

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### MENA

##### **Equity issuance down 15% to \$3.2bn in first half of 2013**

Figures issued by Thomson Reuters show that Equity Capital Markets' (ECM) issuance in the Middle East reached \$3.2bn in the first half of 2013, down 15% from the same period last year, of which \$2.3bn were in the first quarter and \$0.9bn in the second quarter of the year. Initial public offerings accounted for 63% of ECM activity in the region. The telecommunications sector was the most active sector during the covered period with total issuance of \$1.3bn and accounted for 40% of ECM activity, followed by the financial sector with \$933m (29.2%). Also, debt issuance in the region reached a record high of \$26bn in the first half of 2013, constituting an increase of 40% from the same period last year. Islamic debt issuance reached \$16.4bn from 44 issues during the covered period, constituting a rise of 6% from the same period last year. Further, the volume of mergers and acquisitions (M&A) reached \$14.7bn in the first half of 2013, up 30% from \$11.3bn in the same period of 2012 and posted the strongest six months of M&A activity since 2008. In parallel, investment banking and advisory fees in the Middle East stood at \$356.6m year-to-June, constituting a rise of 28% from \$277.5m in the same period last year. Syndicated lending fees totaled \$127.6m and accounted for 36% of the overall fee pool, followed by debt capital markets fees with \$102.2m (29%), fees from M&A deals with \$83.6m (23%), and equity capital markets with \$43.1m (12%).

Source: Thomson Reuters

##### **M&A deals down 43% to \$11bn in second quarter of 2013**

Figures released by financial information provider Zawya show that a total of 91 merger & acquisition deals were closed in the Middle East & North Africa region in the second quarter of 2013, constituting a decline of 8.1% from 99 deals in the first quarter of the year. Also, the aggregate value of M&A deals in the region totaled \$11bn in the second quarter of the year, down by 42.6% from \$19.2bn in the preceding quarter. As such, the average deal value reached \$121m in the second quarter of 2013, down 44.3% from \$193.9m in the first quarter of the year. The value of outbound deals in the region accounted for 52% of total M&A deals in the covered quarter, followed by inbound deals with 27% and domestic deals with 21%. Further, the construction sector attracted \$1.86bn or 16.9% of the total in the second quarter of the year. In parallel, targeted M&A deals in the MENA region reached 69 transactions or 75.8% of total M&A deals in the second quarter, and amounted to \$5.3bn or 47.8% of total M&A deal value. North Africa accounted for 59.1% of targeted M&A deal value in the second quarter, followed by GCC countries with 40.2%, and the Levant region with 0.7%. Further, Egypt was the main targeted M&A country with 11 transactions valued at \$2.9bn.

Source: Zawya

##### **Region's job seekers are second most pessimistic in the world**

A survey conducted by opinion polling and consulting firm Gallup on the job situation in 141 countries indicates that respondents in the Middle East & North Africa region were the second most pessimistic in the world about the job market in 2012, as 66% of respondents in the region considered that last year was a 'bad year' to find a job in their local communities. The level of pessimism was lower than only in Europe where 75% of respondents said that last year was a 'bad year' to find a job. The level of pessimism in the MENA region was higher than in Sub-Saharan Africa (62% of respondents), countries of the former Soviet Union (55% of respondents), and the Americas and Asia (54% of respondents each). Globally, 57% of respondents worldwide considered that last year was a 'bad year' to find a job in their local communities, unchanged from 2011. In parallel, only 27% of respondents in the MENA region indicated that last year was a 'good year' to find a job in their local communities, similar to the rate in the former Soviet Union, and higher than Europe only where 17% of European respondents said that last year was a 'good year' to find a job. The level of optimism about the MENA region's job market fell by one percentage point last year, and was among three regions that posted declines in the level of optimism along with Europe and Sub-Saharan Africa with decreases of three percentage points each. The former Soviet Union posted the largest annual increase in the percentage of adults saying that last year was a 'good year' to find work, with a rise of four percentage points. The survey's results are based on telephone and face-to-face interviews with approximately 1,000 adults per country that were conducted in 141 countries and territories in 2012.

Source: Gallup

#### EGYPT

##### **Limited margin of maneuver for new government**

Citigroup expected Egypt's interim government to focus on addressing the lack of jobs and high unemployment, the rise in domestic prices, the erosion of real incomes, the deteriorating public services, the scarcity of public commodities and the weak domestic security situation. It noted that the government's economic team has the potential to improve the country's policy-making. But it considered that authorities will struggle to achieve these objectives given the political challenges they will face. It said that the government is not likely to start implementing reforms or reach an agreement with the International Monetary Fund to address the economy's structural weaknesses in the near-term. It noted that the government lacks the political mandate to enact unpopular policies that would risk generate unrest and become politically counter-productive. Overall, it considered that the interim government will not be able to significantly deviate from the economic policies adopted by the previous government and may pursue more expansionary and populist measures to help reduce political and social tensions.

Source: Citigroup

# OUTLOOK

## SYRIA

### Total economic losses from conflict at \$84bn, equivalent to 142% of 2010 GDP

The Syrian Center for Policy Research estimated Syria's real GDP to have contracted by 6.8% in the first quarter of 2013 following contractions of 29% in 2012 and 3.7% in 2011. It estimated the total economic losses from the start of the conflict up until the first quarter of 2013 at \$84.4bn in current prices, equivalent to 142% of the country's 2010 GDP. It said that losses from damaged capital stock totaled \$41.2bn during the covered period and accounted for 48.8% of total economic losses, followed by output loss with \$38.4bn (45.5%) and the increase in military spending with \$4.8bn (5.7%). It defined the rise in military expenditures as the reallocation of resources from productive processes to non-productive or even destructive aims. It estimated total economic losses at \$21.2bn in the first quarter of 2013, including \$12.6bn in damaged capital stock, \$7.9bn in output loss and \$722m in increased military spending. Also, it estimated total losses at \$50.6bn in 2012 that include \$24bn in output loss, \$23.4bn in damaged capital stock and \$3.2bn in increased military spending; and at \$12.6bn in 2011, of which \$6.5bn in output loss, \$5.1bn in damaged capital stock and \$951m in increased military spending.

In parallel, it estimated GDP losses at SYP1,080bn in constant 2000 prices during the covered period, equivalent to 74.4% of Syria's 2010 GDP. It said that losses in the domestic trade segment accounted for 23.4% of total output loss during the covered period, followed by the transport & communication sector with 20.2%, the mining & oil sector with 15.3%, the manufacturing sector with 12.8%, government services with 12.1%, the agricultural and financial & real estate sectors with 4.8% each, social services with 3.4%, utilities with 1.9% and the construction sector with 1.4%. Also, it estimated public and private consumption losses at SYP682bn during the covered period. It said that gross capital formation losses totaled SYP313bn since the start of the conflict, of which SYP147bn were in the private sector and SYP157bn in the public sector.

Source: Syrian Center for Policy Research

## JORDAN

### Real GDP to grow by 3.3% in 2013

The World Bank projected Jordan's real GDP growth to improve to 3.3% in 2013 from 2.8% in 2012 and to be driven by public and private consumption. It anticipated private consumption to accelerate due in part to growing demand from Syrian refugees, and for the public investment program to be supported by GCC countries. It expected the implementation of fiscal consolidation measures under the program with the IMF to improve confidence. It estimated the negative impact from fiscal consolidation on domestic economic activity to be limited given the improved mix of fiscal cuts. It forecast economic growth to accelerate to 3.5% in 2014, but to remain well below the growth levels posted over the past decade.

The World Bank projected the fiscal deficit to narrow to 9% of GDP in 2013 from 10% of GDP in 2012 when excluding grants, and to narrow to 5% of GDP this year from 8.5% of GDP last

year when including grants. It forecast foreign grants to rise to 4% of GDP in 2013 from 1% of GDP in 2012, which would improve the country's overall public finances. But it expected the debt level to further increase to 82.4% of GDP in 2013 from 80.2% in 2012. It noted that the debt ratio rose by 10 percentage points last year due to lower-than-expected grants and rising public spending on Syrian refugees. It forecast the current account deficit to narrow to 10% of GDP this year from 18.1% of GDP in 2012 due to rising foreign grants, the increase in imported gas from Egypt, lower global food and fuel prices, and the recovery in the exports of potash and phosphate. It forecast the foreign exchange reserves to rise to \$8bn this year, equivalent to 4.1 months of imports, from \$5.7bn or 2.9 months of imports cover in 2012. It considered that the risks to the economic outlook include the failure to implement the fiscal consolidation program and additional negative spillovers from the Syrian conflict.

Source: World Bank

## NIGERIA

### Non-oil sector activity to offset disruption in oil output

The Institute of International Finance projected Nigeria's real GDP growth at 6.8% in 2013 compared to 6.6% in 2012, supported mainly by robust activity in non-oil sectors. It said that activity in the hydrocarbon sector continues to be disrupted by vandalism and oil theft, with oil leakages estimated at around 200,000 barrels per day (b/d). It noted that the sector accounted for only 14% of GDP last year, but it provided 97% of merchandise export receipts and around 80% of public revenues. It pointed out that authorities have yet to pass the Petroleum Industry Bill, mainly due to a political disagreement on the share of revenues that should be allocated to oil states. As such, it did not expect international oil companies to commit capital expenditures to bring new fields into production until the bill is passed, and until the fiscal terms and revenue sharing arrangements are clarified. The IIF indicated that lower global oil prices, an increase in emerging market risk aversion, and political turmoil constitute the main risks for Nigeria's economic outlook. It said that the materialization of the two external risks would have a more immediate impact; while the increase in political unrest would have a more fundamental effect on the country's medium-term prospects.

In parallel, the IIF noted the significant shift in the composition of capital inflows to the country last year as portfolio inflows exceeded FDI for the first time. It pointed out that equity inflows surged to a record \$10bn in 2012 from \$2.6bn in 2011 and projected them at \$9bn in 2013. It added that the decline in FDI to \$7.1bn last year reflects a drop in new investment capital. It expected FDI to increase to \$9bn in 2013 as receipts from privatization in the power sector and continuous flows to the non-oil sector would more than offset the decline in investments in the oil sector. It projected the current account surplus to narrow to 6.8% of GDP in 2013 from 7.8% of GDP in 2012 mainly due to lower oil export earnings and higher imports. It expected foreign exchange reserves to increase to \$56.8bn in 2013, equivalent to 6.7 months of imports, from \$46.4bn in 2012 or 5.5 months of imports.

Source: Institute of International Finance

# ECONOMY & TRADE

## EGYPT

### Agencies take rating actions on the sovereign

Moody's Investors Service affirmed Egypt's 'Caa1' government bond rating and maintained the 'negative' outlook on the rating. It attributed its action to the substantial strengthening of Egypt's international liquidity due to the \$12bn financial support from Saudi Arabia, Kuwait and the UAE; the government's roadmap for constitutional reform and elections; and the recent decline in the government's debt-financing cost. The agency said that the financial support package will immediately ease the pressure on the country's balance of payments, but noted that it would provide only temporary relief from the political and economic challenges that Egypt faces. It added that financing costs at the current lower levels are unsustainable over the longer term given the sharp rise in government debt since 2010. In parallel, Capital Intelligence downgraded Egypt's long-term foreign and local currency sovereign ratings to 'B-' from 'B', and affirmed its short-term ratings of 'B'. It maintained the 'negative' outlook on the ratings. It attributed the downgrade to the deterioration in the domestic political environment and its adverse repercussions on the country's weak fiscal and external positions. It expected the worsening political and investment climate to reduce the prospects for a sustained economic recovery, and to prevent the government from implementing reforms to address the large budget deficit and the elevated public debt level. It pointed out that the deteriorating domestic political and economic situation has left the economy dependant on regional financial support to cover its growing financing needs. It considered that the financial support from the GCC countries would temporarily strengthen Egypt's foreign exchange reserves, but would not help the economy's capacity to absorb further shocks.

Source: Moody's Investors Service, Capital Intelligence

## SUDAN

### Measures needed to preserve economic stability

The International Monetary Fund indicated that Sudan's economic developments remain mixed despite the implementation of a set of corrective measures since June 2012. It said that the economy is still suffering from the macroeconomic impact of South Sudan's independence in July 2011. It considered that authorities need to implement further measures to preserve macroeconomic stability and support the needed recovery. It pointed out that the agreement reached with South Sudan in March 2013 on oil and security issues offers an opportunity for policy reforms to address the post-secession challenges and put the economy on a higher growth path. The Fund welcomed the authorities' efforts to develop economic policies to ensure macroeconomic stability, such as the Three-Year Emergency Program adopted in 2011. It anticipated that the quick implementation of corrective policies to raise non-oil revenues, restructure expenditures, unify the exchange rates and markets, and enhance the monetary policy framework would help create the conditions for a stronger medium-term growth path. It added that these policies would pave the way for another arrangement with the Fund. It pointed out that the 2014 budget needs to continue the required fiscal consolidation.

Source: International Monetary Fund

## ARMENIA

### Country risk level lower than most regional peers, ranks 84th globally

*Euromoney* magazine's quarterly survey on global country risk ranked Armenia in 84th place among 184 countries worldwide and in fourth place among the 12 countries that form the Commonwealth of Independent States (CIS) in the second quarter of 2013. Armenia's global and regional ranks were unchanged from the preceding quarter. Armenia's overall score reached 41.71 points almost unchanged from 41.47 points in the first quarter, and compared to the global average of 43.35 points and to the average score of 33 points for the CIS. Globally, Armenia had a lower country risk level than that of Georgia, Seychelles and Vietnam, and a higher risk level than that of Nigeria, Azerbaijan and Guyana. Also, Armenia had a higher risk level than only Azerbaijan, Kazakhstan and Russia among the CIS. Armenia's Political Risk score was 15.38 points, better than the global average of 13.95 points and the CIS average of 10.70 points; while its Economic Performance received 14.72 points, above the global average of 13.53 points and the CIS average of 12.27 points. Further, its Credit Ratings score was 2.81 points compared to the global average of 3.19 points and the CIS average of 1.89 points; while its score on Access to Bank Finance & Capital Markets was 1.25 points relative the global average of 4.41 points and the CIS average of 2.49 points. Also, Armenia's score on Debt Indicators reached 2.63 points relative to the global average of 4.23 points and the CIS average of 2.28 points.

Source: *Euromoney*, *Byblos Research*

## CÔTE d'IVOIRE

### Fiscal deficit to narrow to 2.2% of GDP in 2013

The Institute of International Finance projected Côte d'Ivoire's fiscal deficit to narrow to 2.2% of GDP in 2013 from 3.1% of GDP in 2012, which would be lower than the government's target deficit of 3.1% of GDP for this year. It attributed the narrowing of the deficit to higher revenues and prudent spending. It expected the stable security situation, improved tax administration, and the expected decline in the size of the informal economy to significantly support tax collection and revenues. It anticipated current spending to be higher than that in the 2013 budget due to increased spending on public-sector wages, and forecast capital spending to be lower-than-budgeted. It considered that the authorities' plan to increase capital spending to 7.5% of GDP to be too ambitious due to possible delays in the disbursement of donors' pledges and given the implementation rates achieved in previous years. Further, it expected the government to finance the deficit through a mix of concessional multilateral grants and loans as well as domestic and regional borrowing. In parallel, the IIF indicated that authorities need to implement or accelerate structural reforms in three key areas in order to strengthen the country's public finances. First, it said that authorities need to accelerate their privatization plan that aims to sell 25% of the public portfolio in the next two years. Second, it encouraged authorities to clear arrears owed to the private sector. Third, it called for strengthening the country's public sector management and institutional capacity.

Source: *Institute of International Finance*



# BANKING

## GCC

### Subordinated debt ratings of 12 banks downgraded

Moody's Investors Service downgraded by one to three notches the subordinated debt ratings of Arab National Bank, Banque Saudi Fransi, Abu Dhabi Commercial Bank, Emirates NBD, First Gulf Bank, Mashreqbank, Commercial Bank of Qatar, Doha Bank, Qatar National Bank, Burgan Bank, Bank Muscat and BBK Bank. It estimated that around \$3bn in rated debt were affected by the downgrade. It attributed the downgrades to the increase in the risk profile of junior debt instruments, given global regulatory trends of imposing losses on junior creditors as part of banks' bailouts. The agency noted that its standard rating approach for banks' subordinated debt excludes systemic support for these junior instruments, and that subordinated debt ratings are typically positioned below the banks' baseline credit assessments (BCAs) rather than one notch below the senior unsecured rating. However, it said that it applied an exception to its standard approach in the case of GCC banks and retained elements of rating uplift for subordinated debt from the BCAs of these banks. It noted that the uplift reflects the degree of government ownership in banks; the authorities' supportive position towards distressed institutions in the past; and expectation that the government would offer elements of protection to "legacy" subordinated debt holders.

Source: Moody's Investors Service

## SAUDI ARABIA

### Banks' capital adequacy solid, NPLs decline

The risk-weighted capital adequacy ratio of banks operating in Saudi Arabia reached 18.7% at the end of 2012 relative to 19.6% at the end of 2011 and 17.1% at end-2010. The sector's liquid assets accounted for 23.7% of total assets at end-2012 relative to 22.6% at end-2011 and 24.7% at end-2010, while they were equivalent to 36.4% of short-term liabilities at end-2012, unchanged from the previous two years. Net loans accounted for 58.2% of total assets at end-2012 relative to 55.8% at end-2011 and 55.2% at end-2010; while customer deposits were equivalent to 132% of net loans in 2012, down from 136% in 2010 and 2011. Foreign currency deposits accounted for 17.3% of total deposits and foreign currency loans represented 11.6% of the total at end-2012. The sector's non-performing loans reached 1.9% of total loans at end-2012, down from 2.3% at end-2011 and 3.0% at end-2010, while the provisions-to-NPLs ratio increased to 145.1% from 133.2% at end-2011 and 115.7% at end-2010. In parallel, banks' average pre-tax return on assets reached 2% in 2012, unchanged from 2011, but down from 2.5% in 2010; while their return on equity was 14.5% in 2012, similar to that of 2011 and down from 17.7% in 2010. There were 23 banks operating in Saudi Arabia at end-2012. The six largest banks account for 75% of total assets, while the two largest banks represent 25% of the total. In parallel, the banking sector's assets were equivalent to 63.6% of GDP, loans reached 36.7% of GDP and total deposits represented 46.2% of GDP in 2012.

Source: International Monetary Fund

## UAE

### Ratings on seven banks affirmed

Capital Intelligence affirmed the long-term foreign currency rating of National Bank of Abu Dhabi (NBAD) at 'AA-'; that of First Gulf Bank (FGB); Commercial Bank of Dubai (CBD) and Union National Bank (UNB) at 'A+'; Mashreqbank (MB) and Sharjah Islamic Bank (SIB) at 'A-' and United Arab Bank (UAB) at 'BBB+'. It also maintained the short-term foreign currency rating of NBAD at 'A1+'; that of UNB, MB and FGB at 'A1'; and CBD, SIB and UAB at 'A2'. Further, it affirmed the Financial Strength Rating (FSR) of NBAD and UNB at 'A+'; CBD, MB and SIB at 'BBB+' and UAB at 'BBB'; while it upgraded that of FGB to 'A+' from 'A'. It attributed the upgrade of FGB's FSR to improvements in its asset quality, profitability and liquidity. It noted that all banks' long-term foreign currency ratings and FSR have a 'stable' outlook, except for UAB which has a 'positive' outlook. It said that NBAD's FSR reflects its solid capital adequacy ratio and good profitability. It added that the bank would be able to comfortably absorb moderate levels of additional provision charges. It noted that CBD's FSR is supported by its solid capital adequacy ratio, high operating profitability and overall good liquidity, but it remains constrained by its overall weak asset quality. It said that MB's FSR reflects its strong capital adequacy ratio, good profitability and strong liquidity.

Source: Capital Intelligence

## ARMENIA

### Lending continues rapid expansion

Figures released by the Central Bank of Armenia show that the banking sector's total assets reached AMD2,595bn, equivalent to \$6.2bn at the end of May 2013, up 5% from the end of 2012 and by 20.4% from end-May 2012. Total loans stood at AMD1,695bn, equivalent to \$4.1bn, at end-May 2013, up by 5.6% from end-2012 and by 17.2% from a year earlier. Loans in foreign currency accounted for 63.9% of total loans at end-May 2013 relative to 64.3% at end-2012; while loans to non-residents amounted to only 4.3% of total loans at end-May 2013. Deposits totaled AMD1,347bn, equivalent to \$3.2bn at end-May 2013, constituting an increase of 11.2% from end-2012 and a rise of 29% from a year earlier. Deposits in foreign currency accounted for 70.7% of total deposits at end-May 2013 compared to 69.7% at end-2012 and 68.8% a year earlier. Non-resident deposits represented 24.5% of total deposits at end-May 2013 relative to 21.6% at end-2012 and 21.2% at end-May 2012. In parallel, the risk-weighted capital adequacy ratio of banks operating in Armenia reached 16.3% at the end of May 2013, constituting a decline from 17.1% a year earlier and from 18.3% at the end of 2011. The sector's liquid assets were equivalent to 25.5% of total assets at end-May 2013 relative to 24.5% a year earlier and 27.9% at end-2011; while they represented 131.1% of total short-term liabilities at the end of May 2013 compared to 117.8% a year earlier and 120.8% at end-2011. The loans-to-deposits ratio in foreign currencies stood at 113.7%, down from 127.6% at end-May 2012, while the same ratio in local currency was 155% relative to 162.3% at the end of May 2012. The total loans-to-deposits ratio stood at 125.8% at the end of May compared to 138.4% a year earlier.

Source: Central Bank of Armenia



# ENERGY / COMMODITIES

## Natural gas consumption to grow by 3% in 2013

Global natural gas consumption is forecast to rise by an annual average of 2.8% during the 2013-14 period, mainly due to sustained demand growth from Asia. China remains one of the main drivers of global natural gas demand, with consumption expected to grow by an annual average rate of 13% in each of 2013 and 2014. Gas demand in the United States is projected to decelerate this year due to a slowdown in the substitution process of coal-fired power generation with gas turbines. The global gas market is expected to remain in surplus during the 2013-14 period as demand growth remains limited and supply continues to expand. Overall, U.S. natural gas Henry Hub prices are expected to rise over the 2013-14 period. U.S. natural gas prices are forecast to grow by 40.5% year-on-year to \$3.87 per million British thermal units (Btu) on average in 2013, while European natural gas prices are projected to rise by 3% to \$11.8 per million Btu on average this year.

Source: *Economist Intelligence Unit, Byblos Research*

## Iraq to import Iranian natural gas

Iraq has signed a four-year deal to import natural gas from Iran in an attempt to ease the country's electricity shortages. Iraq is set to purchase about 850 million cubic feet a day of Iranian natural gas at international prices to supply two power plants that would generate 2,500 megawatts (MW) of electricity. The gas would be supplied through a \$365m Iranian-built gas pipeline that is expected to be completed by September 2013. Iraq produces 50% of its power needs, which are estimated at 15,000 MW.

Source: *Dow Jones Newswires, Thomson Reuters*

## South Sudan systematically reduces oil output

South Sudan announced that it would reduce its oil output by 37.5% to 100,000 barrels a day, from 160,000 b/d, by July 28th as it moves to shut-off production entirely by August 7th. Sudan has insisted that production must be discontinued due to the South's alleged support for rebels operating across their shared border. South Sudan previously shut down its entire output of about 300,000 b/d in January 2012 due to a dispute over oil pipeline fees and border security with Khartoum. But in March 2013 both sides agreed to resume cross-border oil flow. Landlocked South Sudan is dependent on Sudan to transfer its oil exports to a port on the Red Sea. Sudan and South Sudan are highly dependent on oil-related revenues and on the resulting foreign currency receipts to finance their imports. South Sudan became independent from Sudan in July 2011.

Source: *Thomson Reuters, Byblos Research*

## OPEC's net oil export proceeds up 5% in 2012

The Organization of Petroleum Exporting Countries (OPEC), excluding Iran, earned about \$982bn in net oil export revenues in 2012, constituting a 5% rise from a year earlier. Saudi Arabia received \$311bn or 31.7% of the total, followed by the UAE with \$100bn (10.2%), Nigeria with \$93bn (9.5%), Kuwait with \$88bn (9%) and Iraq with \$83bn (8.5%). OPEC's net oil export revenues are forecast to decrease by 4.3% year-on-year to \$940bn in 2013 and to further decline to \$903bn in 2014.

Source: *U.S. Energy Information Administration, Byblos Research*

## Base Metals: Steel prices to stay low through 2014

Global steel demand is expected to grow by 3.5% in 2013, constituting a slight recovery from a growth rate of 2.4% in 2012. North America's steel demand is projected to grow by 4.5% this year due to the U.S. housing and automotive markets' recovery. Steel consumption in Brazil and the Middle East & North Africa region is forecast to rise this year, mainly driven by an improvement in the construction sector's activity, and would partly offset a drop in the EU economies' demand. In parallel, global crude steel production reached 789.8 million tons in the first half of 2013, constituting a rise of 2% from the same period last year. Asia posted an increase of 5.5% during the covered period while other regions recorded negative growth. The steel market is projected to post a surplus in 2013, which would limit the metal's pricing power. In parallel, EU hot rolled coil steel prices are anticipated to average \$560 a metric ton in the third quarter of 2013, constituting a decrease of 11.5% from an average \$633 a metric ton in the same quarter of 2012. Steel prices are expected to remain low through 2014, partly due to low raw material prices.

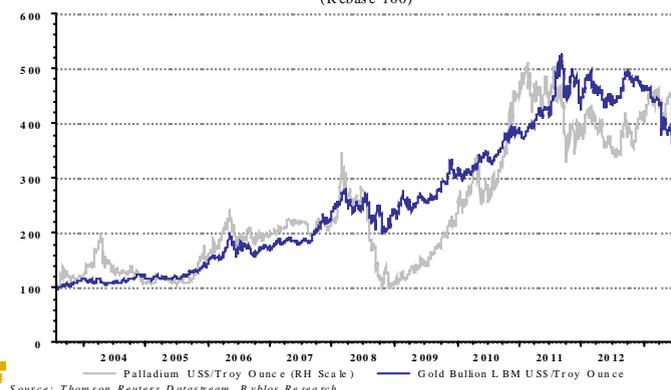
Source: *Economist Intelligence Unit, World Steel Association, Byblos Research*

## Precious Metals: Palladium prices to rise in 2013

Global palladium consumption is expected to reach 9.6 million ounces in 2013, constituting an increase of 3.4% from 9.3 million ounces in 2012. Total auto-catalysts' demand is anticipated at 7.1 million ounces in 2013, equivalent to 73.6% of global palladium consumption. It would be followed by industrial demand with 2 million ounces, or 20.5% of the total, investments with 0.3 million ounces (3.4%) and palladium jewelry consumption with 0.2 million ounces (2.5%). Net inflows into palladium's Exchange Traded Funds remained flat in the first two weeks of July at 62 tons. In parallel, global palladium production is projected to grow by 3.2% to 8.5 million ounces this year. Russia's palladium mine production is expected to reach 2.7 million ounces in 2013, equivalent to 31.3% of global supply. It would be followed by South Africa with 2.6 million ounces (31%) and North America with 0.9 million ounces (10.3%). Further, total auto-catalyst recycling output is anticipated to reach 1.9 million ounces in 2013, equivalent to 22.4% of global production. The palladium market is projected to remain under-supplied in 2013. Global palladium prices are forecast to average \$717 a troy ounce in 2013, constituting a rise of 11.7% from \$642 a troy ounce on average a year earlier.

Source: *Citigroup, Byblos Research*

Gold Prices vs. Palladium Prices  
(Rebase 100)



# 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-	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								
<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	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								
<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	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-Jul-13	No change	08-Aug-13
Australia	Cash Rate	2.75	02-Jul-13	No change	06-Aug-13
New Zealand	Cash Rate	2.50	25-Jul-13	No change	12-Sep-13
Switzerland	3 month Libor target	0.00-0.25	20-Jun-13	No change	19-Sep-13
Canada	Overnight rate	1.00	17-Jul-13	No change	04-Sep-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	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	11-Jul-13	No change	08-Aug-13
Malaysia	O/N Policy Rate	3.00	11-Jul-13	No change	05-Sep-13
Thailand	1D Repo	2.50	10-Jul-13	No change	21-Aug-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	18-Jul-13	No change	19-Sep-13
Kenya	Central Bank Rate	8.50	09-Jul-13	Cut 100bps	01-Sep-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	12-Jul-13	No change	06-Sep-13
Brazil	Selic Rate	8.50	10-Jul-13	Raise 50bps	28-Aug-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	N/A



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