expected at 45.5 million b/d in 2013, equivalent to 50.6% of global demand; while total non-OECD consumption is anticipated at 44.5 million b/d, equivalent to 49.4% of worldwide demand over the same year. Brent crude oil prices are projected to average \$102 a barrel during the second half of 2013. Also, Brent crude prices are forecast to drop by 6.3% year-on-year to average \$104.7 a barrel in 2013, while those of WTI crude oil are projected to rise marginally by 0.6% to \$84.2 a barrel during the same year. The Brent-WTI spread is expected to narrow during the 2013-14 period. In parallel, the Dow Jones-UBS Energy Sub-Index declined by 2.6% in June 2013, while the Petroleum Sub-Index decreased by 2.7% during the month. Also, the Dow Jones-UBS WTI Crude Oil Sub-Index increased by 4.6% in June, the Brent Crude Sub-Index rose by 1.8%, while the Natural Gas Sub-Index fell by 11.2% during the month.

Source: U.S. Energy Information Administration, Dow Jones Indices, Byblos Research

Libya's oil supply decreases to lowest level this year

Libya's oil output declined by about 16% month-on-month to 1.13 million b/d in June 2013, constituting the lowest production level since January of this year. The decline in output was partly attributed to power shortages which disrupted the pumps that lift the oil from beneath the ground. The Libyan oil and natural gas industry contributes about 70% of Libya's economy, while it generates almost all of the state's revenues. Libya currently holds Africa's largest proven oil reserves.

Source: Bloomberg, Byblos Research

Middle East accounts for 33% of world's oil production

The Middle East region's aggregate oil production was estimated at 28.3 million barrels per day (b/d) in 2012, equivalent to 32.8% of the world's oil output. As such, Saudi Arabia's production reached 11.5 million b/d, or 40.8% of the region's total output. It was followed by Iran with 3.7 million b/d, equivalent to 13% of the region's total, the UAE with 3.4 million b/d (12%), Kuwait with 3.13 million b/d (11.1%), Iraq with 3.12 million b/d (11%), Qatar with 2 million b/d (7%) and Oman with 0.9 million b/d (3.3%).

Source: BP, Byblos Research

Middle East accounts for 12% of world's natural gas consumption

The Middle East region's aggregate natural gas consumption was estimated at 411.8 billion cubic meters (bcm) in 2012, equivalent to 12.4% of the world's natural gas demand. As such, Iran's consumption reached 156.1 bcm, or 37.9% of the region's total demand. It was followed by Saudi Arabia with 102.8 bcm, equivalent to 25% of the region's total, the UAE with 62.9 bcm (15.3%), Qatar with 26.2 bcm (6.4%), Kuwait with 17.2 bcm (4.2%), Israel with 2.6 bcm (0.6%); while other Middle Eastern countries' natural gas demand reached 44 bcm (10.7%).

Source: BP, Byblos Research

Base Metals: Aluminium prices to decline by 8% in 2013

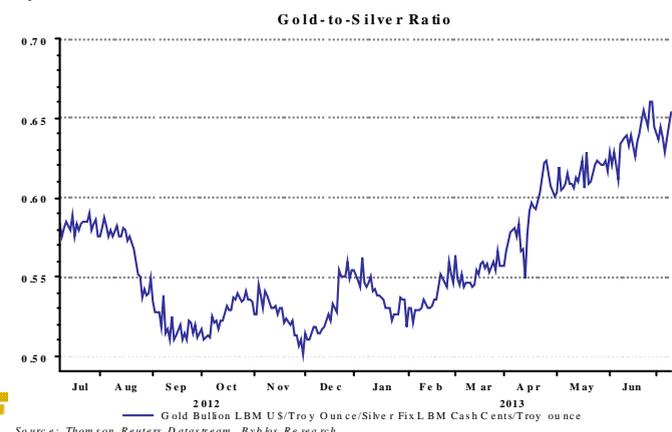
Aluminium prices are projected to decline in 2013 as China's economic growth weakens over the second half of 2013 and as global inventories remain at historical highs. Aluminium is expected to become increasingly available on the market, as the reduction of the United States' Quantitative Easing program leads to a rise in real interest rates and diminishing investors' demand to hold physical commodities. Also, production cuts in the second half of 2013 are anticipated to reduce the metal's global surpluses and provide support for prices over the coming period. Aluminium prices are forecast to decline by 7.5% to \$1,900 a metric ton on average in 2013 and to average \$2,000 a metric ton in 2014. Aluminium prices are not expected to return to their highs reached in 2012 due to record-high inventories and high stocks-to-use ratios. Also, lower energy prices would likely place a ceiling on future aluminium prices due to the energy-intensive nature of the metal's production. In parallel, LME Aluminium High grade 3-month future prices decreased by 7% in June to \$1,773 a metric ton, Copper Grade A 3-month future prices regressed by 7.7%, Nickel 3-month futures prices declined by 7.5%, while prices of Zinc futures decreased by 3.9% to \$1,853 a ton in June 2013.

Source: Business Monitor International, Byblos Research

Precious Metals: Gold jewelry consumption to rise due to the metal's lower prices

Global gold consumption is expected to slightly improve during the 2013-14 period as prices of gold dropped significantly in late 2012 and early 2013, prompting greater gold jewelry consumption. Gold jewelry consumption is projected to rise by 11.2% year-on-year to 2,108 tons in 2013 compared to a 4.1% decrease in 2012. India is forecast to remain the world's top jewelry consumer during the 2013-14 period. In parallel, global gold supply is projected to expand by 2.3% in 2013 as it recovers from the disruptions that affected production in some parts of the world during the 2011-12 period. Gold prices are forecast to average \$1,483 a troy ounce in 2013, constituting a drop of 11.1% from an average \$1,668 a troy ounce in 2012. In parallel, the Dow Jones-UBS Precious Metals Sub-Index decreased by 12.3% in June 2013, while the Gold Sub-Index regressed by 12.2%. Also, the Dow Jones-UBS Silver Sub-Index declined by 12.7%, and the Platinum Sub-Index declined by 8.6% in June 2013.

Source: Economist Intelligence Unit, Dow Jones Indices, 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-	B1	-	BB	CCC	-7.1	79.7	57.9	47.8	6.4	213.8	-16.1	5.4
	Negative	Stable	-	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								
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	Stable	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	19-Jun-13	No change	31-Jul-13
Eurozone	Refi Rate	0.50	04-Jul-13	No change	01-Aug-13
UK	Bank Rate	0.50	04-Jul-13	No change	01-Aug-13
Japan	O/N Call Rate	0-0.10	11-Jun-13	No change	11-Jul-13
Australia	Cash Rate	2.75	02-Jul-13	No change	06-Aug-13
New Zealand	Cash Rate	2.50	13-Jun-13	No change	25-Jul-13
Switzerland	3 month Libor target	0.00	20-Jun-13	No change	19-Sep-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	19-Jun-13	No change	31-Jul-13
Taiwan	Discount Rate	1.88	27-Jun-13	No change	18-Sep-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	17-Jun-13	No change	30-Jul-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	18-Jun-13	No change	23-Jul-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	09-July-13
Nigeria	Monetary Policy Rate	12.00	21-May-13	No change	23-Jul-13
Ghana	Prime Rate	16.00	21-Jun-13	No change	19-Jul-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	25-Jun-13	No change	N/A
Romania	Policy Rate	5.00	02-Jul-13	Cut 25bps	05-Aug-13
Bulgaria	Base Interest	0.02	01-Jul-13	Raise 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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