

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Downgrades outpace upgrades in second quarter of 2013

Standard & Poor's indicated that it downgraded 175 issuers and upgraded 125 issuers globally in the second quarter of 2013 relative to 154 downgrades and 124 upgrades in the same quarter last year. It said that the downgrades represented \$1.6 trillion in rated debt compared to \$1.5 trillion in the same quarter last year, while the upgrades covered \$438bn in fixed income relative to \$403bn in the second quarter of 2012. In parallel, S&P downgraded 168 corporate issuers, representing \$644bn in rated debt in the second quarter of the year compared to 151 corporate downgrades worth \$679bn in rated debt. It upgraded 122 corporate issuers worth \$384bn in the covered quarter compared to 119 upgrades worth \$390bn in the second quarter of 2012. It also downgraded seven sovereigns for a total of \$957bn in the covered quarter relative to three downgrades worth \$796bn in the same quarter last year. It upgraded three sovereigns representing \$54bn in rated debt in the covered quarter compared to five upgrades worth \$13bn in the same quarter last year. In parallel, it noted that the global downgrade ratio, which is the proportion of downgrades to total rating actions, declined to 58% in the first quarter from 62% in the preceding quarter.

Source: *Standard & Poor's*

EMERGING MARKETS

Lending conditions deteriorate in second quarter

The Emerging Markets Lending Conditions Index fell to 49.5 in the second quarter of 2013 from 50.6 in the previous quarter, constituting the first quarter-on-quarter decrease since the fourth quarter of 2011. Also, the index fell below the 50 mark for the first time since it reached 49.9 in the third quarter of 2012, reflecting a tightening in overall bank lending conditions. The Lending Conditions Index for Sub-Saharan Africa was the highest globally at 53.4 in the second quarter, up from 51.3 in the preceding quarter. The index for the MENA region increased to 52.7 from 51.4 in the first quarter of the year, that for Emerging Europe (EE) rose to 51.6 from 51.3, that for Latin America (LA) fell to 47.6 from 50, and the index for Emerging Asia (EA) regressed to 45.7 from 49.9 in the preceding quarter. The fall in the index is mainly due to a steep fall in the Funding Conditions Index to 48.2 from 55.8 in the first quarter of the year, as global funding conditions tightened due to increased financial market volatility and dampened capital flows to emerging markets. Also, domestic funding deteriorated, mainly in LA and EA, as liquidity conditions tightened. Further, the Trade Finance Index regressed to 52 in the second quarter of the year from 54.6 in the preceding quarter, as the supply of trade finance moderated, and the demand for trade finance declined in LA and slowed in EA and EE due to weaker exports and shipping activity. Further, the Loans Demand Index improved marginally to 51.6 from 51.1 in the preceding quarter, as higher loan demand in Africa & the Middle East and EE offset lower demand in LA and EA.

Source: *Institute of International Finance*

MENA

Equity markets up 12% in first seven months of 2013

Arab stock markets increased by 12% and GCC markets rose by 16.6% in the first seven months of 2013 compared to increases of 1.9% and 2.8%, respectively, in the same period last year. Arab stock markets improved by 5.3% in July while GCC markets rose by 5.4% during the month. Activity on the Dubai financial market increased by 59.5% in the first seven months of 2013 and posted the best performance among Arab markets during the period. It was followed by the Damascus stock market with a 57.3% improvement, the Abu Dhabi exchange with a 46.2% increase, the Kuwait bourse with a 36% rise, the Saudi Arabia equity market with a 16.4% expansion, the Qatar exchange with a 16.1% growth, the Oman stock exchange with a 15.3% appreciation and the Bahrain bourse with a 12.1% rise. In parallel, the Beirut stock exchange dropped by 14.8% in the first seven months of 2013 and posted the weakest performance among Arab stock markets in the covered period. It was followed by the Libyan stock market and the Casablanca bourse with a decrease of 8.4% each, the Iraqi equity market with a 6.9% drop, the Khartoum stock exchange with a 5.2% decrease, the Egyptian market with a 2.5% contraction, the Tunis bourse with a 1.3% decline, the Palestine equity market with a 0.9% decrease and the Amman stock market with a marginal 0.1% contraction. In comparison, global equities increased by 10.3% and emerging market equities declined by 8.1% in the first seven months of the year.

Source: *Local stock markets, Dow Jones Indices*

GCC

Credit index posts returns of -2.18% in first half of 2013

The Standard Chartered GCC Credit Index posted returns of -2.18% in the first half of the year and returns of 6.34% since its inception in April 2012. Oman credits posted returns of 4.35% year-to-June, followed by Bahrain with -0.34%, Dubai with -1%, Kuwait with -1.11%, other UAE with -1.4%, Abu Dhabi with -2.27%, Saudi Arabia with -2.39%, and Qatar with -2.91%. The index includes all liquid and tradable instruments issued by institutions domiciled in the six GCC countries and that meet relevant inclusion criteria. It tracks total returns, spread and yield movements, and market direction for GCC credits. Quasi-sovereign issuers represent 44.86% of the index, followed by the financial sector with 26.81%, sovereigns with 25.73% and the corporate sector with 2.6%. Sukuk issued by corporates posted the highest returns of 2.69% in the covered period, followed by conventional instruments issued by corporates with 0.85%, conventional instruments issued by the financial sector with -0.17%, sukuk issued by the financial sector with -0.26%, sukuk issued by sovereigns with -1.55%, sukuk issued by quasi-sovereigns with -1.62%, conventional instruments issued by quasi-sovereigns with -3.03%, and conventional instruments issued by sovereigns with -3.59%.

Source: *Standard Chartered Bank*

OUTLOOK

SAUDI ARABIA

Non-oil sector to grow by 5.6% on average in 2013-14

The International Monetary Fund projected economic growth in Saudi Arabia at 4% in 2013 and 4.4% in 2014 compared to 5.1% in 2012. It forecast hydrocarbon output to contract by 3.3% in 2013 and to grow by 0.9% in 2014 relative to growth of 5.5% last year, and attributed the output contraction to the decline in global oil prices and to the decrease in domestic production levels. It also forecast the non-hydrocarbon sector to grow by 5.9% in 2013 and 5.2% in 2014 compared to growth of 5% in 2012; while it expected the non-hydrocarbon private sector to expand by 6.5% this year and 6% in 2014 and for non-hydrocarbon public sector activity to decelerate from 4.5% in 2013 to 3% in 2014. It considered that risks to the growth outlook are balanced and that the main downside risk consists of the deterioration in global economic conditions, including in key emerging markets, which would lead to lower global oil demand and prices. But it noted that the government has accumulated large fiscal buffers to sustain government spending over the medium-term in the event of a decline in global oil prices. It added that the outlook depends on the success of the domestic reform program under implementation. Also, the Fund estimated the medium-term potential growth rate of the non-oil economy at between 5% and 6%, and the overall GDP growth at around 4.25% annually.

The IMF forecast the fiscal surplus at 7.1% of GDP in 2013 and 5.2% in 2014 compared to a surplus of 12.4% of GDP in 2012. It attributed the decline in the surplus to lower global oil prices that outweigh the slowdown in the pace of fiscal spending. It also forecast the current account surplus at 18.1% of GDP this year and 15.1% of GDP next year relative to 23.2% of GDP in 2012. The IMF considered that authorities need to address the challenges created by its young and growing population, such as the high unemployment rate, large housing demand and elevated domestic energy consumption.

Source: International Monetary Fund

IRAN

Banking sector to continue facing challenges in coming quarters

Business Monitor International anticipated that the crisis in Iran's banking sector will continue in the second half of 2013 and expected banks' profitability to further decline. It noted that banks operating in Iran are not well-positioned to deal with an extended period of uncertainty and that they cannot raise capital on international bond markets due to Western-imposed sanctions. It said that the sector's aggregate assets contracted by 7.7% in real terms in 2012. It expected the authorities to continue injecting capital in the sector, but it considered that mandating banks to provide cheap loans to the economy would only worsen the crisis.

Further, it said that bank deposits fell by 3.6% in real terms in 2012 as Iranians withdrew cash from banks in order to exchange it for gold or foreign currency, or to invest it in the real estate sector. It expected deposit growth to remain weak in the coming quarters due to the weak currency. It said that

Iranians will face difficulties in depositing their money in foreign banks as a result of new U.S. sanctions that came into effect on July 1, 2013. It added that the recent U.S. ban on the transfer of precious metals to the Iranian public and private sectors will make it difficult for Iranians to invest in gold. It forecast consumer deposits to increase by 1% in real terms in the fiscal year ending in March 2014. In parallel, it said that loans contracted by 9.8% in real terms in 2012, as banks have been increasingly reluctant to extend credit given that the value of repayments has been eroded by high inflation levels. It noted that non-performing loans exceed 25% of the sector's total loans, and expected loans to contract by 5% in real terms in FY2013/14 as the economy continues to shrink and inflationary pressure remains elevated.

Source: Business Monitor International

ARMENIA

Medium-term growth rate revised upwards to 5.5% annually

The International Monetary Fund revised upward its projections for Armenia's real GDP growth to 5.1% in 2013 from a May forecast of 4.3%, and expected it to reach 5.3% in 2014. It attributed the revision to the positive impact of policy initiatives taken in recent years and expectations of continued high growth in the industrial and services sectors. It added that activity in the construction sector has bottomed out and that the agriculture sector is benefiting from targeted investment and policy actions, which would also support growth. The Fund also revised upward the country's medium-term growth rate to 5.5% annually from 4.5% based on the implementation of reforms. It forecast Armenia's annual average inflation rate at 4% in 2013 relative to 2.5% in 2012 due to higher prices of gas imported from Russia. It said that Armenia faces downside risks from external shocks and regional tensions. It noted that weaker global conditions are the main risk to the Armenian economy, particularly if Russia's economy is affected. It added that this would affect remittance inflows, and financial and FDI flows from Russia.

In parallel, the IMF forecast the fiscal deficit to widen to 2.3% of GDP in 2013 from 1.6% of GDP in 2012 due to the implementation of previously-delayed capital spending. It noted that the tax increases of the last three years have put pressure on the business climate and on small- and medium-sized enterprises. Further, it forecast the current account deficit to marginally narrow to 10% of GDP in 2013 from 10.6% of GDP in 2012. It considered that the current account deficit is still high, exports are concentrated, and debt repayments are significant during the 2013-15 period. As such, it called on the authorities to reduce the deficit to a sustained level of around 6% to 7% of GDP through structural reforms that would accelerate the economy's regional and global integration, improve the business environment and overall competitiveness, as well as through a flexible exchange rate system. It said that the current level of foreign reserves of \$1.5bn, equivalent to 3.3 months of import cover, remains adequate. But it considered that the Central Bank of Armenia's intervention on the foreign exchange market would be constrained in coming years by lower reserve coverage and the upcoming repayment of the 2008 crisis-related financing.

Source: International Monetary Fund



ECONOMY & TRADE

GCC

Sovereign wealth funds' assets at \$1.6 trillion, equivalent to 107% of GDP

Moody's Investors Service estimated the aggregate assets of the sovereign wealth funds (SWFs) of the six Gulf Cooperation Council countries at \$1.6 trillion in 2012, up from \$1 trillion in 2007. The assets were equivalent to 107% of the six countries' aggregate GDP in 2012 relative to 105% of their GDP in 2007. It noted that SWFs' assets currently exceed government liabilities in all GCC countries except in Bahrain. The agency anticipated that authorities would use these assets in the event of a sustained period of low global hydrocarbon prices, particularly if public spending continues to increase and the margin narrows between actual and fiscal breakeven oil prices. It said that high global oil prices in the last two years have led to a large accumulation of wealth by GCC countries. It considered that the high level of foreign exchange reserves provides an important buffer for public finances in the event of a drop in global oil prices, a real estate market crash or a banking crisis. Moody's pointed out that the GCC government's bond ratings remain constrained by relatively low level of transparency at SWFs. It said that the lack of transparent and timely reporting by all SWFs, except that of Saudi Arabia, adds a degree of uncertainty to the assessment of GCC countries' credit profiles.

Source: Moody's Investors Service

SYRIA

Fiscal deficit widens to 21.4% of GDP in first quarter of 2013

The Syrian Center for Policy Research estimated Syria's fiscal deficit to have widened to 21.4% of GDP in the first quarter of 2013 from 14.5% of GDP in 2012 and 10.1% of GDP in 2011. It said that the widening of the deficit reflects a decline in revenues to 8.1% of GDP in the covered quarter from 9.3% of GDP in 2012 and 16.4% of GDP in 2011. It attributed the contraction in public revenues to a sharp reduction in oil proceeds to 2.7% of GDP in the first quarter of 2013 from 3.6% of GDP in 2012 and 5.7% of GDP in 2011 and to a decrease in non-oil non-tax receipts to 1.1% of GDP in the covered quarter from 1.8% of GDP in 2012 and 4% of GDP in 2011. It added that non-oil tax revenues marginally increased to 4.3% of GDP in the covered quarter from 3.9% of GDP in 2012 but declined from 6.7% of GDP in 2011. Further, it estimated public spending to have increased to 29.6% of GDP in the first quarter of the year from 23.8% of GDP in 2012 and 26.5% of GDP in 2011. It said that current expenditures rose to 25% of GDP in the first quarter from 19.7% of GDP in 2012 and 19.6% of GDP in 2011. It added that public-sector salaries and wages rose to 19.3% of GDP in the first quarter of 2013 and 15.2% of GDP in 2012 from 13.6% of GDP in 2011. It noted that public investment rose to 4.5% of GDP in the first quarter of the year from 4.1% of GDP in 2012, but fell from 6.9% of GDP in 2011. Further, it pointed out that the widening of the deficit led to an increase in the public debt level to 65% of GDP in the first quarter of the year from 48% of GDP in 2012 and 33% of GDP in 2011. It projected the fiscal deficit to widen to SYP21.4bn in 2013 from SYP2.2bn in 2010.

Source: Syrian Center for Policy Research

UAE

Dubai's sovereign and GRE debt equivalent to 102% of GDP, Abu Dhabi's at 43% of GDP

The International Monetary Fund estimated the debt of the government of Dubai and its related entities (GREs) at \$142.5bn, equivalent to 101.5% of Dubai's 2012 GDP, of which \$93.3bn in debt held by GREs and \$49.2bn held by the government of Dubai. It said that \$30.5bn (21.7% of GDP) will mature in 2014, followed by \$12.8bn (9.1% of GDP) in 2015, \$20.9bn (14.9% of GDP) in 2016, \$13.4bn (9.5% of GDP) in 2017, and \$35.7bn (25.4% of GDP) beyond 2017. In parallel, it estimated the debt of the government of Abu Dhabi and its GREs at \$104.7bn, equivalent to 42.9% of Abu Dhabi's 2012 GDP, of which \$97.1bn in debt held by GREs and \$7.6bn by the government of Abu Dhabi. The IMF said that GREs continue to pose significant risk to the UAE's economy, despite the progress in debt restructuring and more proactive management of debt rollovers in recent years. It noted that persistently high debt held by Dubai's GREs and weaknesses in their transparency and corporate governance pose risks to financial stability, act as a drag on lending to the private sector and contribute to substantial contingent liability to the Government of Dubai. It added that the transparency of financial conditions, debt stocks and maturity profiles of Dubai's GREs are inadequate for an assessment of the sector's financial health and associated macroeconomic risks.

Source: International Monetary Fund

DEM REP CONGO

Economy has significant growth potential

The International Monetary Fund indicated that the Democratic Republic of the Congo has significant growth potential due to its abundant natural resources and underemployed low-cost workforce. It cited agro-industry, processed wood, construction materials, mining and energy as the key sectors with high potential to drive economic growth over the medium- to long-term. However, it considered that a deficient infrastructure, weak governance, complex business regulations, high financing costs and the lack of a trained workforce have deterred investors despite the country's natural resources and relatively large local market. It indicated that the growth and diversification of the DRC's economy remains dependent on the strengthening of basic infrastructure, mainly transport, electricity and communications. It said that improving the mining sector's output and contribution to fiscal revenues require increasing foreign investment, improving the business climate and strengthening governance. It pointed out that the country's abundant oil & gas resources represent an important opportunity for economic development but remain largely unexplored. It said that authorities need to implement a number of institutional and policy reforms in order for the petroleum sector to fully contribute to the country's economic growth and diversification. It noted that these reforms would include the implementation of regulations for the new hydrocarbon law and the development of the regulatory framework for the allocation of petroleum exploration and production rights.

Source: International Monetary Fund



BANKING

EGYPT

Banks' exposure to government debt up 24% year-on-year in April

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,553.9bn at the end of April 2013, constituting an increase of 7.8% from end-2012 and a rise of 14.2% from end-April 2012. The private sector's aggregate lending reached EGP504bn and rose by 5.5% from end-2012 and by 9.2% year-on-year. Banks' exposure to government securities totaled EGP574.4bn and rose by 4.4% from end-2012 and by 23.7% from a year earlier. Banks' exposure in local currency stood at EGP520.4bn and increased by 3.6% from end-2012 and by 19% year-on-year; while their exposure in foreign currency reached EGP54bn and grew by 12.7% from end-2012 and by 99.2% from a year earlier. Further, total deposits reached EGP1,159.8bn, constituting an increase of 6.3% from end-2012 and of 15% from a year earlier, with private sector deposits totaling EGP1,035.7bn at end-April 2013 and rising by 6.8% from end-2012 and by 17.1% year-on-year. Private sector deposits in foreign currency rose by 21.4% year-on-year to the equivalent of EGP215.3bn at the end of April 2013; while private sector deposits in local currency rose by 16.2% from end-April 2012 to EGP784.4bn. The dollarization rate of private sector deposits reached 20.8% at the end of April 2013 relative to 20.1% a year earlier. The private sector loans-to-deposits ratio was 48.7% at end-April 2013 relative to 52.2% a year earlier.

Source: Central Bank of Egypt, Byblos Research

TURKEY

Rate increase does not offset risks

Fitch Ratings indicated that the Central Bank of Turkey's (CBT) recent decision to increase, for the first time in two years, the overnight lending rate to 7.25% from 6.5% signals the authorities' readiness to address risks resulting from currency weakness, high inflation, and falling capital inflows. It considered that the economy is still vulnerable to shifts in market sentiment, and that balancing growth, price and exchange rate stability presents a policy challenge. It said that the current account deficit is showing signs of renewed widening this year following last year's narrowing. As such, it considered that a decline in capital inflows represents a greater near-term potential risk to the economy than the constraining effect of a tighter monetary policy on domestic demand. It estimated that foreign currency reserves have dropped from a peak of \$114bn in April 2013 to around \$100bn in mid-July 2013 due to portfolio capital outflows and to the CBT's intervention to defend the lira, which hit an all-time low against the US dollar in July. It noted that Turkey's international liquidity ratio is weak and that the CBT does not have a sufficient stock of foreign reserves to maintain its intervention strategy over an extended period of time. It said that the sharp drop in net capital inflows, a depreciating currency, and the fall in foreign reserves reflect the economy's vulnerability to shocks. It added that monetary policy has been supporting economic growth in favor of price stability. But it noted that the CBT shifted its priority as it will implement additional monetary tightening when necessary.

Source: Fitch Ratings

NIGERIA

New reserve requirement to support private sector lending

Business Monitor International anticipated that the Central Bank of Nigeria's (CBN) recent decision to increase cash reserve requirement for government deposits would leave banks with less money to lend, which would negatively affect their profitability. The CBN introduced on July 25th a reserve requirement ratio of 50% on all public sector deposits, which will come into effect on August 7th 2013. It pointed out that the CBN attributed its decision to concerns about the slow growth in private sector credit, as well as to the banking sector's structure that encourages banks to lend public sector deposits back to the government through the purchase of securities. It considered that the new measure will make private sector deposits, which have a cash reserve ratio of 12%, relatively more attractive than public sector ones. It added that this decision will encourage banks to compete for private sector deposits. Further, it pointed out that private sector deposits accounted for more than 75% of total deposits at end-March 2013, but it noted that government deposits have been on an upward trend in recent years, rising from 10.5% of total deposits at the beginning of 2010 to 21% of the total at end-March 2013. It considered that authorities are trying to stop this trend, reduce market distortions in the banking sector and strengthen the private sector. In parallel, the CBN maintained the policy rate at a record high of 12% due to concerns about upward inflationary pressure and about recent currency weakness.

Source: Business Monitor International

CHINA

Interest rate liberalization to have limited impact on banks

Standard & Poor's considered that the People's Bank of China's (PBoC) decision to remove the lending rate floor on all onshore loans denominated in local currency, except for residential mortgages, would have a limited impact on banks' financial performance for the next 12 to 18 months. It noted that the removal follows the PBoC's decision in July 2012 to relax the lending rate floor to 70% on loans' benchmark rates. It pointed out that the liberalization of interest rates is credit neutral for rated Chinese banks. It said that the floor removal would not significantly change Chinese banks' loan pricing, given the relatively tight domestic credit conditions and rising risk premium in loan pricing. It noted that most bank loans were priced well above the 70% of benchmark loan rates prior to the removal of the lending rate floor. It added that the gradual tightening of credit conditions since late 2010 has supported the ability of Chinese banks to better price their loans, while banks' rising concerns about credit losses have led to a substantial increase in lending rates over the past two years. It expected limited downward pressure on lending rates, given the PBoC's continued policy to keep inter-bank liquidity tight in order to support the government's efforts to rebalance the economy. Overall, S&P considered that the removal of the lending rate floor is essential for a more efficient allocation of bank capital in China.

Source: Standard & Poor's



ENERGY / COMMODITIES

Brent oil prices to decline by 5% in 2013

Global oil supply is expected to grow by an annual average rate of 1.8% during the 2013-14 period, mainly due to a steady rise in North American output and constant increases in Iraqi production. In parallel, global oil consumption is projected to grow by 1% this year, partly due to further contraction in European Union countries' demand. Further, the recent currency weakness in many emerging economies would lead US-dollar priced oil imports to become more expensive in local currencies, which would further weaken oil consumption. Brent crude prices are forecast to average \$105 a barrel in the third quarter of 2013, while those of WTI crude oil are expected to reach \$94.5 a barrel during the same quarter. Overall, Brent crude prices are projected to decrease by 4.8% year-on-year to \$106.6 a barrel in 2013; while those of WTI crude oil are forecast to marginally rise by 0.3% year-on-year to \$94.5 a barrel this year. In parallel, Brent prices increased by 5.4% to \$107.7 a barrel in July 2013, WTI NYMEX futures prices improved by 8.1% to \$104.2 a barrel, while prices of U.S. Henry Hub natural gas declined by 3.1% to \$3.5 per million British thermal unit last month.

Source: *Economist Intelligence Unit, Byblos Research*

Syria receives \$3.6bn oil credit facility from Iran

Iran extended Syria a \$3.6bn oil credit line in an attempt to alleviate the country's energy shortages. The agreement, which was reached in May 2013, stipulates that Syria would pay for imported Iranian oil via allowing Iran to acquire equity stakes in various fields in Syria. Syria currently suffers from shortages of diesel and fuel products due to the civil uprising and Western-imposed sanctions. Syria's crude oil output reached 20,000 b/d in May 2013, constituting a decline of about 94.7% from the output level at the start of the unrest in March 2011.

Source: *Syrian Arab News Agency, Thomson Reuters*

Sudan postpones pipeline shutdown by two weeks

Sudan postponed by two weeks its previously set August 7th deadline to shut down its oil pipeline in an attempt to solve the ongoing dispute with South Sudan. Sudan has insisted that production must be discontinued due to the South's alleged support for rebels operating across their shared border. Khartoum has agreed to defer the deadline at the request of the African Union. Landlocked South Sudan is reliant on Sudan to transfer its oil exports to a port on the Red Sea. South Sudan and Sudan are highly dependent on oil-related revenues and on the resulting foreign currency receipts to finance their imports.

Source: *Thomson Reuters, Byblos Research*

Iraqi crude oil exports to drop in September

Iraqi oil exports are expected to decline between 400,000 b/d and 500,000 b/d in September 2013 due to the rehabilitation and maintenance work at the port of Basra, the country's main export terminal. The port currently handles about 80% of Iraq's exports. In parallel, a third off-shore terminal and a metering station are anticipated to be installed as part of the ongoing upgrade at the port of Basra. The project is forecast to raise the port's export capacity to about 4.5 million b/d upon work completion. Iraqi crude oil exports fell by about 9% month-on-month in June 2013, mainly due to damages to the northern Kirkuk pipeline and to bad weather.

Source: *Business Monitor International*

Base Metals: Aluminium market to remain oversupplied in 2013 and 2014

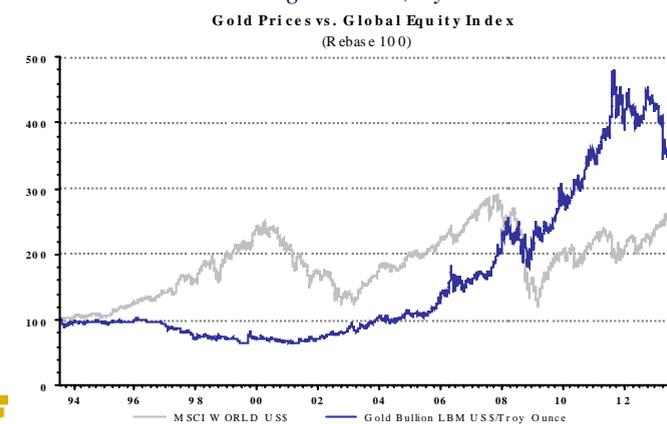
Aluminium prices are anticipated to increase over the next few years due to a rising cost base, demand growth and moderate supply growth. But aluminium prices are not expected to return to their highs reached in recent years, mainly due to record-high inventories. The aluminium market faces significant downside risks as the London Metal Exchange stock, built-up from the most recent global recession, remains outstanding. Global aluminium demand is expected to rise by 5.7% to 50 million tons in 2013, while the metal's global production is projected to grow by 6.2% to 50.4 million tons this year. China is currently the world's largest aluminium producer. The aluminium market is anticipated to remain in surplus in each of 2013 and 2014. Aluminium prices are forecast to decline by 6.3% to \$1,953 a metric ton on average in 2013 and to average \$2,100 a metric ton in 2014. In parallel, LME Aluminium High grade 3-month future prices increased by 1.7% in July to \$1,804 a metric ton, Copper Grade A 3-month future prices rose by 1.9%, Nickel 3-month futures prices improved by 1.2%, while prices of Zinc futures decreased by 0.5% to \$1,843 a ton in July 2013.

Source: *Standard Chartered, Byblos Research*

Precious Metals: Gold prices to decline by 16% in 2013 as global economic environment improves

The global gold market recorded one of its worst quarters in decades in the second quarter of 2013 as the metal's price fell by about 25% over the quarter. The decline in gold prices was mainly due to the strong global economic recovery and the resilience of the U.S. economy to fiscal tightening, which led many investors to shift their capital out of gold into asset classes with better yields. The global gold market is forecast to record a large surplus in 2013 of about 600 tons relative to a surplus of 46 tons in 2012. The higher surplus is mainly due to the continued expansion of mine supply despite weak demand. Prices are expected to further decrease in 2014 as the economic recovery accelerates and the prospect of monetary tightening leads investors out of precious metals. Gold prices are forecast to average \$1,399 a troy ounce in 2013, constituting a decrease of 16.1% from an average \$1,668 a troy ounce in 2012. In parallel, the price of gold increased by 7.2% in July to \$1,317 a troy ounce on July 31st, while that of silver rose by 0.5% to \$19.8 an ounce over the same month. Also, platinum prices increased by 7.5% to \$1,443 a troy ounce, while palladium prices improved by 10% to \$728 a troy ounce in July 2013.

Source: *Economist Intelligence Unit, Byblos Research*



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
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-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
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	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	23-Jul-13	No change	20-Aug-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	23-Jul-13	No change	24-Sep-13
Ghana	Prime Rate	16.00	21-Jun-13	No change	31-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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