

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Assets invested in ETFs and ETPs at \$2.2 trillion at end-July 2013

Assets invested globally in Exchange Traded Funds (ETFs) and Exchange Traded Products (ETPs) reached \$2,164bn at the end of July 2013, constituting an increase of 11.3% from \$1,945bn at end-2012. ETFs and ETPs attracted a record level of \$148.5bn in net inflows in the first seven months of the year, up 13.8% from \$130.5bn in the same period last year, and included \$44.1bn in July 2013. ETFs are open-ended, index-based equity funds. Assets invested in ETFs stood at \$2,014bn, while assets invested in ETPs totaled \$150bn at end-July. Also, assets invested in ETFs grew by 14.8%, while those invested in ETPs fell by 21.5% from end-2012. The U.S. ETF and ETP industry had assets of \$1,535bn and accounted for 70.9% of total assets invested in both ETFs and ETPs, followed by the European industry with \$377bn (17.4%), Asia-Pacific excluding Japan with \$88bn (4.1%), Japan with \$65bn (3%), the Canadian industry with \$58bn (2.7%), and the Latin American industry with \$12bn (0.6%). Also, assets invested in the U.S. ETF industry represented 71.4% of global ETFs, followed by those invested in the European ETF industry with 17.4%, the Asia-Pacific ex-Japan ETFs with 4.3%, Japan with 3.2%, Canada with 3%, and Latin America with 0.6% of the total. Further, the number of ETFs and ETPs totaled 4,883 at end-July 2013, with ETFs accounting for 70.5% of the total.

Source: *ETFGI*

Insurers' losses from natural and man-made disasters at \$20bn in first half of 2013

Global re-insurer Swiss Re estimated the total economic losses from natural catastrophes and man-made disasters at \$56bn in the first half of 2013, constituting a decrease of 16.4% from \$67bn in the same period of 2012. Total economic losses include insured and uninsured catastrophe losses. It said that insurers' overall losses totaled \$20bn in the covered period, down 4.8% from \$21bn in the first half of 2012; while uninsured losses amounted to \$36bn in the covered period. As such, it noted that the global insurance industry covered 35.7% of total losses in the first half of 2013. It pointed out that losses from natural catastrophes totaled \$17bn in the first half of 2013 and accounted for 85% of the insurance industry total losses, while losses from claims from man-made disasters stood at \$3bn and represented 15% of the total. Further, it said that floods were a key driver of natural catastrophe-related losses in the first half of the year, and caused an estimated \$8bn in insurance claims globally. It noted that the insured flood losses posted so far this year are the second highest on record.

Source: *Swiss Re*

EMERGING MARKETS

Bond and equity inflows at \$6bn in first eight months of 2013

Capital flows to emerging market equity and bond funds posted net inflows of \$6bn in the first eight months of 2013, with bond inflows at \$3.33bn and equity inflows at \$2.7bn. But emerging markets saw 14 consecutive weeks of outflows from bond fund until the end of August, the first such outflows trend since late 2008 at the height of the global financial crisis. Emerging Asia attracted \$2.4bn in inflows to bond funds and Emerging Europe, the Middle East & Africa (EMEA) attracted inflows of \$1.5bn; while Latin America posted outflows of \$602m in the first eight months of the year. Emerging Asia attracted \$5bn in inflows to equity funds in the first eight months of the year and the EMEA region attracted \$48m; while Latin America posted \$2.4bn in outflows from equity funds. Mexico was the biggest recipient of bond inflows with \$803m, while Korea was the largest recipient of equity inflows with \$3.7bn in the covered period. Also, Brazil was the largest source of bond outflows of \$1.5bn, while it was the largest source of equity outflows of \$4.7bn, followed by China with \$3bn and Russia with \$2.1bn.

Source: *Barclays Capital*

MENA

Equity markets up 10% in first eight months of 2013

Arab stock markets increased by 10% and GCC markets rose by 14.6% in the first eight months of 2013 compared to increases of 5.1% and 5.7%, respectively, in the same period last year. Arab stock markets and GCC markets rose by 9.2% and 13.3%, respectively in August 2013 from the same month last year. Activity on the Dubai financial market increased by 55.5% in the first eight months of 2013 and posted the best performance among Arab markets during the period. It was followed by the Damascus financial market with a 54.6% improvement, the Abu Dhabi exchange with a 42% increase, the Kuwait bourse with a 28.6% rise, the Oman stock exchange market with a 16.2% expansion, the Qatar stock market with a 15.1% growth, the Saudi Arabia equity market with a 14.2% appreciation, the Bahrain bourse with an 11.5% rise and the Tunis exchange with a 0.5% increase. In parallel, the Beirut stock exchange dropped by 18.7% in the first eight months of 2013 and posted the weakest performance among Arab stock markets in the covered period. It was followed by the Casablanca bourse with a decrease of 10.1%, the Libyan stock market with 9.9% decline, the Iraqi equity market with a 5.2% drop, the Khartoum stock exchange with a 4.8% decrease, the Amman stock market with a 4.2% contraction, the Egyptian bourse with 3.6% drop and the Palestine equity market with a 1.8% decrease. In comparison, global equities increased by 7.5% and emerging market equities declined by 10.8% in the first eight months of the year. In parallel, global equity markets increased by 13.7% year-on-year in August while emerging market equities dropped by 0.7% over the covered month.

Source: *Local stock markets, Dow Jones Indices, Byblos Research*

POLITICAL RISK OVERVIEW - August 2013

EGYPT

Violence intensified as pro-Morsi protestors clashed with security forces and Muslim Brotherhood (MB) opponents. The Egyptian army declared a state of emergency in 14 states on August 14th. The cycle of violence that began on August 14 has reportedly caused over 1,000 deaths. The military continued its arrests of MB leaders and members, including the MB supreme guide Mohammed Badie on charges of inciting violence. The government announced that it is engaged in a "war on terror" and considered dissolving the MB. However, Interim Prime Minister Hazem Al Beblawi said that he would instead monitor the MB. The interim government continued with its transition plan by drafting several constitutional amendments. The government closed Islamist TV channels, while it arrested journalists that posed a threat to the new government. The Egyptian judiciary extended on August 12 President Mohammed Morsi's detention for 15 days. Former President Hosni Mubarak was released from prison and was put under house arrest.

IRAN

Hassan Rouhani was sworn in as Iran's new president on August 4th. President Rouhani unveiled a Cabinet of technocrats to mainly overcome the country's economic challenges. The Parliament approved 15 out of 18 Cabinet nominees, while it rejected three candidates. Both Iran and the U.S. expressed a desire to end the long-standing dispute over Iran's nuclear program. The International Atomic Energy Agency reported that Iran has slowed down several of its sensitive nuclear activities.

IRAQ

Sectarian violence continued this month as dozens of car bombs exploded across the country, resulting in at least 142 deaths and over 80 injuries. Prime Minister Nouri al-Maliki linked the ongoing attacks to the Syrian conflict and warned against an increase in terrorism activities in the region. Prime Minister al-Maliki denounced the possibility of an armed attack against Syria. Foreign Minister Hoshyer Zeibari met with U.S. Secretary of State John Kerry to request weapons and intelligence support to "combat terrorism" in Iraq.

DEM REP CONGO

Fighting between the Armed forces of the Democratic Republic of Congo and M23 rebels continued near the city of Goma. The UN "intervention brigade" fought alongside the national army for the first time as they attacked rebel positions. The U.S. expressed concerns over the rising violence in the DRC and condemned the M23 rebel movement. The government accused Rwanda of firing rockets on Goma to aid M23 rebels. The UN indicated that there are "consistent and credible reports" of ongoing Rwandan support for M23 rebels.

LIBYA

The Petroleum Facilities Guards involved in the country's most recent ports closures declared the eastern coastal region, Cyrenaica, an autonomous federal province; and they attempted to sell Libyan oil on the black market. The government threatened to use force against these groups and against any oil companies' vessels trading with them. Prime Minister Ali Zeidan announced on August 25 the launch of a national dialogue initiative. Deputy Prime Minister Awad Baraasi resigned his post on August 3rd, citing a "dysfunctional government". Libya's General Prosecutor indicated that the trial of Saif al-Islam Gaddafi would begin in Tripoli on September 19th.

SOUTH SUDAN

South Sudan's lawmakers have unanimously endorsed the Parliament's Speaker James Wani Igga as the country's new Vice President. The Parliament delayed the election of a new Speaker after failing to reach a consensus over who should replace the newly-appointed Vice President. A dozen of high ranking officers in the Sudan People's Liberation Army were jailed over their role in the alleged killings of innocent civilians in the Jonglei state. Hundreds of residents in Juba protested against the rapidly deteriorating security situation.

SUDAN

Sudan and South Sudan's joint security committee agreed to stop all forms of support to rebel groups, and established a joint team to investigate claims and complaints from both sides. President Omar al-Bashir postponed the closure of the cross-border oil pipeline. The government considered threats by South Sudan to unilaterally hold a referendum in the disputed Abyei region to be a breach of the cooperation agreements. Military operations continued in the South Kordofan province and in the Blue Nile state.

SYRIA

Syria's opposition accused the Syrian regime of firing chemical weapons at rebel-held Damascus suburbs on August 21 that resulted in an estimated death toll of 1,300 persons. The incident prompted an urgent UN Security Council meeting and calls for an investigation. The chemical attack was internationally condemned, while Western countries discussed the possibility of an armed intervention. President Barack Obama said that he would seek Congressional approval on September 9 for military action against select targets in Syria. A UN team completed investigating the attack on August 28 and expected results to be ready in three weeks. The al-Qaeda-affiliated Islamic State in Iraq and the Levant continued to strengthen its position along the country's northern and eastern fronts. The opposition captured some villages and facilities in President Bashar al-Assad's home province of Latakia, while it seized an army airbase outside Aleppo. The Syrian regime pushed rebels out of Latakia later in the month and launched an offensive to regain rebel-held territories around Damascus.

TUNISIA

The ongoing pro- and anti-government protests and sit-ins continued as the political crisis remained unresolved. The ruling An-Nahda party agreed to start a national dialogue with the opposition using a framework proposed by the Tunisian General Labor Union. The framework entails forming a new government and an expert constitutional committee to review the draft constitution. But the opposition started a week of protests called 'Rahil' on August 24th, aiming at dissolving the government and the National Constituent Assembly as well as the removal of An-Nahda-appointed officials.

YEMEN

The month saw a rise in U.S. drone strikes against suspected Al-Qaeda in the Arabian Peninsula (AQAP) militants that killed senior AQAP leader Qaid Ahmad Nasser al-Dhahab, among others. Foreign embassies closed for about two weeks in early August after the U.S. government revealed AQAP plans for attacks. Fighting and suicide bomb attacks across the country left at least 57 people dead and 25 persons wounded.

Source: *International Crisis Group*

OUTLOOK

EMERGING MARKETS

Weak growth to limit policymakers' options in the face of capital outflows

Citigroup indicated that the vulnerability of emerging markets (EM) to the current wave of capital outflows is lower compared to previous crises during which emerging economies suffered from capital flight. It said that the level of foreign currency reserves in EM is more than sufficient to cover their current account deficits and maturing external debt. It noted, however, that the current crisis has unique factors that are eroding the quality of policy responses available for policymakers in EM, such as an increase in interest rates and a tightening of fiscal policies.

It pointed out that the current account deficits in EM are mainly due to weak exports from poor global demand conditions, rather than due to high import growth from an overheating economy. It considered that, in such conditions, policymakers would be more reluctant to address the widening external financing gap through policy tightening, given the resulting substantial loss in economic output. It said that Central Banks in EM face continuous weak export growth and high inflation levels that have been recently exacerbated by currency depreciation. It added that the persistence of weak export growth makes Central Banks in EM reluctant to negatively affect domestic spending, since the latter is the main source of GDP growth. As such, it noted that inflation-adjusted interest rates remain at very low levels in EM and expected them to decline further. It noted that authorities in EM continue to adopt loose fiscal policies due to weaker external demand, large infrastructure deficits, and elections coming up in 2014. As such, Citigroup anticipated both monetary and fiscal policies to continue to be loose.

Source: Citigroup

JORDAN

Narrowing the fiscal deficit is key challenge

The Institute of International Finance considered that the stability of the Jordanian economy depends on reducing the wide fiscal and current account deficits to sustainable levels, especially given the regional turmoil. It projected Jordan's fiscal deficit to narrow to 6.1% of GDP in 2013 from 8.2% of GDP in 2012 compared to the government's target deficit of 4.8% of GDP; and to reach 10.2% of GDP this year relative to the government's target of 8.9% of GDP when excluding grants. It projected public revenues to increase by 18% this year due to a three-fold rise in foreign grants, and forecast public spending to rise by 8.1% in 2012 due to a 75% increase in capital expenditures and despite the removal of fuel subsidies in November 2012. As a result, it estimated the level of public spending to stabilize at 31% of GDP and for capital expenditures to rise from 3.1% of GDP in 2012 to 4.9% of GDP in 2013, while subsidies would decline from 4.4% of GDP last year to 1.2% of GDP in 2013. It added that the cost of Syrian refugees has been mostly covered by financial support from the GCC and other bilateral sources. It noted that the fiscal deficit would be much higher when including the losses of state-owned National Electric Power Company (NEPCO) in the budget as Treasury transfers. It called on authorities to reform NEPCO and achieve cost recov-

ery over the next few years. It also forecast the public debt level to rise to 84% of GDP in 2013 from 79.7% of GDP in 2012.

The IIF indicated that grants from GCC countries and funding from the International Monetary Fund will provide temporary relief that would allow authorities to target spending cuts and develop alternative sources of energy to ensure medium-term sustainability. It pointed out that Jordan's reliance on grants as a major source of financing may not be sustainable, and considered that fiscal consolidation has to rely on reducing expenditures, given the limited space to improve revenues. It noted that defense and defense-related items, such as military pensions, constitutes the single largest expenditures item in the budget and that targeted cuts and focused spending are necessary over time to support substantial fiscal consolidation.

Source: Institute of International Finance

TURKEY

Decline in investor confidence to negatively affect growth

The Institute of International Finance revised downward its projections for Turkey's real GDP growth to 3.2% in 2013 and 1.7% in 2014 from previous forecasts of 3.5% in 2013 and 4.5% in 2014. It attributed the change to the expected sharp increase in interest rates to avoid further currency depreciation and excessive drawdown on foreign currency reserves. It said that the economy's large macroeconomic imbalances, increased dependence on short-term financing, high exposure to volatile inflows and growing political uncertainties have left it exposed to the current shift in market sentiment. It pointed out that capital outflows since May 2013 have substantially intensified financial markets' pressure. It noted that the lira weakened by nearly 10% against an equally weighted basket of US dollar and Euro between early May and late August 2013, while yields on the 10-year benchmark government bond rose by 400 basis points to 10.2% during the same period. It expected downward pressure on the lira and bond prices to remain strong until institutional investors rebalance their portfolios away from risk-high emerging market assets.

It considered that the Central Bank of Turkey's (CBT) policy actions, such as exchange market interventions to support the lira and the increase in the average lira funding rate, have so far been insufficient to stop capital outflows and prevent further currency depreciation. It said that the CBT's decision to maintain short-term interest rates at their current level during the remainder of the year has done little to calm markets. It noted that such strategy has reinforced depreciation pressures due to increased concerns about the CBT's ability to support the lira, given its relatively low foreign exchange reserves compared to the country's external borrowing needs. It estimated the net foreign exchange reserves at below \$40bn at the end of August, compared to \$60bn in foreign holdings of lira-denominated government bonds, \$60bn in portfolio equity holdings and a current account deficit of \$60bn. As such, it considered that large-scale exchange market interventions would not be a sustainable option. It expected the CBT to be forced to hike its policy rate by 200 to 300 bps by mid-2014, which would help limit the lira's further depreciation to around 8% by mid-2014.

Source: Institute of International Finance

ECONOMY & TRADE

WORLD

Tourism arrivals up 5.2% to 494 million in first half of 2013

The World Tourism Organization (WTO) indicated that international tourist arrivals reached 494 million in the first half of the year, constituting an increase of 5.2% from 469 million in the same period last year. It noted that the increase in the number of tourist arrivals worldwide exceeded the projected growth of between 3% and 4% as well as the WTO's long-term annual average increase of 3.8% between 2010 and 2020. It said that tourist arrivals to emerging economies grew by 6.2% annually during the covered period, while arrivals to developed economies rose by 3.9% year-on-year. Further, tourist arrivals to Europe which accounted for 51.6% of total arrivals in 2012 increased by 5.1% year-on-year, followed by Asia & the Pacific (22.6%) with a 6.2% rise, the Americas (15.8%) with a 2.2% growth, Africa (5%) with a 3.8% expansion and the Middle East (5%) with a 12.9% increase. Earlier this year, the WTO expected global tourist arrivals to increase by 3% to 4% in 2013. But it anticipated that the growth in the number of tourist arrivals this year would come at the higher end of this range or slightly exceed it, given the strong results in the first half of the year.

Source: World Tourism Organization

GCC

Profits of petrochemical sector up 4% to \$2.6bn in second quarter of 2013

The aggregate net profits of petrochemical companies operating in the Gulf Cooperation Council (GCC) economies reached \$2.6bn in the second quarter of 2012, constituting an increase of 4% from \$2.5bn in the same quarter last year, but a decrease of 8.9% from \$2.9bn in the preceding quarter. The quarterly decrease in the net earnings of petrochemical companies in the GCC region was due to a drop in prices of various petrochemical products as well as to a decrease in the production of some companies because of maintenance work. Profits of Saudi Arabia's petrochemical sector totaled \$2.1bn in the second quarter and accounted for 77.7% of the region's aggregate profits, followed by Qatar with \$555.1m (21%), the UAE with \$27.2m (1%) and Oman with \$7.9m (0.3%). Net profits of petrochemical companies in Saudi Arabia rose by 8.2% annually, while those of firms in the UAE fell by 44.8%, those of companies in Oman dropped by 12.5% and those of firms in Qatar contracted by 5.1%. Further, net profits of petrochemical companies in Oman rose by 0.2% quarter-on-quarter, while those of firms in the UAE fell by 58.5%, those of Qatari firms contracted by 20.7% and those of Saudi firms declined by 3.5%.

Source: Global Investment House

SAUDI ARABIA

Optimism of non-hydrocarbon sector retreats

The D&B Business Optimism Index for Saudi Arabia indicated that the composite optimism index for the non-hydrocarbon sector reached 49 in the third quarter of 2013, constituting an improvement of 12 points from the same quarter last year, but a decline of six points from 55 in each of the second and first quarters of the year. The quarter-on-quarter decrease is mainly due to a cyclical decline, as most parameters posted a quarterly

fall. The index for expected sales stood at 52 in the third quarter of the year, down from 65 in the previous quarter; the index for expected profits index decreased to 51 from 56 in the preceding quarter; the index for expected new orders regressed to 53 from 62 in the previous quarter; and the index for the number of employees fell to 47 from 54 in the second quarter of the year. In parallel, the index for inventory levels increased to 45 from 34 and that for the level of selling prices increased to 44 from 36 in the second quarter of 2013. Further, the transportation index rose to 57 in the third quarter of 2013 from 45 in the preceding quarter and was the only sector among the five non-hydrocarbon sectors to post an improvement in optimism. The construction index fell to 56 from 65 in the second quarter of the year, the manufacturing index decreased to 49 from 58 in the preceding quarter, the finance, real estate & business services index dropped to 46 from 52 in the previous quarter and the trade & hospitality index declined to 46 from 49 in the second quarter of 2013.

Source: Dun & Bradstreet

ANGOLA

Ratings affirmed on strong growth prospects and healthy public finances, outlook 'stable'

Standard & Poor's affirmed Angola's long- and short-term foreign and local currency sovereign credit ratings at 'BB-/B' with a 'stable' outlook. It maintained the transfer & convertibility assessment at 'BB-'. The agency indicated that the ratings are supported by a large domestic oil & gas sector, strong growth prospects, low government and external debt levels, and a net external creditor position. But it noted that the ratings are constrained by weak institutions, low development of the non-hydrocarbon economy, political succession risks, and underlying political tensions. It pointed out that Angola is heavily dependent on the oil sector and is exposed to potential oil price and production shocks, and that it has a low capacity to adequately respond to such shocks.

S&P anticipated that the sustained growth in the hydrocarbon sector will maintain the fiscal and external accounts in surplus over the medium-term. It projected the average annual fiscal surplus to decrease to around 4% of GDP during the 2013-16 period from 7.8% of GDP between 2010 and 2012, due to increased infrastructure and development-related expenditures as well as due to spending by state-owned oil company Sonangol. It forecast the current account surplus to average above 6% of GDP annually over the next few years. But it noted that Angola's external balance sheet is mainly subject to volatility related to the oil sector and FDI flows. It forecast the current account surplus to decrease from 19.1% of current account receipts (CARs) in 2012 to 18.9% of CARs in 2013 and 10.3% of CARs in 2016. It expected net external liabilities to rise from 40.2% of CARs in 2012 to 54.5% of CARs in 2013 and to 52.8% of CARs in 2016.

Source: Standard & Poor's

BANKING

EMERGING MARKETS

Outlook on bank ratings improves in second quarter

Fitch Ratings indicated that it upgraded the Issuer Default Ratings (IDRs) of 12 banks globally in the second quarter of 2013, of which 58% in emerging markets; while it downgraded those of 10 banks worldwide, of which 40% in emerging economies. It said that there were 39 'negative' outlooks on emerging markets bank ratings in the second quarter of 2013, compared to 46 in the first quarter and 49 in the fourth quarter of last year. In parallel, the number of 'positive' outlooks decreased to three in the second quarter of 2013 from five in the preceding quarter and from seven in the fourth quarter of 2012. Also, the number of 'stable' outlooks rose to 306 in the second quarter from 295 in the preceding quarter and from 296 in the fourth quarter of 2012. Fitch noted that 85.5% of bank outlooks in emerging markets are 'stable', 10.9% are 'negative' and 0.8% are 'positive'. It noted that 93.5% of outlooks in Emerging Asia are 'stable' and 4.9% are 'negative'; 90% of outlooks in the Middle East & Africa are 'stable' and 8% are 'negative' and 81% of outlooks in Emerging Europe are 'stable' and 14.3% are 'negative'. It added that 80.3% of outlooks in Emerging Americas are 'stable', 14.1% are 'negative' and 4.2% are 'positive'.

Source: Fitch Ratings

MENA

Tier One capital up 8% to \$227.4bn in 2012

The Banker magazine's annual survey of the Top 1000 Banks in the World by Tier One capital included 92 banks from the Middle East region, compared to 91 banks in 2012 and 83 banks in 2011. The aggregate Tier One capital of the 92 Middle Eastern banks stood at \$227.4bn at end-2012, constituting an increase of 7.9% from \$210.8bn in 2011. Total Tier One capital of Middle Eastern banks accounted for 3.7% of the aggregate Tier One capital of the world's top 1000 banks in 2012. It noted that 19 Gulf banks were among the largest 25 banks in the Middle East region, with eight banks from Saudi Arabia, seven from the UAE, two banks from Kuwait and one bank from each of Qatar and Bahrain. Also, Israel has three banks among the largest 25 banks in the region, Iran has two banks and Jordan has one bank. Saudi Arabia's National Commercial Bank remains the largest bank in region and ranked in 115th place globally with a Tier One capital of \$10.2bn, followed by Qatar National Bank (129th place) with \$8.85bn and Israel's Bank Hapoalim (141st place) with \$7.7bn. Abu Dhabi Islamic Bank posted the largest increase in Tier One capital among the 92 banks of 35.9%, followed by Lebanon's BankMed with a rise of 32.3% and the UAE's Al Hilal Bank with a growth of 31.8%. In comparison, the aggregate Tier One capital of the Top 1000 Banks worldwide stood at \$6,163bn at end-2012, constituting an increase of 7.3% from \$5,746bn at end-2011.

Source: The Banker Magazine, Byblos Research

SAUDI ARABIA

Private sector lending up 15.6% in July 2013

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR1,815.3bn at the end of July 2013, constituting a growth of 4.7% from end-2012 and a rise of 12% from July 2012. Private sector loans totaled SAR1,092.3bn at the end of July 2013 and increased by 1% from the previous month, by 9.3% from end-2012 and by 15.6% year-on-year, driven by corporate and commerce lending. In parallel, aggregate deposits reached SAR1,327.9bn at the end of July 2013 and remained flat month-on-month, but they grew by 5.3% from end-2012 and by 15.1% from July 2012. Demand deposits continued to strengthen, as they rose by 1.1% month-on-month and accounted for 62.7% of total deposits in July 2013 compared to 59.8% in December 2012. The loan-to-deposit ratio stood at 82.3% in July 2013 compared to 81.5% in June 2013, 79.3% at end-2012 and 81.9% in June 2012. Also, the sector's aggregate profits totaled SAR22.2bn in the first seven months of 2013 and rose by 4.6% from the same period last year.

Source: Saudi Arabia Monetary Agency, EFG Hermes

INDIA

Currency depreciation to affect banks' performance

Fitch Ratings anticipated that the sharp depreciation of the Indian rupee would further increase credit pressure on Indian banks due to a deeper- and longer-than-previously expected economic slowdown. It anticipated that the 21% depreciation of the rupee since April 1st would negatively affect the financial performance of Indian corporations with unhedged foreign-currency borrowing. As such, it expected Indian banks' asset quality to remain under prolonged pressure. Further, it said that the sharp weakening of the rupee, if not swiftly reversed, would delay any chances of recovery in domestic demand. It considered that recent monetary measures to support the currency have significantly raised short-term interest rates and would result in a further economic slowdown in the fiscal year ending March 2014. It noted that the slowdown in activity would restrain any improvement in the growth rate of loan books. Further, it said that banks' earning profiles would face higher pressure than previously anticipated due to weaker margins resulting from higher funding costs, and due to a lower ability to pass costs to customers as a result of softening demand and slowing loan growth. It anticipated that stressed assets in the banking system would peak in the fiscal year ending in March 2015 rather than in the current fiscal year. It noted that a more prolonged deterioration in asset quality will raise provisioning requirements and weigh on banks' earnings profiles. It said that public sector banks remain under relatively greater pressure than private sector ones due to their lower stress-absorption capacity.

Source: Fitch Ratings



ENERGY / COMMODITIES

WTI oil prices to rise by 3% in 2013

Global oil consumption is expected to grow by 1% in 2013 and to rise by 1.5% in 2014 as global economic growth strengthens. North America is projected to remain the world's top consumer of oil in 2013, followed by EU countries and non-China Asian countries. Brent crude prices are forecast to average \$107.1 a barrel in the third quarter of 2013, while those of WTI crude oil are expected to reach \$106 a barrel during the same quarter. Overall, Brent crude prices are projected to decrease by 4.4% year-on-year to \$107 a barrel in 2013; while those of WTI crude oil are forecast to rise by 3.4% year-on-year to \$97.3 a barrel this year. The WTI-Brent spread is anticipated to narrow during the 2013-14 period. In parallel, Brent prices increased by 7.6% to \$108 a barrel in August, WTI oil prices improved by 2.8% to \$108 a barrel, while prices of U.S. Henry Hub natural gas rose by 3.2% to \$3.6 per million British thermal unit last month.

Source: Economist Intelligence Unit, Byblos Research

Iran's oil revenues down 46% in first half of 2013

Iran's monthly crude oil revenues averaged an estimated \$3.4bn in the first half of 2013, down by 46% from \$6.3bn in the same period last year and from \$8bn in the first half of 2011. The sharp decline in oil revenues were mainly attributed to the 2011 Western-imposed sanctions over the country's controversial nuclear program. In parallel, the United States indicated that about 44% of Iran's monthly earnings from crude oil exports, or \$1.5bn per month, have been accumulating in restricted foreign accounts as sanctions restrict Tehran's access to the money.

Source: Thomson Reuters, Byblos Research

South Sudanese oil to keep flowing through Sudan

Sudan announced that it will continue to allow South Sudanese oil exports through its facilities and ports. Sudan lifted its July 2013 threat to block South Sudan's oil exports as the presidents of both countries promised to end their long-standing conflicts. Both countries have signed several agreements over recent years to overcome their disputes, but the pacts have been undermined by deep mutual distrust. South Sudan and Sudan are highly dependent on oil-related revenues and on the resulting foreign currency receipts to finance their imports. Landlocked South Sudan is reliant on Sudan to transfer its oil exports to a port on the Red Sea. In parallel, South Sudan said that it wants to establish a new chapter of bilateral ties and open the joint border for trade, a move agreed upon in 2012 but not implemented by Sudan due to Juba's alleged support for rebels operating across their shared border.

Source: Thomson Reuters

Iraq pre-qualifies 12 companies to build oil export pipeline to Jordan

Iraq has pre-qualified 12 companies and joint ventures to build an \$18bn oil and gas pipeline to Jordan. The 1,680 kilometers pipeline would export about one million barrels per day (b/d) of Iraqi crude from Iraq's southern region of Basra to Jordan's port city of Aqaba. The project will reduce Jordan's reliance on energy imports from Egypt, secure its energy needs, and generate about \$3bn a year in state revenues. Also, the pipeline would bypass the Strait of Hormuz where 70% of Iraqi oil exports pass through there.

Source: Thomson Reuters, Byblos Research

Base Metals: Steel supply to grow by 4% in 2013

Global steel supply is expected to grow by 4% in 2013, constituting a recovery from a growth rate of 1.1% in 2012. China is anticipated to remain the metal's main producer in 2013, followed by non-China Asian countries and EU countries. Global steel production rose by 2% year-on-year to 789.8 million tons in the first half of 2013, mainly due to higher Chinese supply. In parallel, global steel demand is forecast to grow by 3.5% year-on-year in 2013 relative to a growth rate of 2.4% in 2012. The steel market is projected to nearly balance in 2013 and to shift to a deficit in 2014. Steel prices are projected to relatively remain low through 2014, partly due to low raw material prices. EU hot rolled coil steel prices are anticipated to average \$573 a metric ton in the third quarter of 2013, constituting a decrease of 9.5% from an average \$633 a metric ton in the same quarter of 2012.

Source: Economist Intelligence Unit, Byblos Research

Precious Metals: Diamond consumption to grow by a CAGR of 5.1% through 2023

Global rough-diamond consumption is projected to rise to \$17bn in 2014 from \$15bn in 2012. Global rough-diamond demand is estimated to grow by a compound average annual rate (CAGR) of 5.1% between 2012 and 2023, and to exceed \$26bn by 2023. The United States is expected to remain the world's top diamond consumer in 2014 and to account for 36% of aggregate global demand, while both China and India are forecast to represent 29% of the total. Further, a deepening debt crisis in Europe, a rise in political instability in Asian countries and a slowdown in economic growth in China and India would negatively impact the overall demand for diamonds; while growing wealth and household incomes are expected to be the main drivers for demand growth. In parallel, global rough-diamonds supply is expected to grow by a CAGR of 4.8% during the 2012-18 period, and then decrease by a CAGR of 1.9% from 2019 through 2023 due to the depletion of existing mines. Diamonds' value increase significantly as they pass through the pipeline. Rough-diamonds' production generated revenues of \$14.8bn in 2012, then revenues grew to \$47.2bn when manufactured into jewelry, and grew to \$72.1bn when the jewelry were sold at retail. Overall, the most attractive segment of the diamond value chain remains in the exploration and production, which generates profit margins between 16% and 20%.

Source: Bain & Company, Byblos Research

Platinum Prices vs. Gold Prices
(Rebase 100)



Source: Thomson Reuters Datastream, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
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	12-Sep-13
Malaysia	O/N Policy Rate	3.00	11-Jul-13	No change	05-Sep-13
Thailand	1D Repo	2.50	21-Aug-13	No change	16-Oct-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	20-Aug-13	No change	17-Sep-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	9.00	28-Aug-13	Raise 50bps	09-Oct-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

