

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Non-life insurance premiums to grow by 7.8%, life premiums to rise by 6.2% in 2013

Global re-insurer Swiss Re projected non-life insurance premiums in emerging markets to post real growth rates of 7.8% in 2013 and 7.7% in 2014 relative to real growth of 8% in 2012. It said that premium growth in 2013 would be supported by improved performance in China and sustained strong growth in most of Southeast Asia. In comparison, it forecast global non-life insurance premiums to grow by real rates of 2.5% in 2013 and 3.1% in 2014 relative to 2.5% in 2012, and for non-life premiums in advanced markets to expand by real rates of 1.4% in 2013 and 2.1% in 2014 compared to 1.4% in 2012. In parallel, it expected life insurance premiums in emerging markets to grow by 6.2% in 2013 and 8.5% in 2014 in real terms, relative to 4.8% in 2012, supported by rising income and increasing insurance awareness. In comparison, it projected premiums from the life insurance segment worldwide to grow by 2.9% in 2013 and 4.1% in 2014 in real terms relative to a growth rate of 2.4% 2012, and for life premiums in advanced markets to increase by 2.3% in 2013 and 3.2% in 2014 compared to growth of 2% in 2012. It considered that the outlook for the insurance industry in emerging markets in the next two years is improving as economic downside risks recede in both advanced and emerging markets. It forecast life insurance premiums in emerging markets to grow by around 6% annually over the next two years.

Source: Swiss Re

MENA

Corruption perception varies across Arab world

Global non-governmental organization Transparency International included 20 Arab countries in its 2013 Corruption Perception Index (CPI), which measures the perceived levels of public sector corruption in 177 countries worldwide. The rankings are based on scores that range between zero and 100, with zero reflecting economies perceived as highly corrupt and 100 representing countries with a clean reputation. The UAE was perceived as the least corrupt country in the region and ranked in 26th place globally. It was followed by Qatar (28th), Bahrain (57th), Oman (61st) and Saudi Arabia (63rd); while Syria (168th), Iraq (171st), Libya (172nd), Sudan (174th) and Somalia (175th) were perceived as the most corrupt Arab countries. Arab countries received an average score of 34.6 points in 2013, higher than the average score of Sub-Saharan Africa (32.6 points) and that of Eastern Europe & Central Asia (32.7 points), but lower than the average scores of Asia Pacific (43 points), the Americas (45 points) and the EU & Western Europe (65.2 points). In comparison, GCC countries received an average score of 53.5 points, higher than the global average of 42.7 points, while non-GCC Arab countries reached an average score of 26.4 points, well below the global average.

Source: Transparency International, Byblos Research

Equity markets up 18% in first 11 months of 2013

Arab stock markets increased by 17.6% and GCC markets rose by 21.8% in the first 11 months of 2013 compared to increases of 3.5% and 5%, respectively, in the same period last year. Arab stock markets and GCC markets rose by 20.1% and 24.4%, respectively in November 2013 from the same month last year. Activity on the Dubai financial market increased by 81.6% in the first 11 months of 2013 and posted the best performance among Arab markets during the period. It was followed by the Damascus financial market with a 62.7% improvement, the Abu Dhabi exchange with a 46.3% increase, the Kuwait bourse with a 31.2% rise, the Qatar financial market with a 24% growth, the Saudi Arabia equity market with a 22.4% improvement, the Oman stock exchange with a 16.8% expansion, the Bahrain bourse with a 13.4% rise, the Egyptian stock market with a 13.2% increase, the Palestine equity market with an 11% improvement, the Khartoum equity market with a 10.2% appreciation and the Amman stock market with a 3.3% growth. In parallel, activity on the Libyan stock market dropped by 15.7% in the first 11 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 14%, the Iraqi bourse with an 8.6% drop, the Tunis stock market with a 2.4% contraction and the Casablanca stock exchange with a 0.5% decline. In comparison, global equities increased by 18.8% and emerging market equities declined by 1.9% in the first 11 months of the year; while global equity markets increased by 21.5% year-on-year in November and emerging market equities rose by 2.7% from the same month last year.

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

Developing and retaining talent varies across region

The INSEAD Global Talent Competitiveness Index for 2013 ranked the UAE in 19th place among 103 countries globally and in first place among nine Arab countries, followed by Qatar (34th), Saudi Arabia (42nd), Lebanon (48th), Kuwait (60th), Jordan (62nd), Egypt (89th), Morocco (90th) and Algeria (103rd). The newly launched Index measures a country's ability to develop, attract and retain talent. The Index is a composite of six pillars that are grouped in two sub-indices. A higher score reflects a better performance in terms of talent competitiveness. The Arab region's average score stood at 42.67 points, lower than that of North America (66.92 points), Europe (55.21 points), and East, South-East Asia, & Oceania (49.46 points), but was above that of Latin, Central America & the Caribbean (41.31 points), Central & South Asia (35.81 points), and Sub-Saharan Africa (33.78 points). The UAE (19th), Qatar (40th) and Saudi Arabia (44th) were the top ranked Arab countries on the Talent Competitiveness Input Sub-Index that covers the policies, resources and efforts that a country can use to promote its talent competitiveness. Further, Qatar (26th), the UAE (27th) and Lebanon (42nd) led Arab countries on the Talent Competitiveness Output Sub-Index that measures the quality of talent that results from domestic policies, resources and efforts.

Source: INSEAD, Byblos Research

POLITICAL RISK OVERVIEW - November 2013

EGYPT

An Egyptian court postponed the trial of deposed President Mohammed Morsi until January 8, 2014. An appeals court rejected the Muslim Brotherhood's (MB) legal challenge against a September ruling that banned the group's activities and seized its funds. A coalition of Islamists, the Alliance for the Support of Legitimacy, called for a dialogue to put an end to the crisis on the condition that the government stops its security crackdown. Foreign Minister Nabil Fahmy said that Egypt will hold parliamentary elections between February and March 2014. The 50-member constitutional committee passed 138 out of 247 articles of the draft constitution. Prime Minister Hazem al-Beblawy said that the referendum on the new constitution will be held in mid-January 2014. The government expelled Turkey's ambassador from the country and recalled its ambassador from Ankara. The move came after Turkish Prime Minister Tayyip Erdogan reiterated his condemnation of the July military coup and the recent attacks on religious sites in Egypt. Hundreds of protesters demonstrated across Egypt after the enactment of a 'protest law', which requires an advance government approval for all demonstrations.

IRAN

The government and the UN Security Council's permanent members plus Germany (P5+1) reached on November 24th a six-month interim agreement over the Iranian nuclear program. Iran is mainly expected to restrict its uranium enrichment and to establish transparency mechanisms in cooperation with the International Atomic Energy Agency. In return, the P5+1 countries would mainly refrain from imposing further sanctions and would release over \$4bn in Iranian oil revenues from frozen accounts. Saudi Arabia and Israel opposed the deal and demanded a complete dismantlement of Iran's nuclear program. The government acknowledged the death of a general in the Revolutionary Guard Corps in a firefight in Damascus.

IRAQ

Sectarian violence across the country continued in November with at least 650 deaths and over 1,370 injuries. The UN Special envoy for Iraq, Nickolay Mladenov, said that the Syrian conflict is fuelling terrorism and sectarian tensions in Iraq. France offered weapons, training and intelligence cooperation to help Iraq combat the rising violence. Turkey and Iraq pledged greater cooperation on trade and counterterrorism.

DEM REP CONGO

The M23 rebel group announced an end to its rebellion in the eastern parts of the DRC. The government deployed police officers in eastern provinces with the support of the UN Stabilization Mission in the DRC in order to restore state authority in the region following a military defeat of the M23 rebels. The M23 rebel group called for a ceasefire and said that it would disarm and pursue a political settlement. A peace agreement between the government and M23 rebels was postponed after Congolese officials asked for more time to study the document.

LIBYA

Misrata-affiliated militiamen opened fire against peaceful anti-militia protesters in Tripoli, which left at least 46 persons dead. Public outrage and threats of further demonstrations pressured other armed militias to abandon Tripoli. The Libyan army clashed with the Ansar al-Sharia group in Benghazi. The assassination of former security officials continued.

SOUTH SUDAN

The unilateral unofficial referendum on the status of the Abyei region that was held by the Ngok Dinka tribe showed that 99.98% of voters are in favor of joining South Sudan. The outcome was dismissed by Sudan, while the South Sudanese government has not officially endorsed the results. The UN extended Abyei's peacekeeping mission until May 2014. President Salva Kiir met Sudan's President Omar al-Bashir and discussed bilateral relations. Both countries have yet to reach an agreement on the demilitarized security zone between their borders.

SUDAN

A senior delegation of the Sudan Revolutionary Front (SRF) toured several European countries to discuss the humanitarian situation in rebel-held areas in Sudan. The rebels called on the European Union (EU) to support their call for a comprehensive peace process to end the armed conflicts in Darfur, Blue Nile and South Kordofan, a demand rejected by both the Sudanese government and the African Union. The EU declined to meet with the SRF, as the latter refused to resume peace talks based on the Doha Document for Peace in Darfur.

SYRIA

Syrian troops led military offensives against rebels on the southern outskirts of Damascus and in the northern city of Aleppo to secure supply lines and retake opposition-held areas. The Syrian army started an offensive in the Qalamoun mountains along the Lebanese border on November 15th. The Islamic Front, a newly established coalition of seven major Islamist rebel groups fighting against the Syrian regime, announced that it opposes the establishment of a civil and secular state and affirmed its commitment to establish an Islamic state in Syria. Syrian Kurdish militias continued their military campaign against the Islamic State of Iraq & al Sham and Jabhat al-Nusra rebels. The Kurdish Democratic Union Party (PYD) unilaterally declared a Syrian Kurdish self-rule over conquered territory in the northeast. The Syrian National Coalition (SNC) said that the PYD is a group "hostile" to the Syrian revolution, while Iraq's Kurdistan Regional Government accused the PYD of "autocracy". UN Security General Ban Ki-Moon said that the Geneva II peace conference will be held on January 22, 2014. Both the SNC and the Syrian regime agreed to attend peace talks in Geneva but contingent on a series of preconditions.

TUNISIA

The ruling An-Nahda Party and the opposition National Salvation Front could not bridge their differences and select an interim Prime Minister. A court rejected all nominees for the Independent High Electoral Commission that is tasked with organizing the upcoming elections. Opposition politicians and the member of the ruling coalition, Ettakatol, suspended their participation in the National Constituent Assembly to protest amendments to procedures placed by An-Nahda, which were later withdrawn on November 20th. President Moncef Marzouki extended the state of emergency until June 2014.

YEMEN

Violence in the country's northern provinces between Huthis and various adversaries increased, while severe clashes in Dammaj and Saada governorates led to at least 100 deaths in early November. Huthis said that they were defending themselves against an influx of foreign fighters, while Salafists claimed that Huthis launched an unprovoked attack.

Source: *International Crisis Group*



OUTLOOK

TURKEY

Tighter fiscal and monetary policies would reduce vulnerabilities

The International Monetary Fund projected Turkey's real GDP growth at 3.8% in 2013 compared to 2.2% in 2012, driven by private consumption and public investment. It attributed the improvement in economic activity mainly to monetary and fiscal stimulus. It forecast private domestic demand to grow by 3.3% in 2013 relative to a contraction of 2.9% last year. It anticipated that the government would meet its budget target for 2013 despite the higher-than-budgeted spending. It noted that the government used one-off revenues to increase capital spending significantly beyond the budget ceiling. It projected the fiscal deficit at 2% of GDP in 2013 relative to 1.8% of GDP in 2012. However, the Fund indicated that the domestic demand-led growth is leading to renewed increase in the inflation level and deterioration in the current account deficit. It forecast the inflation rate at 8% at end-2013 compared to 6.2% at end-2012 and expected the current account deficit to widen to 7.4% of GDP this year from 6.2% of GDP last year. As such, it encouraged the authorities to tighten their macroeconomic policies and step up their structural reforms to strengthen the country's external performance and stimulate economic activity.

In parallel, the IMF considered that a tighter fiscal policy would help reduce external vulnerabilities and relieve pressure on monetary policy. It encouraged the authorities to contain current spending and save any extra revenues. It noted that fiscal consolidation would raise public savings and contribute to real exchange rate depreciation over the medium term. Also, it said that a less accommodative monetary policy would be more appropriate in the current high-inflation environment. Further, the Fund indicated that the Turkish economy continues to rely on external financing given its low savings rate. It called on authorities to raise both private and public savings and to accelerate the implementation of structural reforms in order to raise competitiveness, attract foreign direct investment and enhance growth, while simultaneously reducing external imbalances.

Source: International Monetary Fund

NIGERIA

Non-oil GDP growth to average 7.5% in 2013-14

The International Monetary Fund projected Nigeria's real GDP growth at 6.2% in 2013 and 7.4% in 2014, up from 6.6% in 2012. In parallel, it forecast growth at 5% in 2013 and 6% in 2014 for Sub-Saharan Africa and at 6.1% in 2013 and 7.7% in 2014 for the region's oil exporting countries. It expected the country's real non-oil GDP to grow by 7.5% in 2013 and 7.4% in 2014, down from 7.7% in 2012, and relative to a growth rate of 7.1% in oil exporting countries this year and 7.2% next year. The Fund forecast Nigeria's annual average inflation rate at 9.9% in 2013 and 8.2% in 2014 relative to 12.2% a year earlier, and compared to average inflation rates of 8.1% in 2013 and 7.2% in 2014 for oil exporting economies. It projected the country's real per capita GDP to grow by 3.4% in 2013 and 4.5% in 2014 compared to 3.7% in 2012. Also, it estimated the growth of broad money at 19.4% this year and 18% next year, compared to 16.4% last year.

In parallel, the Fund forecast the fiscal balance to post a deficit of 1.8% of GDP in each of 2013 and 2014, unchanged from 2012. It estimated public revenues to decline from 24.5% of GDP this year to 23.1% of GDP in 2014, and for public expenditures to decrease from 26.3% of GDP in 2013 to 24.9% of GDP in 2014. The IMF projected total investment at 24.6% of GDP in 2013 and 24.7% of GDP in 2014, relative to 22.8% of GDP in 2012. It forecast net FDI at 2.1% of GDP in 2013 and 2% of GDP in 2014 relative to 2.1% of GDP in 2012. Also, it expected the country's current account surplus to narrow from 7.6% of GDP in 2012 to 3.2% of GDP in 2013 and 3.6% of GDP in 2014. In comparison, it forecast the region's oil exporting countries to post current account surpluses of 2.9% of GDP this year and 3% of GDP next year. Further, the Fund estimated Nigeria's gross official reserves at 6.4 months of imports of goods & services at end-2012, up from 5.4 months of import cover at end-2011.

Source: International Monetary Fund

SOUTH SUDAN

Economy to rebound in 2013

The International Monetary Fund projected real GDP in South Sudan to grow by 24.7% in 2013 and by 43% in 2014, following a contraction of 47.6% in 2012. It expected the country's real non-oil GDP to grow by 5% in 2013 and by 8.5% in 2014, compared to a contraction of 6.4% in 2012. The Fund forecast South Sudan's annual average inflation rate at 2.8% in 2013 and 7.2% in 2014, compared to a rate of 45.1% in 2012. It expected the country's real per capita GDP to increase by 22.2% in 2013 and by 40.2% in 2014, relative to a contraction of 50% in 2012. It estimated total investment at 23.8% of GDP in 2013 and 12.6% in 2014, up from 12.3% of GDP in 2012. The Fund projected the central government's fiscal balance to post a deficit of 9% of GDP in 2013 and a surplus of 8.1% of GDP in 2014 when including grants, relative to a deficit of 16% of GDP in 2012. Also, it projected the central government's fiscal balance to post a deficit of 16.1% of GDP in 2013 and a surplus of 2.4% of GDP in 2014 when excluding grants, compared to a deficit of 22.7% of GDP in 2012. It estimated public revenues to rise from 14.1% of GDP this year to 34.8% of GDP in 2014, and for total expenditures to increase from 30.2% of GDP in 2013 to 32.3% of GDP in 2014.

Further, the Fund estimated South Sudan's exports of goods & services to reach 30.2% of GDP in 2013 and 64.7% of GDP in 2014 compared to 10.2% of GDP in 2012; and for imports of goods & services to stand at 43.8% of GDP in 2013 and 39.2% of GDP in 2014 relative to 43.5% of GDP in 2012. As such, it anticipated South Sudan's trade balance to post a deficit of 2.5% of GDP in 2013 and a surplus of 35% of GDP in 2014 relative to a deficit of 27.5% of GDP in 2012. Further, it forecast the current account to post a deficit of 14.9% of GDP in 2013 and a surplus of 8.7% of GDP in 2014 compared to a deficit of 27.7% of GDP in 2012.

Source: International Monetary Fund



ECONOMY & TRADE

TUNISIA

Sovereign ratings downgraded on ongoing political uncertainties and pressure on public finances

Moody's Investors Service downgraded Tunisia's government debt ratings by one notch to 'Ba3' from 'Ba2' and maintained its 'negative' outlook on the ratings. It also lowered the country ceiling for foreign currency bonds to 'Ba1' from 'Baa3' and the country ceiling for foreign currency bank deposits to 'B1' from 'Ba3'. Further, the agency downgraded the debt ratings of the Central Bank of Tunisia to 'Ba3' from 'Ba2' with a 'negative' outlook. It attributed the downgrades to the ongoing political uncertainty and rising polarization, increased external funding challenges, large external and fiscal imbalances and the weak state of the banking sector, mainly the undercapitalized state-owned banks. It said that continued political instability would have further negative consequences on the economic recovery, on fiscal metrics and on the wider reform agenda. Further, it pointed out that pressure on external funding rose as access to markets became more challenging and as the slow progress in reforms led to a drop in donor funding. In parallel, it anticipated that fiscal consolidation would proceed at a slow pace given the challenges the government would face in reforming the subsidy system and controlling the wage bill. Further, it pointed out that large state-owned banks suffer from severe asset quality problems and are largely undercapitalized. It estimated the banking sector's recapitalization needs to be equivalent to 6% of GDP. It expected the restructuring process to be slow, which would maintain credit growth at a level that is not sufficient to support internal demand.

Source: Moody's Investors Service

UAE

Capital markets to help finance Expo 2020 investments

EFG Hermes anticipated that Dubai's government would finance the overall cost of the Expo 2020 through a mix of bond issues, bank borrowing, and cash raised from asset disposals and profits from government-related-entities (GREs). It noted that Dubai officially estimates that Expo 2020 would cost \$8.7bn that include \$7bn in capital expenditure and \$1.7bn in operating spending. It added that capital spending will cover the construction of the Expo 2020 site and directly-related infrastructure. It expected GREs to play an important role in financing the event. It anticipated that the bond markets would constitute an important source of finance given the introduction of new limits for bank loans extended to local governments and their entities in the UAE. Further, it estimated the total amount of investment needed to accommodate the estimated 25 million visitors to the Expo at a minimum of \$7.2bn. As such, EFG estimated total capital spending related to Expo 2020 at \$14.2bn. In parallel, Barclays Capital anticipated that the Dubai government would be able to implement its Expo-related investment plans over the coming years without a major deterioration in its fiscal and debt position. It noted that the \$8.1bn estimated increase in public investment would be broadly in line with the historical average annual capital spending of \$1.6bn when distributed over the 2015-20 period.

Source: EFG Hermes, Barclays Capital

GHANA

Fiscal challenges to persist in 2014

Fitch Ratings projected Ghana's fiscal deficit at slightly more than 9% of GDP in 2014 compared to a targeted deficit of 8.5% of GDP in next year's budget. It considered that the 2014 budget aims for a very limited fiscal correction following a slower-than-anticipated consolidation in 2013. As such, it noted that the 2014 budget would not effectively address the deterioration in public finances that has substantially eroded Ghana's creditworthiness in the past two years. It added that the budget pushes back the deadline to achieve a fiscal deficit of 6% of GDP by one year to 2016. It said that the wider-than-targeted deficit reflects the government's limited capacity to significantly expand its revenue base, and the continued challenges it is facing in containing current spending and in effectively addressing debt arrears. It pointed out that successive years of large budget deficits have increased the public debt level from 31% of GDP at the time of the 2008 elections to 38.3% of GDP in 2011 and 52% of GDP in September 2013. It forecast the debt level to rise to 54% of GDP by the end of 2014. Fitch considered that policy credibility in Ghana has significantly weakened following two years of wider-than-expected budget deficits. It noted that risks to the medium-term fiscal outlook include persistently high bond yields, continued debt arrears build-up and ongoing utility subsidies.

Source: Fitch Ratings

CHINA

Sovereign ratings affirmed, transparency is key concern

Standard & Poor's affirmed China's 'AA-' long-term and 'A-1+' short-term sovereign credit rating, with a 'stable' outlook on the long-term rating. It also affirmed the country's convertibility assessment at 'AA-'. It said that the sovereign ratings reflect the country's strong economic growth potential, robust external position and relatively healthy fiscal position. But it noted that these strengths are balanced by the country's lower income level compared to similarly-rated peers, a lack of transparency, restricted information flow, and a still evolving economic policy framework. It anticipated the Chinese economy to continue its strong growth, and for the country to maintain its large external creditor position in coming years. It forecast China's high domestic savings to be more than sufficient to fund strong investment spending in the near term. However, the agency pointed out that China's fiscal metrics may be weaker than what official figures show, given that local governments carry significant off-budget debt. It noted that the lack of timely and regularly available data, as well as the lack of clarity about the legal responsibilities of local governments for these debts, make external monitoring of such debt extremely difficult. It added that the weak flow of information and the lack of transparency challenge the early detection of risks that affect the ability of the sovereign to service its debt. Further, it said that the Chinese economy suffers from significant inefficiencies that make the country less resilient to a major shock than a high-income economy.

Source: Standard & Poor's



BANKING

TUNISIA

Bank ratings lowered on sovereign downgrade

Moody's Investors Service downgraded the long-term local currency deposit ratings of Arab Tunisian Bank (ATB), Banque Internationale Arabe De Tunisie (BIAT) and Banque De Tunisie (BdT) to 'Ba3' from 'Ba2', and the rating of Amen Bank to 'B1' from 'Ba3'. It also lowered the four banks' long-term foreign currency deposit ratings to 'B1' from 'Ba3'. It affirmed the long-term local and foreign currency deposit ratings of Société Tunisienne de Banque (STB) at 'B1'. Also, the agency downgraded the financial strength rating of ATB and BdT to 'E+/b1' from 'D-/ba3', that of BIAT to 'E+/b2' from 'E+/b1', and that of Amen Bank to 'E+/b3' from 'E+/b2'; while it maintained that of STB at 'E/caa3'. It noted that all the ratings have a 'negative' outlook, reflecting both the fragile operating environment and the similar outlook on the sovereign ratings. It attributed the downgrades to the government's weakening capacity to provide support to the banks as well as to the fragile domestic operating environment that would continue to weigh on the banks' asset quality, profitability and capitalization metrics. It expected the asset quality of ATB, BdT, BIAT and Amen Bank to weaken, mainly due to the challenging operating climate, which would negatively weigh on their profitability through higher provisioning charges. It considered that the affirmation of STB's deposit ratings at one notch below the sovereign reflects the government's willingness and capacity to support the bank at this rating level.

Source: Moody's Investors Service

SAUDI ARABIA

Private sector lending up 13.5% year-on-year in October 2013

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR1,840.5bn at the end of October 2013, constituting a growth of 6.1% from end-2012 and a rise of 9% from October 2012. Private sector loans totaled SAR1,112.4bn at the end of October 2013 and increased by a marginal 0.6% from the previous month, by 11.3% from end-2012 and by 13.5% year-on-year. In parallel, aggregate deposits reached SAR1,342.1bn at the end of October 2013, constituting a marginal decrease of 0.3% from the preceding month, a rise of 6.5% from end-2012 and a growth of 11.1% from October 2012. The month-on-month decline in the banking sector's total deposits is mainly due to a 6.7% contraction in public sector deposits that was partly offset by a rise in retail and private institutions' deposits. Demand deposits accounted for 61.5% of total deposits in October 2013 compared to 59.8% in December 2012 and 58.7% in October 2012. The loans-to-deposits ratio stood at 82.9% in October 2013 compared to 79.3% at end-2012 and 81.1% in October 2012. Also, the sector's aggregate profits totaled SAR31.3bn in the first 10 months of 2013 and rose by 8.8% from the same period last year.

Source: Saudi Arabia Monetary Agency, EFG Hermes

SYRIA

Authorities take anti-money laundering measures

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Syria has taken steps towards improving its AML/CFT regime, such as amending its AML/CFT decree in July 2013. But the FATF indicated that it has not yet assessed these amendments to evaluate the extent to which they address Syria's strategic AML/CFT deficiencies. It said that these deficiencies include providing sufficient legal basis for implementing the obligations under the United Nations Security Council Resolution 1373 and enforcing adequate procedures for identifying and freezing terrorist assets. The FATF encouraged Syria to address its remaining deficiencies and to continue the process of implementing its action plan. In parallel, the FATF maintained Syria among 11 jurisdictions with strategic AML/CFT deficiencies that have not made sufficient progress in addressing their deficiencies or have not committed to an action plan developed with the FATF to address their deficiencies.

Source: Source: Financial Action Task Force

ARMENIA

Deposits up 20% year-on-year in October 2013

Figures released by the Central Bank of Armenia show that the banking sector's total assets reached AMD2,703bn, equivalent to \$6.7bn at the end of October 2013, constituting an increase of 9.4% from the end of 2012 and a rise of 15.2% from end-October 2012. Total loans stood at AMD1,715bn, equivalent to \$4.2bn, at end-October 2013, up by 6.8% from end-2012 and by 11.9% from a year earlier. Loans in foreign currency accounted for 62.9% of total loans at end-October 2013 relative to 64.3% at end-2012 and 63.8% a year earlier; while loans to non-residents amounted to 3.4% of total loans at end-October 2013. Deposits totaled AMD1,457bn, equivalent to \$3.6bn at end-October 2013, constituting an increase of 20.2% from end-2012 and a rise of 24% from a year earlier. Deposits in foreign currency accounted for 70.5% of total deposits at end-October 2013 compared to 69.7% at end-2012 and 70.1% a year earlier. Non-resident deposits represented 25% of total deposits at end-October 2013 relative to 21.6% at end-2012 and 23.2% at end-October 2012. In parallel, the risk-weighted capital adequacy ratio of banks operating in Armenia reached 16.6% at the end of October 2013, constituting a decline from 17.3% a year earlier and from 18.3% at the end of 2011. The sector's liquid assets were equivalent to 27.2% of total assets at end-October 2013 relative to 25.8% a year earlier and 27.9% at end-2011; while they represented 140.7% of total short-term liabilities at the end of October 2013 compared to 128.2% a year earlier and 120.8% at end-2011. The loans-to-deposits ratio in foreign currency stood at 105%, down from 118.7% at end-October 2012, while the same ratio in local currency was 148% relative to 157.6% at end-October 2012.

Source: Central Bank of Armenia, Byblos Research



ENERGY / COMMODITIES

OPEC to reduce oil production quota in 2014

The Organization of Petroleum Exporting Countries (OPEC) maintained an output target of 29.6 million barrels per day (b/d) during their meeting on December 4 as the global economic environment improves steadily, which would provide sufficient demand. Most OPEC members are at ease with a market oil price above \$100 a barrel, while consumers have also adjusted to the higher price levels. Saudi Arabia's oil production is expected to remain at elevated levels to compensate for the supply disruptions in Libya and Nigeria. OPEC members would likely face a rise in competition from one another in coming years as supply increases and new oil consumer-markets become limited. The growing competition would lead oil prices to significantly decrease. As such, OPEC would likely reduce its production quota in the future, possibly as early as in the middle of 2014, in an attempt to limit the decline in prices as most OPEC producers rely on high oil revenues to fund their national budgets and support their domestic spending programs. In parallel, Brent oil prices increased by 2% to \$111.2 a barrel in November 2013, WTI prices regressed by 3.9% to \$96.3 a barrel, while prices of U.S. Henry Hub natural gas rose by 6.2% to \$3.8 per million British thermal unit last month.

Source: *Business Monitor International, Byblos Research*

Iraqi oil exports up 6% in November 2013

Iraqi crude oil exports averaged 2.38 million b/d in November 2013, up by 5.7% from 2.25 million b/d in the previous month. As such, 2.07 million b/d, or 87% of exports were shipped from the southern oil port of Basra and the remaining 309,000 b/d were exported from the northern port of Kirkuk. In parallel, proceeds from oil exports reached \$7.33bn in November, constituting an increase of about 2.2% from \$7.17bn in the preceding month. Iraq currently holds the world's fifth largest oil reserves with an estimated 150 billion barrels of proven reserves. Also, Iraq is the second-largest crude oil producer among OPEC countries.

Source: *Thomson Reuters, Byblos Research*

Libya's oil production at 14% of normal capacity

Libya's crude oil production is currently at about 224,000 b/d, equivalent to about 14% of the country's normal output level, and down significantly from an average of 1.4 million b/d at the start of 2013 but up from 172,000 b/d in recent weeks. Libyan oil exports are currently at an average of 130,000 b/d as protests continue to obstruct operations at ports and oilfields. Libya estimated the cumulative oil revenue losses from the ongoing partial shutdown at about \$6.5bn.

Source: *Thomson Reuters, Byblos Research*

Sudan's oil production at 150,000 b/d

Sudan's oil production is currently at about 150,000 b/d, up from an average of 140,000 b/d in most of 2013. But the security situation in some oil fields poses challenges to future levels of production. The government plans to raise its oil production level by about 70% to 260,000 b/d in the near term. Sudan's oil output declined to below 100,000 b/d during its dispute with South Sudan over crude transit payments and the disputed Abyei region last year. Sudan lost about 75% of its oil reserves following South Sudan's independence in July 2011.

Source: *Sudan Tribune, Platts, Byblos Research*

Base Metals: Aluminium market to remain oversupplied in 2014

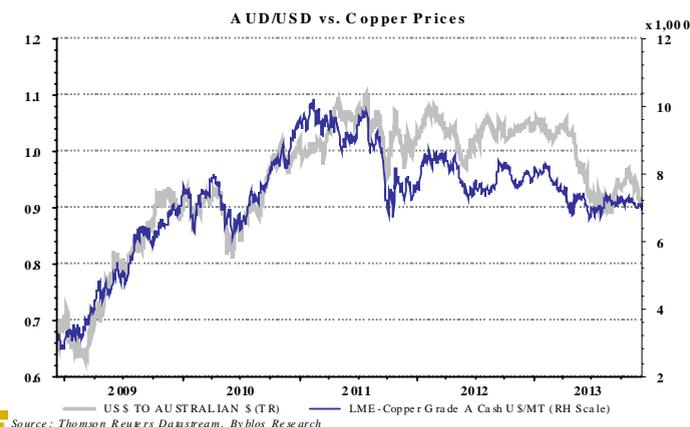
The aluminum industry is currently challenged by overcapacity and by a weak economic recovery in developed countries. The market's oversupply is expected to persist but at declining levels through 2014. The market dynamics are projected to improve in the long run due to stronger demand from emerging economies and to substitution for higher priced materials. Global aluminium production is forecast to reach 47 million tons in 2014, constituting an increase of 1.9% from 46.1 million tons in 2013. In parallel, global consumption is expected to rise by 5.6% year-on-year to 47.8 million tons in 2014. The stocks-to-consumption ratio is projected to decline to 6.9 weeks in 2014 from 8.1 weeks in 2013 and 9 weeks in 2012. Aluminium prices are forecast to decrease by about 7% year-on-year to \$1,879 a metric ton on average in 2013 and to decline to \$1,838 a ton on average in 2014. In parallel, LME Aluminium High grade 3-month future prices decreased by 2.7% in November 2013 to \$1,800 a metric ton, Copper Grade A 3-month future prices declined by 2.7%, Nickel 3-month futures prices regressed by 7.5%, while prices of Zinc futures decreased by 4% to \$1,887 a ton in November.

Source: *Fitch Ratings, Barclays Capital, Byblos Research*

Precious Metals: Gold prices to trade at current range in near term

Gold prices decreased by about 25% so far this year from a peak level of \$1,800 a troy ounce in late 2012, as key drivers such as the US dollar, interest rates, and inflation combined to weaken investors' sentiment towards the precious metal. As such, the significant decline in gold prices during 2013 is projected to continue if the U.S. Federal Reserve tightens its monetary stimulus program. Gold prices are forecast to trade within the current range in the near term and would likely be supported by a rise in Chinese demand ahead of the new year. Also, downside pressures such as higher U.S. interest rates would lead the metal's spot prices to decrease. Gold prices are forecast to average \$1,350 a troy ounce in 2014 and to decline to \$1,300 a troy ounce in 2015. In parallel, the price of gold decreased by 5.3% in November to \$1,253.4 a troy ounce, while that of silver fell by 10.2% to \$19.9 an ounce over the same month. Also, platinum prices regressed by 5.1% to \$1,376 a troy ounce, while palladium prices decreased by 2.4% to \$724 a troy ounce in November 2013.

Source: *Standard & Poor's, 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	B-	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	-	Stable	-	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-	-	B	-5.9	58.9	30.8	64.6	4.6	180.2	-8.5	2.5
	Negative	Negative	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	Ba3	BB-	-	CCC	-5.5	46.7	53.6	103.1	9.3	299.8	-8.7	2.4
	Negative	Negative	Negative	-	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	Stable	Stable								
Iran	-	-	-	B	CCC	-3.5	14.6	3.2	13.1	17.6	19.1	-1.6	3.8
	-	-	-	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	-	-	-	-	CC	-5.7	44.9	17.8	72.4	-	157.5	-2.7	
	-	-	-	-	Stable								



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	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+	-	BBB	-1.3	22.2	9.6	47.1	1.7	23.4	2.3	1.7
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa2	BBB-	-	BB	-9.5	67.6	19.8	90.3	6.3	146.6	-3.8	1.5
	Negative	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-	-	B	-2.2	34.6	76.6	178.9	25.2	315.4	-3.7	1.0
	Stable	-	Stable	-	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	30-Oct-13	No change	18-Dec-13
Eurozone	Refi Rate	0.25	07-Nov-13	Cut 25bps	5-Dec-13
UK	Bank Rate	0.50	07-Nov-13	No change	5-Dec-13
Japan	O/N Call Rate	0-0.10	21-Nov-13	No change	20-Dec-13
Australia	Cash Rate	2.50	05-Nov-13	Cut 25bps	03-Dec-13
New Zealand	Cash Rate	2.50	31-Oct-13	No change	12-Dec-13
Switzerland	3 month Libor target	0.00-0.25	19-Sep-13	No change	12-Dec-13
Canada	Overnight rate	1.00	23-Oct-13	No change	04-Dec-13
Emerging Markets					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	30-Oct-13	No change	18-Dec-13
Taiwan	Discount Rate	1.88	26-Sep-13	No change	19-Dec-13
South Korea	Base Rate	2.50	14-Nov-13	No change	12-Dec-13
Malaysia	O/N Policy Rate	3.00	07-Nov-13	No change	29-Jan-14
Thailand	1D Repo	2.25	27-Nov-13	Cut 25bps	22-Jan-14
India	Reverse repo rate	7.75	29-Oct-13	Raise 25bps	18-Dec-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	8.75	05-Dec-13	Cut 50bps	N/A
Turkey	Base Rate	4.50	19-Nov-13	No change	17-Dec-13
South Africa	Repo rate	5.00	21-Nov-13	No change	03-Dec-13
Kenya	Central Bank Rate	8.50	05-Nov-13	Cut 100bps	05-Dec-13
Nigeria	Monetary Policy Rate	12.00	19-Nov-13	No change	13-Jan-14
Ghana	Prime Rate	16.00	27-Nov-13	No change	19-Feb-14
Angola	Rediscount rate	20.00	06-Apr-11	Cut 50bps	N/A
Mexico	Target Rate	3.50	25-Oct-13	Cut 25bps	06-Dec-13
Brazil	Selic Rate	10.00	27-Nov-13	Raise 25bps	15-Jan-14
Armenia	Refi Rate	8.00	12-Nov-13	Cut 50bps	N/A
Romania	Policy Rate	4.00	06-Nov-13	Cut 25bps	N/A
Bulgaria	Base Interest	0.02	01-Nov-13	Cut 1bps	N/A
Kazakhstan	Refi Rate	5.50	04-Jan-13	No change	N/A
Ukraine	Discount Rate	6.50	13-Aug-13	No change	N/A
Russia	Refi Rate	8.25	10-Jun-13	No change	N/A



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