

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate default rate at 2.9% at end-July 2013

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.9% at the end of July 2013, down from 3.1% at the end of 2012 but up from 2.8% at end-July 2012. It noted that corporate default rates have been holding steady at historically low levels, ranging between 2% and 3% for most of the past two and a half years. It said that 43 corporate issuers have defaulted in the first seven months of the year, of which four companies in July 2013. It forecast the global speculative-grade default rate at 3% at the end of 2013 and at 2.5% at the end of July 2014. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 1.9% at the end of July 2013, up from 1.8% from June 2013, but down from 2% a year earlier. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 8.8% at the end of July 2013, down from 9.1% at end-June and from 18.3% a year earlier.

Source: Moody's Investors Service

MENA

M&A activity up by 3% to \$22.3bn in first half of 2013

Figures released by Ernst & Young show that a total of 206 merger & acquisition deals were announced in the Middle East & North Africa region in the first half of 2013, constituting a decline of 6.7% from 193 deals in the same period last year. The aggregate value of M&A deals in the region reached \$22.3bn in the first half of 2013 and increased by 3.2% from \$21.6bn in the first half of 2012. The value of inbound deals stood at \$10.6bn and accounted for 47.5% of the region's total announced deal value in the covered period, followed by outbound transactions with \$6.6bn (29.6%) and domestic deals with \$5.1bn (23%). The region's overall value of inbound deals rose by 108% year-on-year, while that of outbound deals decreased by 37% and that of domestic deals fell by 13%. Egypt had the largest aggregate value of inbound deals with 83% of the total value of inbound M&A deals in the region; and the UAE had the highest number of announced inbound deals in the first half of 2013 with 25% of total announced inbound deals in the region. Also, the UAE had the highest number of announced domestic acquisitions with 25% of such deals, followed by Saudi Arabia with 19% of the total. The largest announced deal in the first half of the year was the acquisition of Egypt's Orascom Telecom Holding by Cypriot Baskindale Limited for \$6.4bn, followed by the acquisition of the UAE's Aldar Properties by Abu Dhabi-based Sorouh Real Estate for \$2bn, the acquisition of Egypt's Orascom Construction Industries by the Netherlands-based OCI for \$1.9bn and the acquisition of India's Bharti Airtel by the Qatar Foundation for \$1.3bn.

Source: Ernst & Young

EMERGING MARKETS

Bond and equity inflows at \$16.6bn in first seven months of 2013, AUM at \$1,237bn

Capital flows to emerging market equity and bond funds posted net inflows of \$16.6bn in the first seven months of 2013, with bond inflows at \$8bn and equity inflows at \$8.6bn. Emerging Asia attracted \$3.6bn or 45.2% of inflows to bond funds, followed by Emerging Europe, the Middle East & Africa (EMEA) with \$3.3bn, or 40.7% of the total; and Latin America with \$1.1bn, or 14.1% of the total. Further, Emerging Asia attracted \$9.3bn in inflows to equity funds in the first seven months of the year and the EMEA region attracted \$0.6bn; while Latin America posted \$1.2bn in outflows from equity funds. China was the biggest recipient of bond inflows with \$1.6bn, while Korea was the largest recipient of equity inflows with \$4.8bn in the covered period. Also, Brazil was the largest source of equity outflows of \$3.8bn, followed by Russia with \$1.6bn and China with \$1.5bn. In parallel, assets under management (AUM) in emerging markets totaled \$1,237bn at the end of July 2013, with bonds reaching \$332.8bn and equities totaling \$904.1bn. The EMEA region had \$132.4bn in bond-related AUM, followed by Latin America with \$119.4bn and Emerging Asia with \$81bn. Further, Emerging Asia had \$605.1bn in equity-related AUM, followed by the EMEA region with \$157.1bn and Latin America with \$142bn.

Source: Barclays Capital

Trading in Credit Default Swaps up 28% to \$279bn in second quarter of 2013

Trading in emerging markets Credit Default Swaps (CDS) reached \$279bn in the second quarter of 2013, constituting an increase of 28% from \$218bn in the second quarter of 2012 and a rise of 31% from \$212bn in the first quarter of 2013. The overall increase in emerging markets CDS trading was uneven globally in the second quarter, as trading by European Union states was down 80% year-on-year due to the EU's attempt to ban speculative CDS trading by prohibiting naked sovereign CDS, which came into effect in November 2012. In contrast, Asian and Latin American CDS volume posted high growth in the second quarter due to perceptions that emerging markets' country risk has increased. The most frequently-traded sovereign CDS contracts in the second quarter of 2013 were those of Brazil at \$65bn, followed by Turkey at \$33bn and Mexico at \$32bn; while the most frequently-traded corporate CDS contracts were those on Gazprom at \$2.7bn, Pemex at \$2.3bn and Petrobras at \$1.6bn. The survey covered data on CDS contracts for 19 emerging economies and nine emerging market corporate issuers from 13 major international banks and broker-dealers.

Source: EMTA

POLITICAL RISK OVERVIEW - July 2013

EGYPT

Political tensions have risen since the military overthrew President Mohammed Morsi in a July 3 coup. President Morsi was replaced on July 4 with the head of the Supreme Constitutional Court, Adly Mansour. Interim President Mansour issued a roadmap for new elections and appointed a new interim Cabinet that excludes Islamists. The military detained hundreds of Muslim Brotherhood (MB) leaders and members, as well as other Islamist politicians who refuse to recognize the legitimacy of the new authorities. Violence has intensified as pro-Morsi protesters clashed with security forces and MB opponents. Fighting between the Republican Guards and pro-Morsi supporters left over 150 persons dead. Former President Morsi was put under house arrest, and is being investigated for murder and ties with Hamas. The interim government said that it would take measures to disperse pro-MB sit-ins. Sectarian attacks continued against Christians in Upper Egypt.

IRAN

Foreign Minister Ali Akbar Salehi said that Iran is ready to hold nuclear talks in August after President-elect Hasan Rouhani assembles the negotiating team. President Rouhani said that he intends to improve relations with Iran's neighbors and EU member states; while he pledged to continue to support the Syrian regime. Israeli Prime Minister Benjamin Netanyahu referred to President Rouhani as a "wolf in sheep's clothing," and threatened to use military force as Israel "won't wait to act until it's too late". The U.S. House of Representatives approved on July 31 legislation for a total oil embargo on Iran.

IRAQ

Sectarian violence continued this month across the country with at least 1,000 deaths and over 200 injuries, constituting the deadliest month since April 2008. The al-Qaeda branch in Iraq launched two simultaneous raids on Abu Ghraib and Taji prisons and allegedly freed over 500 inmates. Iraqi militants continued to cross the border to join the Syrian conflict. The UN Security Council extended the UN Assistance Mission for Iraq's mandate until July 2014.

DEM REP CONGO

Fighting between M23 rebels and the Armed Forces of the Democratic Republic of Congo renewed near the city of Goma despite efforts from regional leaders to conclude peace negotiations as soon as possible. The UN Organization Stabilization Mission in the Democratic Republic of Congo announced on July 30 the establishment of a security zone around Goma, and gave rebels 48 hours to disarm or else it would use force in accordance with its mandate and rules of engagement.

LIBYA

Tensions between armed groups over rights to protect petroleum facilities continued to rise in Tripoli. A military brigade occupied the Interior Ministry, which prompted the National Forces Alliance Coalition to boycott the General National Congress (GNC) sessions. The GNC approved an electoral law on July 17th. Deputy President of the GNC resigned and was followed by four congressmen from minority groups who claimed that the law did not include the previously agreed upon "consensus clause". Hundreds of protestors demonstrated in Tripoli on July 7 to demand the departure of militias and for the creation of national security services. The International Criminal Court denied the government's request to suspend the surrender of Saif Qadhafi to the Hague.

SOUTH SUDAN

The security situation in the Jonglei state deteriorated as inter-communal fighting between Lou Nuer and Murle tribes intensified, which left dozens of people dead, hundreds injured and thousands displaced. The national army was unable to curtail attacks by the Yau Yau rebels in Pibor county. Human Rights Watch accused the Sudan People's Liberation Movement (SPLM) of abuses against civilians in their anti-insurgency operations in the Jonglei state. President Salva Kiir dismissed his Cabinet following increased tensions within the ruling SPLM, and announced new Cabinet members on July 31st.

SUDAN

Divisions within the ruling National Congress Party (NCP) increased, as reports that President Omar al-Bashir is planning to tighten his grip on power through a Cabinet reshuffle. Violence increased in the Darfur region, which included attacks on the UN/AU Mission in Darfur (UNAMID) peacekeepers. The UN Security Council extended the UNAMID mandate till August 2014, and called on rebel groups to end the violence and hold peace talks with the government. President al-Bashir threatened to close an oil pipeline from South Sudan unless Juba ends their support for rebels operating across their shared border. The African Union launched an investigation into the accusations. Khartoum said that it would delay the closure of the oil pipeline to allow more time for the investigation.

SYRIA

The opposition gained some grounds on the northern and southern fronts, as they seized the village of Khan al-Assal in the Aleppo province. The Syrian regime continued to gain territories in the suburbs of Homs and Damascus. The Syrian National Coalition (NC) elected Ahmad al-Jarba as their new leader on July 6th. The opposition's interim Prime Minister Ghassan Hitto resigned on July 8th, after failing to form an interim government. Violent clashes resumed between Kurdish militants and al-Qaeda-affiliated fighters in various towns in the north. The United Kingdom's Prime Minister David Cameron indicated that the UK will not arm Syrian rebels.

TUNISIA

Thousands of Tunisians protested across the country to denounce the assassination of opposition politician Mohamed Brahmi. Two main opposition parties, the Nidaa Tounes and the Popular Front called for the dissolution of the government and of the National Constituent Assembly (NCA), on the basis that the ruling An-Nahda party failed to govern and maintain security and lacks legitimacy in light of failure to complete constitution-drafting process. Thousands of pro- and anti-government protesters staged sit-ins in front of the NCA to denounce the assassination, and 65 opposition members withdrew from the NCA. The governing coalition partner, Ettakatol party, joined calls for the government's resignation. The An-Nahda party said on July 31 that it was open to form a new government.

YEMEN

The National Dialogue continued with little progress on solutions to the core issues, such as the future structure of the state. Southern Movement activists are preparing to boycott the Dialogue's outcomes by obstructing the constitutional referendum. Huthis and Sunni al-Islah party supporters clashed over the control of mosques. A U.S. drone strike killed the deputy commander of al-Qaeda in the Arabian Peninsula, Saeed al-Shihri.

Source: International Crisis Group



OUTLOOK

SYRIA

Currency to remain weak despite official measures

Business Monitor International expected the Syrian pound to remain weak over the coming quarters due to several factors, and forecast the pound to average SYP120 against the US dollar on the official market this year. It said that the pound was trading at SYP190 against the US dollar on the black market on August 15th after it hit an all-time low of SYP320 for the dollar at the end of June 2013. It indicated that the Central Bank of Syria (CBS) and the government have implemented a series of measures in order to limit the fall in the value of the pound and the depletion of foreign reserves, such as a 39.6% devaluation of the Syrian pound on May 15, 2013 and the implementation of a managed devaluation since. It said that the pound was trading officially at SYP108.7 against the US dollar on August 19th, constituting a devaluation of 133% since the beginning of the unrest. It also noted that the government banned the use of foreign currency in unauthorized business transactions at the beginning of August. It added that the government allowed private banks operating in Syria to sell the dollar at a rate fixed by the CBS of SYP175 per dollar in an effort to relieve pressure on the currency in the black market.

But BMI did not expect these measures to stop the weakening of the currency. It pointed out that the sources of foreign currency have been hit hard by ongoing political instability and international sanctions on the oil sector. It said that the country's stock of foreign currency reserves has been under strong pressure since the EU ban on oil imports from Syria in September 2011, and estimated the cost to the Syrian economy at \$400m per month. It added that the collapse of the tourism sector, which accounted for 12% of GDP prior to the unrest and was a major source of foreign currency, has contributed to pressure on foreign reserves. Further, it noted that Syrians have been increasingly converting their savings into foreign currencies, which is maintaining the ongoing depreciation of the pound on the black market. It noted that Syrian officials estimate the economic cost of oil sanctions and disruptions to supply lines at a minimum of \$13bn, suggesting that much of the government's \$18.7bn in reserves before the uprising have been depleted.

Source: Business Monitor International

UAE

Non-hydrocarbon sector to grow by 4.3% in 2013, downside risks remain

The International Monetary Fund projected the UAE's real GDP growth at 3.6% in 2013 and 3.7% in 2014 relative to 4.3% in 2012. It expected activity in the hydrocarbon sector to grow by 2.1% in 2013 and 2.6% in 2014 relative to real growth of 5.2% in 2012. Also, it forecast real non-hydrocarbon GDP to grow by 4.3% this year and 4.2% in 2014 relative to 3.8% in 2012, and expected activity to be driven by a broadening recovery in the construction and real estate sectors as well as by the ongoing expansion of tourism-oriented sectors. The Fund cautioned that economic and financial policies should focus on measures that would help prevent a renewed cycle of exuberant risk-taking and strengthen the fiscal position.

COUNTRY RISK WEEKLY BULLETIN

In parallel, the IMF pointed out that domestic and external downside risks to the outlook remain substantial even though they have receded in 2012. It considered that a key medium-term domestic risk consists of a possible renewed build up of a boom-and-bust cycle in light of the recovering real estate market and the announcement of new megaprojects. It added that a major downside risk on the external front would be a sudden reversal of capital inflows, which would affect debt rollovers or raise borrowing costs for banks, government-related entities (GREs), private borrowers, and the government. Also, it said that a deeper-than-expected economic slowdown in emerging markets, mainly in Asia, would significantly affect the UAE's economy, reflecting the latter's close links with international financial markets and emerging Asian economies. It noted that this would narrow the UAE's fiscal surplus to 2.5% of GDP in 2014 from a projected surplus of 7.1% of GDP under current conditions. Further, it noted that a large and prolonged decline in global oil prices would reduce fiscal spending, decelerate non-hydrocarbon GDP growth and expose weaknesses in the balance sheets of GREs and other companies.

Source: International Monetary Fund

MOROCCO

Growth to average 3.9% in 2013 and 2014

The Institute of International Finance projected Morocco's real GDP growth at 4.4% in 2013 compared to 2.8% in 2012, driven by a strong rebound in the agricultural sector. It forecast agricultural output to expand by 15% this year following a 6.8% contraction in 2012. But it expected growth in the non-agricultural sector to slow down from 4.2% in 2012 to 2.7% in 2013 due to weak activity in the Eurozone that accounts for 60% of the country's exports of goods, and is the source of 48% of tourism receipts and 85% of remittance inflows. It considered that the expected recovery in the Eurozone, the increase in FDI inflows and higher public investment would strengthen growth in the non-agricultural sector to 4.3% in 2014, and would offset the projected contraction in the agricultural sector of 3%, leading to an overall real GDP growth rate of 3.3% in 2014. It forecast FDI inflows to more than double from 1.7% of GDP in 2010 to 3.6% of GDP in each of 2013 and 2014, partly as a result of the stable domestic political environment compared to other regional countries. It projected the current account deficit to narrow from 10.1% of GDP in 2012 to 7.4% of GDP in 2013 and 6.1% of GDP in 2014.

In parallel, the IIF considered that Morocco needs to achieve a real GDP growth rate of between 5% and 6% annually to significantly reduce its high unemployment rate of 9% and its high poverty level. But it indicated that authorities have limited fiscal space to stimulate domestic demand given the wide fiscal deficit of 8.3% of GDP in each of 2012 and 2013. As such, it considered that achieving higher growth is contingent on the implementation of deeper structural reforms that would improve human capital, institutional quality and overall competitiveness. It said that authorities implemented a series of structural reforms to improve the business environment, strengthen physical infrastructure, and improve the competitiveness of key sectors. But it noted further progress is needed to improve governance and to promote a better business climate.

Source: Institute of International Finance

August 22, 2013

ECONOMY & TRADE

TUNISIA

Ratings downgraded on high political uncertainties, outlook still 'negative'

Standard & Poor's downgraded Tunisia's long-term foreign and local currency sovereign credit ratings to 'B' from 'BB-' and affirmed the short-term foreign and local currency ratings at 'B'. It also reduced the transfer & convertibility assessment to 'B+' from 'BB' and maintained the 'negative' outlook on the long-term ratings. It said that the downgrade reflects high political uncertainties that would further delay approving a new constitution and implementing the transitional government's comprehensive reform agenda. It expected the reforms aimed at supporting growth and reducing unemployment to be further delayed, including reforms of the banking sector, investment code and tax system. It expected wages and subsidies spending, as well as the recapitalizing needs of the banking sector to put pressure on government spending during the 2013-16 period. It forecast the fiscal deficit to deteriorate to 5% of GDP in 2013 from 2.7% of GDP in 2012 and to remain at this level by 2016. As a result, it anticipated a rise in the public debt level to 50% of GDP in 2016 from 44% of GDP in 2012. But it anticipated the government's access to official concessional financing to remain strong, and for guarantees from Japan and the U.S. to enable authorities to tap international capital markets at low interest rates. Also, it forecast the current account deficit to remain above 8% of GDP by 2016. It expected Tunisia's net external liabilities to average around 200% of current account receipts annually during the 2013-16 period.

Source: Standard & Poor's

EGYPT

Fiscal deficit to further deteriorate in FY2013/14

Merrill Lynch estimated Egypt's budget deficit to have exceeded 12% of GDP in the fiscal year that ended in June 2013 compared to a government target deficit of 10.7% of GDP, and for the primary deficit to have exceeded 4.7% of GDP relative to the government's target deficit of 2.7% of GDP. It attributed the deterioration in public finances to weak public revenues and the rapid increase in spending. In parallel, it considered that the current political environment is not conducive to the implementation of ambitious revenue and spending measures that were set in the budget for fiscal year ending in June 2014. It noted that the budget projects a 17% annual increase in overall public spending in FY2013/14, mainly due to a 31% rise in debt servicing and a 13% increase in primary spending. It added that the budget for the current fiscal year intends to improve public revenues by 27%, mainly through a 34% increase in tax revenues and a 13% growth in non-tax receipts. Overall, it pointed out that the 1.6% of GDP increase in public revenues and the 2.2% of GDP in spending saving measures are not likely to be met due to timeline slippage, and likely revision of the current budget by the incoming economic administration. As such, it considered that the government will not meet its target fiscal deficit of EGP186bn or 9.1% of GDP, and its target primary deficit of EGP4bn or 0.2% of GDP for the current fiscal year. It expected the current administration to have limited fiscal scope due to the elevated level of the public debt and to financing strains.

Source: Merrill Lynch

ARMENIA

Ratings affirmed, outlook upgraded to 'stable' on improved public finances

Moody's Investors Service affirmed Armenia's government bond rating at 'Ba2' and revised the outlook to 'stable' from 'negative'. It also upgraded the local-currency ceiling to 'Baa3' from 'Baa1'. The agency attributed its actions to the authorities' commitment to fiscal consolidation, the gradual narrowing of the current account deficit, and the continuous access to external funding sources on favorable terms. It said that Armenia's fiscal deficit narrowed from 7.5% of GDP in 2009 to 1.5% of GDP in 2012. But it expected the deficit to widen to 2.6% of GDP in 2013 and 2.1% of GDP in 2014 to reflect the costs of pension reform and the increase in capital spending. It noted that the government is committed to a multi-year fiscal consolidation plan that is partly driven by steady revenue mobilization. Also, it expected the current account deficit to gradually narrow from 11.1% of GDP in 2012. But it expected Armenia's external shock-absorption capacity to weaken given its economic and financial exposure to the economic slowdown in Russia; the increase in the natural gas and energy tariff that came into effect in July 2013; and large official loan repayments due over the next two years. In parallel, Moody's said that the country's foreign currency reserves of 3.9 months of import cover in 2012 provides limited coverage in case of a foreign-currency funding shortfall. But it noted that the large share of concessional funding and the Central Bank of Armenia's macro-prudential measures mitigate this concern.

Source: Moody's Investors Service

DEM REP CONGO

Current account deficit to widen

Business Monitor International projected the current account deficit in the Democratic Republic of Congo (DRC) to widen from 12.4% of GDP in 2012 to 13.5% of GDP in 2013 and 14.1% of GDP in 2014 due to lower global copper prices, a slowdown in exports revenues and high imports. It expected the current account balance to remain in deficit between 2013 and 2017 given the DRC's high dependence on the copper industry, but to gradually narrow to 13.4% of GDP in 2015, 12.3% of GDP in 2016 and 11.5% of GDP in 2017. It said that the DRC's current account balance posted wide current account deficits since 2008 despite surging exports, due to large-scale capital imports and the economy's reliance on imports to meet most of its consumer needs. It anticipated that lower global copper prices and a slowing production would lead to a slowdown in export receipts. It forecast annual export growth to average 4.4% during the 2013-17 period relative to an average growth rate of 35% during the 2007-12 period. Further, it noted that growth in the DRC's copper production will decelerate over the near term after years of double-digit expansion, as lower copper prices may deter investment in the country's mining sector, which is perceived as risky. It forecast copper output to increase by 9.5% during the 2013-17 period relative to a 320.7% rise in production between 2007 and 2012.

Source: Business Monitor International



BANKING

JORDAN

Private sector lending up 3.7% in first half of 2013

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD41.1bn at the end of June 2013, constituting a rise of 4.5% from the end of 2012 and an increase of 8% from end-June 2013. Resident private sector loans rose by 4.3% from end-2012 to JD16.6bn, while credit facilities to the non-resident private sector fell by 8.3% to JD782.6m, leading to an increase of 3.7% in overall private sector lending in the first half of 2013. Resident private-sector lending accounted for 40.5% of total assets at end-June 2013. In parallel, resident private sector deposits reached JD21.4bn, constituting an increase of 4.9% from the end of 2012 and a rise of 5.8% from a year earlier. Also, deposits of non-bank financial institutions rose by 10.8% from end-2012 to JD304.5m. The central government's deposits totaled JD718.1m, up 11% from end-2012, while those of public non-financial institutions increased by 5.8% to JD333.1m. Further, claims on the public sector increased by 8.5% to JD9.8bn in the first half of the year, with claims on the central government accounting for 95.1% of lending to the public sector. Claims on the public sector accounted for 23.8% of total assets at end-June 2013 compared to 23% a year earlier. Further, reserves at the Central Bank of Jordan totaled JD4.7bn, up 19.2% from JD4bn at end-2012; while capital accounts and allowances rose by 2.4% to JD6bn. Deposits with foreign banks reached JD4.1bn at end-June 2013, down 6.7% from end-2012, while the sector's foreign liabilities increased by 12.2% to JD6.5bn.

Source: Central Bank of Jordan, Byblos Research

EGYPT

Bank ratings downgraded, outlook 'negative'

Capital Intelligence downgraded the long-term foreign currency ratings of the Arab-African International Bank (AAIB), Arab International Bank (AIB), Banque du Caire (BdC), Commercial International Bank (CIB), Export Development Bank of Egypt (EDBE), National Bank of Egypt (NBE) and National Société Générale Bank (NSGB) to 'B-' from 'B', with a 'negative' outlook. It affirmed the seven banks' short-term foreign currency rating at 'B'. The agency attributed its actions to the earlier downgrade of Egypt's long-term foreign currency rating to 'B-' from 'B'. It added that the 'negative' outlook reflects the banks' exposure to the sovereign debt, which links their ratings to sovereign creditworthiness. It noted that the banks' ability to fulfill their financial obligations on time is very vulnerable to adverse changes in domestic and international conditions. Further, the agency maintained the Financial Strength Rating (FSR) of CIB and NSGB at 'BBB-', that of AAIB at 'BB', and that of NBE, BdC and EDBE at 'BB-'. It maintained the 'negative' outlook on all the FSRs. It said that banks operating in Egypt have managed well their balance sheets in the face of continued high credit and political risks. But it noted that deteriorating domestic operating conditions are weighing on banks' credit metrics. It pointed out that the local market suffers from a shortage of foreign currency, reflecting the significant depletion of the country's international reserves. It cautioned from systemic risks to liquidity in the event of adverse sovereign and political events.

Source: Capital Intelligence

QATAR

Private sector lending up 25% year-on-year in July 2013

Figures issued by the Central Bank of Qatar show that total assets reached QAR876.1bn at the end of July 2013, constituting an increase of 6.8% from the end of 2012 and a rise of 13.6% from end-July 2012. Loans totaled QAR556.2bn and increased by 2.3% month-on-month in July 2013, driven by a 2.6% month-on-month growth in private sector lending and a 2.1% monthly rise in public sector credit. Also, total loans grew by 9.1% from the end of 2012 and by 17.6% year-on-year, due to a 25% annual increase in private sector credit and a 19% rise in public sector lending. The growth in public sector lending has been decelerating this year compared to the previous year because of reduced project-related activity. In parallel, aggregate deposits totaled QAR509bn at end-July 2013, down by 4.8% month-on-month due to a 6% monthly contraction in public sector deposits. The fall in public sector deposits is attributed to the removal of some excess liquidity following the sharp increase in deposits earlier in the year. Total deposits grew by 11.1% from end-2012 and expanded by 19.1% year-on-year in July 2013. The loans-to-deposits ratio increased to 109.3% at end-July 2013 from 101.7% in June 2013, but remained below 110.6% a year earlier.

Source: Central Bank of Qatar, EFG Hermes

NIGERIA

Profitability of Nigerian banks under pressure

Fitch Ratings anticipated that tougher regulations and higher funding costs would constrain the profitability of banks operating in Nigeria over the next 18 months, following the high growth in profits last year. It said that the Central Bank of Nigeria's (CBN) decision to increase the reserve requirement ratio from 12% to 50% on all public sector deposits will affect around NGN1.3 trillion, or \$8bn, of deposits and would impact banks' liquidity by around NGN500bn. It expected banks to use more expensive funding sources or to sell liquid assets in order to meet any funding shortfall, which would result in a sharp negative impact on net interest margins. Also, it expected net interest margins to decrease by an average of 100 to 200 basis points during the next 12 to 18 months due to lower Treasury bill yields and tighter regulations. It added that pressure on interest rate margins would further increase if the authorities impose caps on lending rates to important sectors, such as small- and medium-size enterprises or agriculture. In parallel, it forecast banks' cost-to-income ratio to increase by around 200bps to 300bps this year due to the rise in the annual levy for the Asset Management Corporation of Nigeria (AMCON). It anticipated that banks can partly offset the earnings pressure by increasing lending volumes, widening the range of fee-based products and concentrating on low-cost deposits. However, Fitch cautioned from a relapse of bad debt problems if growth leads to a loosening of underwriting standards or high exposure to new and untested segments, such as mass retail or the newly privatized sectors.

Source: Fitch Ratings



ENERGY / COMMODITIES

Brent-WTI price spread to narrow to \$3 a barrel in second half of 2013

The global oil market is forecast to weaken in the near-term as the summer peak season ends and demand in the Middle East and in Latin America regions decrease. However, oil supply disruptions are expected to continue to support oil prices in the coming period as risks of Libyan and Iraqi production outages rise. As such, Brent oil prices are forecast to average \$105 a barrel in the third quarter of 2013 and to drop by 4.8% to an average of \$100 a barrel in the fourth quarter of the year. The Brent-WTI price differential is projected to narrow to \$3 a barrel in the second half of 2013 compared to an average price spread of about \$19 a barrel in 2012. In parallel, the Dow Jones-UBS Energy Sub-Index rose by 4.2% in July 2013, while the Petroleum Sub-Index increased by 8.1% during the month. Also, the Dow Jones-UBS WTI Crude Oil Sub-Index increased by 8.9% in July, the Brent Crude Sub-Index rose by 5.7%, while the Natural Gas Sub-Index fell by 3.2% during the month.

Source: Citigroup, S&P Dow Jones Indices, Byblos Research

Iran leads MENA region in installed renewable energy capacity

The Middle East & North Africa region's aggregate renewable energy capacity were estimated at 19,383 megawatts (MW) by the end of 2012. Iran's capacity reached 9,612.3 MW, or 49.6% of the region's total. It was followed by Egypt with 3,385 MW, equivalent to 17.5% of the total, Morocco with 2,071 MW (10.7%), Iraq with 1,867.5 MW (9.6%) and Syria with 1,151.8 (5.9%). In parallel, hydropower and wind energy were the most common sources of renewable energy in the region as of last year, and were equivalent to 91.1% and 5.6% of total installed renewable energy capacity, respectively.

Source: International Renewable Energy Agency, Renewable Energy Policy Network for the 21st Century, Byblos Research

Libya's oil output and exports down significantly in July 2013

Libya's oil production is currently estimated at about 500,000 b/d relative to an average of 1.1 million b/d in the first half of 2013. Libyan crude oil exports declined by about 18.8% to average 780,000 b/d in July 2013. The decline in output is mainly due to labor strikes at major petroleum facilities, which led to the closure of many oilfields. The striking security guards have imposed a shutdown at the country's two biggest crude oil export terminals, which together have the capacity to ship about 600,000 b/d. Libyan authorities have estimated revenue losses at about \$1.6bn due to the ongoing unrest.

Source: Citigroup, Bloomberg, Byblos Research

Iraqi oil exports below target in July 2013

Iraq's crude oil exports dropped by a marginal 0.1% month-on-month to average 2.32 million b/d in July 2013, below the government's target level of 2.9 million b/d, mainly due to deteriorating security conditions. Also, Iraqi crude oil production fell by about 10% from end-2012 to an average of 2.8 million b/d in July. The government has set an oil production target of 3.4 million b/d for end-2013. Iraq is currently the second-largest crude oil producer among OPEC countries.

Source: Citigroup, Thomson Reuters, Byblos Research

Base Metals: Nickel market to remain over-supplied in 2013 for third consecutive year

Global nickel demand is projected to decelerate to 3.8% in 2013 from a growth rate of 4.2% in 2012, while it is forecast to rebound to 7.5% in 2014 due to predictions of a strong Chinese economic recovery. In parallel, global refined nickel production is expected to grow by 4.3% in 2013 and to modestly slow down in 2014 due to supply-led disruptions. As such, the global nickel market is anticipated to remain in surplus for a third consecutive year in 2013. In parallel, nickel prices are forecast to average \$15,881 a metric ton in 2013, constituting a decrease of 9.7% from an average of \$17,591 per metric ton in 2012. The Dow Jones-UBS Industrial Metals Sub-Index increased by 0.9%, while the Dow Jones-UBS Nickel Sub-Index improved by 1% in July 2013. Further, the Dow Jones-UBS Copper Sub-Index rose by 2% in July, while the Aluminum Sub-Index increased by 0.7%.

Source: Deutsche Bank, S&P Dow Jones Indices

Precious Metals: Gold demand down by 12% in second quarter of 2013

Global gold consumption reached 856.3 tons in the second quarter of 2013, constituting a decrease of 12.1% from 974.6 tons in the same quarter last year. The decline was mainly attributed to investors' heavy divestures from gold Exchange Traded Funds (ETFs), and was partly offset by a record demand for gold bars and coins. ETF outflows rose during the second quarter as a number of hedge funds and speculative investors exited their positions due to expectations of a U.S. economic recovery. Global jewelry demand grew by 36.8% year-on-year in the second quarter of this year, while total gold bar and coin investments' consumption rose by 77.5% year-on-year in the covered quarter. Gold consumption was dominated by India and China, which together accounted for about 60% of the global gold jewelry segment and for about 50% of total bar and coin demand in the second quarter. In parallel, Central Banks' net purchases of gold decreased by 56.8% year-on-year to 71.1 tons in the second quarter of 2013. Gold prices are forecast to average \$1,393 a troy ounce in 2013. In parallel, the Dow Jones-UBS Precious Metals Sub-Index decreased by 5.6% in July 2013, while the Gold Sub-Index improved by 7.1% during the month. Also, the Dow Jones-UBS Silver Sub-Index rose by 0.8%, and the Platinum Sub-Index increased by 6.7% in July.

Source: World Gold Council, Bloomberg, S&P 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	B	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
	-	Stable	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	Negative	-	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	31-Jul-13	No change	18-Sep-13
Eurozone	Refi Rate	0.50	01-Aug-13	No change	05-Sep-13
UK	Bank Rate	0.50	01-Aug-13	No change	05-Sep-13
Japan	O/N Call Rate	0-0.10	08-Aug-13	No change	05-Sep-13
Australia	Cash Rate	2.50	06-Aug-13	Cut 25bps	03-Sep-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	31-Jul-13	No change	18-Sep-13
Taiwan	Discount Rate	1.88	27-Jun-13	No change	18-Sep-13
South Korea	Base Rate	2.50	08-Aug-13	No change	18-Sep-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	30-Jul-13	No change	18-Sep-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	31-Jul-13	No change	13-Sep-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	8.50	13-Aug-13	Raise 50bps	N/A
Romania	Policy Rate	4.50	06-Aug-13	Cut 50bps	N/A
Bulgaria	Base Interest	0.02	01-Aug-13	No change	N/A
Kazakhstan	Refi Rate	5.50	06-Aug-12	Cut 50bps	N/A
Ukraine	Discount Rate	6.50	13-Aug-13	Cut 50bps	N/A
Russia	Refi Rate	8.25	10-Jun-13	No change	N/A



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

The Country Risk Weekly Bulletin is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from the Country Risk Weekly Bulletin may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.



BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street
Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293

