

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global trade to grow by 2.5% in 2013

The World Trade Organization revised downward its projection for world trade growth in 2013 to 2.5% in real terms from its April forecast of 3.3%, compared to a growth rate of 2.3% in 2012. It attributed the change to a slower-than-expected recovery in the demand for imports in developing economies, which has negatively affected the growth of exports from both developed and developing countries. It expected world trade growth to accelerate to 4.5% in real terms in 2014, but to remain below the annual average rate of 5.4% reached between 1982 and 2012. On the export side, the WTO anticipated a 1.5% increase in developed economies' exports, up from an earlier forecast of 1.4%; and a 3.6% rise in exports from developing countries and the Commonwealth of Independent States (CIS) relative to a previous projection of 5.3%. On the import side, it forecast imports to developed economies to remain almost flat in 2013, down from an earlier forecast of a 1.4% expansion, and imports to developing countries and the CIS to rise by 5.8%, almost unchanged from the previous forecast. In parallel, the WTO expected exports from developed economies to increase by 2.8% in 2014 and imports to these countries to grow by 3.2%; while it forecast exports from developing economies, including CIS countries, to increase by 6.3% in 2014 and imports to these economies to rise by 6.2%.

Source: World Trade Organization

EMERGING MARKETS

Remittance inflows to increase by 6.3% to \$414bn in 2013

The World Bank projected remittance inflows to developing economies at \$414bn in 2013, constituting an increase of 6.3% from \$389bn in 2012. It expected remittance inflows to developing economies to increase by 8.6% to \$449bn in 2014, by 9.3% to \$491bn in 2015 and by 9.9% to \$540bn in 2016. It said the inflows will account for 75.4% and 75.6% of global remittance flows in 2013 and 2014, respectively. It expected inflows to East Asia & Pacific to reach \$115bn in 2013 and to account for 27.8% of remittances to developing economies, followed by South Asia with \$114bn (27.5%), Latin America & the Caribbean with \$61bn (14.7%), the Middle East & North Africa with \$49bn (11.8%), Europe & Central Asia with \$43bn (10.4%), and Sub-Saharan Africa with \$32bn (7.7%). Also, it forecast the growth rate of remittance inflows to Europe & Central Asia at 10.8% in 2013, East Asia & Pacific at 7.4%, South Asia at 6.8%, Sub-Saharan Africa at 6.2%, the Middle East & North Africa at 3.6%, and Latin America & Caribbean at 2.5%. In parallel, the World Bank projected remittance inflows to middle-income countries at \$376bn and to low-income countries at \$38bn in 2013, compared to \$357bn and \$32bn in 2012, respectively. Inflows to middle-income countries would account for 90.8% of remittances to developing economies in 2013.

Source: World Bank, Byblos Research

MENA

Equity markets up 13% in first nine months of 2013

Arab stock markets increased by 13% and GCC markets rose by 17.4% in the first nine months of 2013 compared to increases of 4.8% and 5.7%, respectively, in the same period last year. Arab stock markets and GCC markets rose by 12.4% and 17.4%, respectively in September 2013 from the same month last year. Activity on the Dubai financial market increased by 68.7% in the first nine months of 2013 and posted the best performance among Arab markets during the period. It was followed by the Damascus financial market with a 62.5% improvement, the Abu Dhabi exchange with a 45.9% increase, the Kuwait bourse with a 31.2% rise, the Saudi Arabia equity market with a 17.1% appreciation, the Oman stock exchange with a 15.6% expansion, the Qatar financial market with a 15% growth, the Bahrain bourse with a 12% rise and the Egyptian bourse with a 2.9% increase. In parallel, the Libyan stock market dropped by 12.5% in the first nine months of 2013 and posted the weakest performance among Arab stock markets in the covered period. It was followed by the Beirut stock exchange with a decrease of 11.1%, the Iraqi equity market with an 8.9% drop, the Casablanca bourse with a 7.3% decline, the Amman stock market with a 5.5% contraction, the Tunis exchange with a 2.6% drop and the Palestine equity market with a 1.6% decrease. In comparison, global equities increased by 13% and emerging market equities declined by 4.9% in the first nine months of the year. In parallel, global equity markets increased by 16.1% year-on-year in September, while emerging market equities dropped by 0.2% over the covered month.

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

YEMEN

Yemen to join World Trade Organization

The Working Party on the Accession of Yemen announced that it has reached an agreement on a package for Yemen's accession to the World Trade Organization (WTO), following 13 years of negotiations. It noted that the accession package includes reforms to Yemen's trade laws and commitments on market access for goods & services, among others. It added that the WTO staff has worked with Yemen to adapt its trade laws to the WTO rules and has trained its government officials during the past 13 years. It said that the WTO would continue to provide Yemen with the required technical assistance in its post-accession process. It indicated that Yemen's accession package will be presented to the WTO's Ministerial Conference in December 2013 for a formal decision by the ministers. It added that the Yemeni Parliament has to ratify the accession package in a period of one month following the WTO's approval. Yemen would become the seventh least-developed country to join the WTO since 1995. It would also be the 13th Arab country to join the WTO after Bahrain, Kuwait, Morocco, Tunisia, Djibouti, Mauritania and Egypt that joined in 1995; Qatar and the UAE (1996); Jordan and Oman (2000); and Saudi Arabia (2005).

Source: World Trade Organization

POLITICAL RISK OVERVIEW - September 2013

EGYPT

The government continued its arrests of Muslim Brotherhood (MB) members and pro-Morsi Islamists, while it closed more media outlets and banned all MB activities. A EU envoy continued its international efforts to mediate between the government and the MB. A 50-member expert committee, led by former presidential candidate Amr Moussa, began reviewing a draft constitution prepared by a technical committee of legal scholars. The new constitution will be put to a referendum vote by the end of November 2013, followed by parliamentary and presidential elections. An army spokesman reaffirmed that the military does not intend to nominate a candidate for the presidential elections.

IRAN

President Hassan Rouhani spoke by phone with U.S. President Barack Obama on September 27th, constituting the first top-level conversation between the two countries since 1979. President Rouhani said that he is prepared to engage in a "time-bound and results-oriented" talks on his country's nuclear program. Supreme Leader Ali Khamenei endorsed President Rouhani's approach and called on Iran to show "heroic leniency" in nuclear negotiations. Foreign Minister Mohammad Zarif announced that Iran's nuclear program must remain peaceful and should be conducted under the International Atomic Energy Agency's supervision. Iran released 80 prisoners ahead of the UN General Assembly, including human rights lawyer Nasrin Sotoudeh. Iran supported Russia's proposal to place Syria's chemical weapons under international control. Russia agreed to supply Iran with S-300 anti-aircraft missiles and build an additional nuclear reactor at the Bushehr nuclear site.

IRAQ

Sectarian violence continued in September as dozens of car bombs exploded across the country, resulting in at least 900 deaths and over 2,000 injuries. The United Nations High Commissioner for Refugees expressed concerns over rising violence in Iraq. A series of bombings erupted in Erbil on September 29th, resulting in 11 persons dead and constituting the first such attack since 2007. Political leaders opposed a possible U.S. military strike on Syria. UN Security General Ban Ki-moon called on Iraqi leaders to hold a serious political dialogue. The Kurdistan Democratic Party won 95% of the votes in Kurdistan's September 21 parliamentary elections.

DEM REP CONGO

The government resumed talks with M23 rebels on September 10th. Skirmishes between the Armed Forces of the Democratic Republic of Congo and M23 rebels restarted on September 26 in the city of Kiwanha, north of Goma. President Joseph Kabila condemned Rwanda's "never-ending aggression" at the UN General Assembly on September 25th. Clashes between government forces and Ituri Patriotic Resistance Front continued in Ituri, which led thousands of people to relocate.

LIBYA

The General National Congress' (GNC) crisis committee reached a deal with armed protestors to end a port blockade. A key oil pipeline reopened in mid-September after GNC-led negotiations. Protesters shut down a major Wafa gas field along the Algerian border on September 29th. Political tensions increased with rising calls for Prime Minister Ali Zeidan to resign his post. The security situation remained weak in Benghazi with continued assassinations and explosions.

SOUTH SUDAN

President Salva Kiir expressed uncertainty over whether the country's first presidential elections since independence will take place as scheduled in 2015. President Kiir agreed with Sudanese President Omar al-Bashir on improving cooperation between the two countries, including the flow of South Sudanese oil through Sudan. The government continued to urge Abyei communities to return to the region and register for an October referendum vote on the status of the region.

SUDAN

Thousands of Sudanese protested across the country against a government decision to partially remove fuel subsidies. Protests turned violent and caused over 200 deaths, while at least 700 persons were arrested. The ruling National Congress Party's (NCP) headquarters was set on fire on September 24th. The NCP accused opposition parties and the Sudan Revolutionary Front of inciting protests. The opposition National Consensus Forces formed an umbrella group with professional unions, civil society and youth organizations to oppose the government's crackdown on protestors. Khartoum reiterated its rejection to hold a referendum on the future of the Abyei area in October. Military operations continued in the South Kordofan province.

SYRIA

The UN Security Council unanimously passed a resolution calling on Syria to destroy its chemical weapon (CW) production facilities by November and to dismantle its CW stockpile by the middle of 2014. Another resolution is needed to authorize punitive measures, including military force, in case of non-compliance. UN Secretary General Ban Ki-moon referred to the vote as "historic" and announced a tentative date in November for a new peace conference in Geneva. President Bashar al-Assad indicated that Syria would abide by the UN Resolution. The Resolution followed extensive diplomatic talks between the U.S and Russia in the wake of the CW attack near Damascus. A UN investigation team released a report confirming that sarin gas was used in the August 21 Ghouta chemical attack and suggested that the attack was launched from regime-controlled areas. The Syrian National Coalition reaffirmed its willingness to attend the Geneva peace talks if the convention's goal is to establish a transitional government. The Turkish army shot down a Syrian helicopter that was violating its airspace.

TUNISIA

Mediation efforts are ongoing to end the political deadlock between the Islamist-dominated ruling coalition and the secular opposition. The Tunisian General Labor Union, the nation's largest, pushed for a new transition plan calling on the ruling An-Nahda party to step down. The An-Nahda party agreed to step down in October following three weeks of talks, and to handover power to a caretaker non-partisan government to oversee parliamentary and presidential elections.

YEMEN

The National Dialogue, which was due to end on September 18th, was postponed. Hiraak activists in the south prepared to oppose the dialogue's outcome through protests and civil disobedience campaigns. Suspected al-Qaeda militants killed more than 38 soldiers in several attacks on military bases in Shabwa province in the south. Tensions between Huthis and adversaries, including Salafists, Islah and Ahmars, continued and caused over 60 casualties in the western city of Amran.

Source: *International Crisis Group*



OUTLOOK

GCC

Growth to be driven mainly by non-hydrocarbon sector in 2013 and 2014

Barclays Capital projected real GDP growth in the economies of the Gulf Cooperation Council at 3.8% in 2013 and 4.1% in 2014 compared to a growth rate of 5.2% in 2012. It forecast hydrocarbon output to contract by 0.2% in 2013 and by an additional 0.1% in 2014 relative to growth of 5.4% last year, and for the non-hydrocarbon sector to grow by 4.9% in 2013 and by 5.3% in 2014 compared to a growth rate of 5.4% in 2012. It attributed the subdued hydrocarbon growth to a decline in the region's crude oil production and to lower global oil prices. It projected real hydrocarbon GDP to contract by 1.2% in Saudi Arabia this year, to post no growth in Qatar and to grow by 1.7% in Oman, 1.4% in Bahrain, 1.2% in the UAE and 1% in Kuwait. It projected non-hydrocarbon GDP growth at 7.1% in Qatar, 4.8% in Saudi Arabia, 4.6% in Kuwait, 4.5% in Oman, 4.2% in the UAE and 3.7% in Bahrain this year.

In parallel, Barclays projected the region's fiscal surplus to narrow to 10.2% of GDP this year and 9.4% of GDP next year from 14.1% of GDP in 2012. It forecast Kuwait to post a surplus of 32.4% of GDP in 2013, followed by Qatar with 9.8% of GDP, the UAE with 9.5% of GDP, Saudi Arabia with 6.9% of GDP and Oman with 4.8% of GDP. It expected Bahrain's fiscal balance to post a deficit of 3.4% of GDP this year as global oil prices would remain below the country's estimated fiscal breakeven price of \$120 per barrel. Also, it projected the GCC's current account balance to post surpluses of 25.7% of GDP in 2013 and 17.2% of GDP in 2014 relative to 24.3% of GDP in 2012. It expected Kuwait to register a surplus of 41.2% of GDP in 2013, followed by Qatar at 26.6% of GDP, the UAE at 24.6% of GDP, Saudi Arabia at 20.1% of GDP, Oman at 13.7% of GDP, and Bahrain at 10.6% of GDP.

Source: *Barclays Capital*

EGYPT

Economy to remain dependent on support from Gulf countries

Barclays Capital revised downward its projection of real GDP growth for Egypt to 3.1% in fiscal year 2013/14 that ends in June 2014 from an earlier forecast of 3.3%, compared to an estimated growth rate of 2.3% in FY2012/13. It said that risks to the outlook remain to the downside mainly if the current volatile political and security situation lasts for a longer period of time. It anticipated that the prospects of a gradual political stabilization and the implementation of expansionary fiscal and monetary policies would help strengthen domestic demand. But it considered that this would only materialize in the second quarter of 2014 following the elections. It projected the fiscal deficit to narrow to 12.5% of GDP in FY2013/14 from 13.8% of GDP in FY2012/13, but to miss the government's target deficit of 10% of GDP. It noted that the persistent downside risks to economic growth and the slow implementation of subsidy reforms would raise the challenges for further fiscal consolidation.

In parallel, Barclays said that the \$12bn in pledged financial support from Saudi Arabia, Qatar and Kuwait is gradually sta-

bilizing the domestic macroeconomic outlook, is securing the economy's external financing needs for at least six months and is supporting the authorities' 1.5% of GDP fiscal stimulus. But it said that Egypt's external financing needs remain considerable in FY2013/14 due to more than \$5bn in debt obligations over the next 12 months. It forecast the current account deficit to marginally narrow to 2% of GDP in FY2013/14 from 2.1% of GDP in FY2012/13 as the disbursement of financial support from the three Gulf countries and the increase in remittance inflows would mitigate the sharp fall in tourism revenues and private capital flows, and as the tight import restrictions imposed since December 2013 would contain the import bill and, in turn, the trade deficit. It forecast foreign currency reserves to increase to \$19.5bn in the current fiscal year from \$12.5bn in the previous year. It anticipated that Egypt would continue to be dependent on financing from Gulf economies at least until the political situation stabilizes.

Source: *Barclays Capital*

GHANA

External and fiscal imbalances on the rise

The International Monetary Fund expected Ghana's real GDP growth to exceed 7% this year compared to 8% in 2012, despite a slowdown in economic activity in the first half of the year. It attributed the projected recovery in the second half of 2013 to a decrease in energy problems following energy disruptions and high real interest rates in the first half of the year. It noted that the inflation rate has risen to more than 11% due to the significant adjustment in domestic fuel prices earlier this year.

The IMF considered that Ghana's large fiscal and external imbalances constitute its main short-term risks despite strong medium-term economic prospects. It said that public revenues were lower-than-projected so far this year, in line with the slowdown in economic activity; while the large wage bill and electricity subsidies and high interest payments on the public debt are creating fiscal pressure. It considered that the government will not be able to keep the fiscal deficit below 10% of GDP this year despite the decrease in other spending items and the reintroduction of the national stabilization and import tariffs. Further, it projected the current account deficit at more than 13% of GDP in 2013, reflecting weaker gold and cocoa prices and ongoing fiscal pressures. It pointed out that the economy is vulnerable to a potential deterioration in the external environment and to pressures on the global financial market, given its low level of foreign exchange reserves that is equivalent to less than three months of imports cover.

In parallel, the IMF welcomed the authorities' plan to reduce the excessive share of wages in government spending. But it considered that a different approach based on wage moderation and strategic choices about the size and composition of the civil service is needed, given the unsustainable wage dynamics in recent years. It encouraged the authorities to reduce subsidies, address the problems in the energy sector, further improve revenue collection and continue with the ongoing public management reforms.

Source: *International Monetary Fund*

ECONOMY & TRADE

TUNISIA

Short-term risks on the rise

The International Monetary Fund indicated that the recovery in the Tunisian economy has been slower-than-anticipated, with an estimated annual real GDP growth of 3% in the first half of 2013. It pointed out that the current political crisis, recent security developments and the deteriorating economic situation among Tunisia's main trading partners are adversely affecting the country's overall economic activity. It said that the fiscal and external imbalances continue to worsen, while progress on reforms has been slower-than-expected. Overall, it noted that short-term risks to the outlook are tilted to the downside. Further, the IMF urged the authorities to implement measures in order to address the main vulnerabilities facing the economy. It noted that these measure include controlling the external and budget deficits, reducing the banking sector's vulnerabilities, and generating a more rapid and inclusive growth that can absorb the high unemployment rate while simultaneously reducing social and economic disparities. The Fund considered that the implementation of appropriate macroeconomic policies to maintain fiscal and external sustainability is essential to preserve macroeconomic stability, restore investor confidence and strengthen foreign exchange reserves. It called on authorities to accelerate the implementation of the government's reform program in order to generate a higher and inclusive growth, support the development of the private sector and strengthen the banking sector.

Source: International Monetary Fund

KUWAIT

Ratings affirmed on strong external and fiscal positions

Standard & Poor's affirmed Kuwait's long-term foreign and local currency sovereign credit ratings at 'AA' and its short-term ratings at 'A-1+', with a 'stable' outlook on the long-term ratings. It said that the ratings are supported by the sovereign's high levels of wealth and very strong external and fiscal positions. It estimated the government's net asset position to be equivalent to around 2.5 times the country's GDP in 2013 and its net external asset at about 400% of its current account receipts. It forecast the fiscal surplus at around 30% of GDP in the fiscal year ending in March 2014, and projected it to remain above 20% of GDP over the next four years. It noted that the fiscal surplus includes the government's investment income that it forecast to average around 6% of GDP annually over the next four years. However, the agency said that the ratings are constrained by a challenging political environment, lack of transparency regarding decision-making and government assets, and limited monetary policy flexibility. It noted that the extremely limited disclosure on the size and structure of the government's assets is a rating weakness. It attributed the limited flexibility of the monetary policy to the exchange rate system, which pegs the local currency to an undisclosed basket of currencies. In parallel, it pointed out that it would downgrade the ratings mainly in the event of a significant deterioration in the domestic political situation and an increase in geopolitical risks.

Source: Standard & Poor's

TURKEY

Slowdown in capital inflows to affect growth

Fitch Ratings anticipated that a slowdown in Turkey's net capital inflows would weigh on its economic growth. It noted that the dependence on net capital inflows constitutes one of the key risks facing the Turkish economy. It said that the combination of a wide current account deficit, high inflation level and weak international liquidity limit the government's room for manoeuvre over the short-term. It considered that the authorities may have to adjust their growth expectations in line with a lower and more easily funded current account deficit. It noted that net capital inflows are crucial for the Turkish economy given its wide current account deficit of between 6% of GDP and 7% of GDP. It expected the current account deficit to widen this year after narrowing last year, given the ongoing fall in capital inflows since May 2013 and net portfolio outflows. It noted that banks and corporates have so far faced little difficulty in rolling over their existing debt, but it expected future funding to be more expensive. However, Fitch said that the decrease in net capital inflows would not lead to a crisis due to the country's strong fundamentals. It noted that Turkey's strength include strong public finances, a moderate public debt level, a low fiscal deficit, a solid banking system, modest household debt and a dynamic corporate sector that is used to shocks. Further, it anticipated that investors will continue to be interested in the Turkish market due to strong medium-term growth potential, deep local capital markets, and a favorable business climate.

Source: Fitch Ratings

CÔTE d'IVOIRE

Positive economic outlook for 2013 and 2014

The International Monetary Fund indicated that Côte d'Ivoire's economic prospects for 2013 and 2014 are positive. It expected real GDP growth to exceed 8.5% in 2013 and forecast the inflation level to remain moderate. It noted that the country's economic performance was better than expected in the first half of 2013, with continued strong GDP growth, moderate inflation level and satisfactory budget execution. It anticipated that the public investment level would exceed 7% of GDP, in line with the 2012-15 National Development Plan, supported by substantial external financing. Further, the Fund pointed out that Côte d'Ivoire has made significant progress in implementing structural reforms, mainly by improving the business climate and strengthening the energy sector. It welcomed the authorities' efforts to prepare an action plan for the regularization of domestic arrears to suppliers, formulate strategies to develop the financial sector and restructure public banks, draft the electricity and mining sector codes, prepare a medium-term debt strategy, and further strengthen debt management. In parallel, it encouraged the authorities to continue to implement structural reforms in order to maintain high growth rates and achieve their goal of transforming the economy into an emerging market by 2020. It said that new reforms would include further improvements in the business climate and governance, the completion of the regularization of all domestic arrears, the development of the financial sector, and the strengthening of the electricity sector's financial situation.

Source: International Monetary Fund



BANKING

EMERGING MARKETS

Basel III has limited growth benefits for most emerging markets

Moody's Investors Service indicated that developing countries gain less in terms of GDP growth from the implementation of Basel III requirements than developed economies. But it noted that the impact of an increase in bank capital as per Basel III rules vary widely across emerging economies. It attributed the limited impact of the implementation of Basel III reforms on the banking systems in most emerging markets to the small size of their financial markets and to a high level of capitalization that exceeds Basel III requirements. It said that the banking systems in developing countries, as measured by the share of credit and investment relative to GDP, are smaller than those in advanced countries, except in China and South Africa. It pointed out that the average level of bank capitalization in most emerging markets already exceeds the 8% minimum requirement stipulated in Basel III. It noted that the capital ratios of banking sectors in Brazil, Mexico, Nigeria, Russia and Ukraine range between 15% and 18%, while those of banks in China, India and South Africa have a much lower average ratio of around 11%. As such, it noted that the lower level of banks' capitalization in China, India and South Africa, and the larger financial sectors in China and India, indicate that these countries benefit more from higher capital ratios than other developing markets. But it noted that only India approaches the growth benefits posted in developed markets.

Source: Moody's Investors Service

EGYPT

Banks' exposure to government debt up 19% year-on-year in June 2013

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,563.8bn at the end of June 2013, constituting an increase of 8.5% from end-2012 and a rise of 14.5% from end-June 2012. The private sector's aggregate lending reached EGP509.1bn and rose by 6.6% from end-2012 and by 8.4% year-on-year. Banks' exposure to government securities totaled EGP594bn and rose by 8% from end-2012 and by 19.2% from a year earlier. Banks' exposure in local currency stood at EGP536.2bn and increased by 6.7% from end-2012 and by 16.1% year-on-year; while their exposure in foreign currency reached EGP57.8bn and grew by 20.6% from end-2012 and by 58.4% from a year earlier. Further, total deposits reached EGP1,190.7bn, constituting an increase of 9.1% from end-2012 and of 16% from a year earlier, with private sector deposits totaling EGP1,064bn at end-June 2013 and rising by 9.7% from end-2012 and by 17.2% year-on-year. Private sector deposits in foreign currency rose by 20.3% year-on-year to the equivalent of EGP228.4bn at the end of June 2013; while private sector deposits in local currency rose by 16.3% from end-June 2012 to EGP835.5bn. The dollarization rate of private sector deposits reached 21.5% at the end of June 2013 relative to 20.9% a year earlier. The private sector loans-to-deposits ratio was 47.9% at end-June 2013 relative to 51.7% a year earlier.

Source: Central Bank of Egypt, Byblos Research

QATAR

Private sector lending growth exceeds public sector lending for first time since 2011

Figures issued by the Central Bank of Qatar show that total assets reached QAR871bn at the end of August 2013, constituting an increase of 6.2% from the end of 2012 and a rise of 12.7% from end-August 2012. Loans totaled QAR556bn and were flat month-on-month due to the slow activity during the summer season and the holy month of Ramadan. Also, total loans grew by 9% from the end of 2012 and by 16% year-on-year in August 2013, driven by an 18% annual increase in private sector credit and a 15% rise in public sector lending. The growth in lending to the private sector exceeded that to the public sector for the first time since 2011. In parallel, aggregate deposits totaled QAR509.5bn at end-August 2013, unchanged from the preceding month. But they grew by 21% year-on-year and by 11.2% from the end of 2012, supported by rising public sector deposits. The loans-to-deposits ratio decreased to 109.1% at end-August 2013 from 111.3% at end-December 2012 and 114.1% a year earlier.

Source: Central Bank of Qatar, EFG Hermes

ARMENIA

Lending continues rapid expansion

Figures released by the Central Bank of Armenia show that the banking sector's total loans stood at AMD1,704bn, equivalent to \$4.2bn, at end-July 2013, up by 6.1% from end-2012 and by 14.8% from a year earlier. The distribution of lending by sector shows that the industrial sector accounted for 21.2% of overall lending to residents, followed by the trade sector (20.7%), consumer loans (20.2%), mortgages (8.2%), the agricultural sector (6.5%), the construction sector (6.2%), services (5.5%), loans to financial institutions (3.1%) and communications (2.4%), while loans to other sectors represented the remaining 5.9%. Further, deposits excluding accrued interest, totaled AMD1,403bn, equivalent to \$3.4bn at end-July 2013, and constituted an increase of 15.8% from end-2012 and a rise of 29.8% from a year earlier. Deposits in foreign currency accounted for 71.4% of total deposits at end-July 2013, while non-resident deposits represented 26.2% of the total. The loans-to-deposits ratio in foreign currencies stood at 108%, down from 125.7% at end-July 2012, while the same ratio in local currency was 154.9% relative to 164.4% at the end of July 2012. The total loans-to-deposits ratio stood at 121.4% at the end of July compared to 137.3% a year earlier. In parallel, the sector's non-performing loans (NPLs) ratio stood at 5.5% at end-March 2013, relative to 3.6% at end-2012 and 5% at end-2011. Further, the sector's provisions-to-NPLs ratio fell to 40.7% from 55.1% at end-2012 and 44.3% at end-2011. Also, banks' return on assets reached an annualized basis 0.6% in March 2013, down from 1.1% in 2012 and 2.2% in 2011; while their return on equity reached 4% on an annualized basis in March compared to 11.5% in 2012 and 12.9% in 2011.

Source: Central Bank of Armenia, International Monetary Fund, Byblos Research



ENERGY / COMMODITIES

Brent oil to trade at between \$108 and \$115 a barrel in coming weeks

Brent oil prices are forecast to trade between \$108 a barrel and \$115 a barrel in coming weeks; while WTI oil prices are expected to gradually decline. As such, the WTI-Brent price differential is projected to widen to \$8 a barrel on average in coming weeks from an average spread of \$4 a barrel in recent weeks. Supply-led disruptions, such as the Libyan oil supply shutdown and the production shortfalls in Iraq and Nigeria, have placed upward pressures on oil prices. But the increase in Saudi Arabian and North American production has kept oil markets well-supplied, which limited the rise in prices. Also, geopolitical factors and sustained supply shortfalls would likely maintain a moderate upward pressure on prices in coming weeks. Global oil demand is projected to average 91.8 million b/d in the fourth quarter of 2013, up by 0.7% from 91.2 million b/d in the previous quarter; while global oil supply is forecast to increase by 0.7% quarter-on-quarter to 92.6 million b/d on average. In parallel, Brent prices decreased by 4.6% to \$110 a barrel in September 2013, WTI prices regressed by 5.2% to \$102.4 a barrel, while prices of U.S. Henry Hub natural gas declined by 2.3% to \$3.5 per million British thermal unit last month.

Source: Institute of International Finance, Byblos Research

KRG considers forming a national oil company

The Kurdistan Regional Government (KRG) intends to create a national oil company to give it full control over the autonomous region's oil industry. The KRG submitted two proposals to Parliament, including the set up of the Kurdistan National Oil Company and the creation of a monetary fund to distribute potential oil revenues among the region's residents. The move comes after numerous problems between Erbil and Baghdad regarding oil exports and revenues. The projects would extend the region's autonomy and would give it full control over its oil and gas assets; while they would provide it with a significantly greater fiscal independence.

Source: Business Monitor International

OPEC posts two-year low output in September

The Organization of the Petroleum Exporting Countries' oil production dropped by 0.8% month-on-month to 30.07 million b/d in September 2013, constituting its lowest level since October 2011. The decline in production is mainly attributed to the ongoing construction work at a main export port in Iraq as well as to an oil pipeline leak. Iraqi output decreased by 12.9% month-month to 2.7 million b/d in September but was partly offset by a record-high Saudi Arabian output level.

Source: Thomson Reuters, Byblos Research

Iran's gas market to post deficit in 2013

Iran is expected to face gas shortages over the next two years due to rising domestic demand and to a slowdown in the development of its giant South Pars gas field. Iran expects its gas market to post a deficit of 30 billion cubic metres this year as local demand outweighs supply. Iran's gas consumption reached 156 billion cubic meters in 2012, making it the world's third largest gas consumer. Iran currently holds the world's largest known gas reserves.

Source: Thomson Reuters

Base Metals: Aluminium prices to remain low in 2013 and 2014

Aluminium prices are expected to remain low during the 2013-14 period. As such, aluminium prices are forecast to decrease by about 6% year-on-year to \$1,900 a metric ton on average in 2013 and to somewhat recover to \$2,000 a ton on average in 2014. Aluminium prices are projected to remain well below the long-term price assumption of \$2,250 a ton in each of 2013 and 2014, mainly due to the market's high inventory levels and production overcapacity. Aluminium's long-term price outlook is expected to be largely determined by supply-side factors. The current weak price environment is leading to temporary or permanent closures of several smelters. But the supply loss would be partly offset by significant lower-cost capacity increases from the Middle East, China and India. The metal's long-term demand trend is on the upside as China's per capita consumption rises. In parallel, LME Aluminium High grade 3-month future prices increased by 2.8% in September to \$1,825 a metric ton, Copper Grade A 3-month future prices rose by 2.8%, Nickel 3-month futures prices improved by 1.1%, while prices of Zinc futures increased by 0.7% to \$1,918 a ton in September 2013.

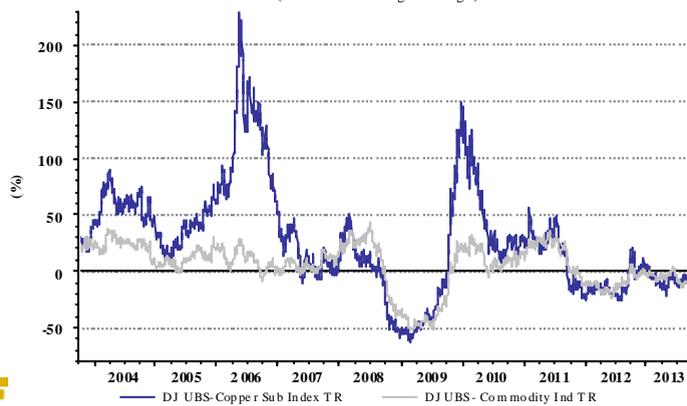
Source: Fitch Ratings, Byblos Research

Precious Metals: Gold prices to decline by 15% in 2013 as global economic recovery strengthens

The global gold market is forecast to record a surplus of 281 tons in 2013 due to the sustained expansion of mine supply, but the surplus would narrow in 2014 as jewelry demand strengthens and the ETFs divestiture trend stabilizes. Gold prices decreased substantially in the first half of 2013, mainly due to stronger global economic growth and to the resilience of the U.S. economy to fiscal tightening. As such, many investors moved their capital out of gold and into better-yielding asset classes. Gold prices are projected to average \$1,420 a troy ounce in 2013, constituting a decrease of 15% from an average of \$1,668 a troy ounce last year. Gold prices are expected to further decrease in 2014 as the global economic recovery accelerates and as the prospects of U.S. monetary tightening materialize. In parallel, the price of gold decreased by 4.8% in September to \$1,331 a troy ounce on September 30th, while that of silver declined by 8.3% to \$21.7 an ounce over the same month. Also, platinum prices regressed by 6.8% to \$1,411 a troy ounce, while palladium prices decreased by a marginal 0.1% to \$726 a troy ounce in September 2013.

Source: Economist Intelligence Unit, Byblos Research

Commodity Index vs. Copper Sub-Index
(Annual Percentage Change)



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								
Dem Rep Congo	-	B3	-	-	-	-2.4	36.0	21.0	-	-	-	-12.4	16.3
	-	Stable	-	-	-								
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	Baa2	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	18-Sep-13	No change	30-Oct-13
Eurozone	Refi Rate	0.50	05-Sep-13	No change	02-Oct-13
UK	Bank Rate	0.50	05-Sep-13	No change	10-Oct-13
Japan	O/N Call Rate	0-0.10	05-Sep-13	No change	04-Oct-13
Australia	Cash Rate	2.50	03-Sep-13	Cut 25bps	01-Oct-13
New Zealand	Cash Rate	2.50	12-Sep-13	No change	31-Oct-13
Switzerland	3 month Libor target	0.00-0.25	19-Sep-13	No change	12-Dec-13
Canada	Overnight rate	1.00	04-Sep-13	No change	23-Oct-13
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	18-Sep-13	No change	30-Oct-13
Taiwan	Discount Rate	1.88	26-Sep-13	No change	Dec-13
South Korea	Base Rate	2.50	12-Sep-13	No change	10-Oct-13
Malaysia	O/N Policy Rate	3.00	05-Sep-13	No change	07-Nov-13
Thailand	1D Repo	2.50	21-Aug-13	No change	16-Oct-13
India	Reverse repo rate	7.50	20-Sep-13	Raise 25bps	29-Oct-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	17-Sep-13	No change	23-Oct-13
South Africa	Repo rate	5.00	19-Sep-13	No change	21-Nov-13
Kenya	Central Bank Rate	8.50	01-Sep-13	Cut 100bps	05-Nov-13
Nigeria	Monetary Policy Rate	12.00	24-Sep-13	No change	18-Nov-13
Ghana	Prime Rate	16.00	13-Sep-13	No change	20-Nov-13
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	3.75	06-Sep-13	Cut 25bps	25-Oct-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	4.25	01-Oct-13	Cut 25bps	N/A
Bulgaria	Base Interest	0.03	01-Oct-13	Raise 1bps	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

