

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Positive outlook for global capital markets over the long-term**

A survey of 353 senior executives at companies active in capital markets about the evolution of global capital markets till 2030 shows that respondents are optimistic about long-term prospects. Results show that 62% of participants expect global capital markets to be deeper by 2030, 63% of respondents said that markets will be more efficient, and 70% of participants forecast market liquidity to increase. Further, 44% of respondents cited global economic or financial crises to be the main risk for investors between 2014 and 2030, followed by currency volatility (35% of participants), asset bubbles (34% of respondents), sovereign debt crises (33% of participants) and political risks/protectionism/capital controls (32% of respondents). Also, respondents cited asset bubbles, global economic or financial crises, political risks/protectionism/capital controls, sovereign debt crises and inflation as the main risks for companies planning to raise capital internationally during the 2014-30 period. In parallel, 65% of participants said that the United States will be the most important equity market by 2030, followed by China (53% of respondents) and India (35% of participants). Also, respondents cited the United States, China, Japan, the United Kingdom and Germany to be the most important bond markets by 2030.

*Source: Deutsche Asset & Wealth Management, Economist Intelligence Unit*

##### **Reinsurance market faces significant challenges**

Global re-insurer broker Willis Re anticipated that the global reinsurance market would face significant challenges this year that include rate reductions, new capacity, new market entrants, low interest rates, greater retention of reinsurance premiums by large buyers, diminishing reserve releases, expansion in terms and condition and increased regulatory oversight. It considered that the reinsurance market's strong performance in 2013 reflects a substantial decrease in natural and man-made catastrophes rather than strong market pricing and restrictive terms and conditions. It noted that reinsurers' strong results last year enhanced their balance sheets with new capital totaling \$50bn from non-traditional capital market sources. Further, it pointed out that the global insurance industry's ability to exploit the growing supply of non-traditional capacity and their own retained earnings remains elusive. It said that growing insurance penetration in developing markets is still not sufficient to offset the trend of reduced reinsurance demand in mature markets and by larger insurance groups. In parallel, it pointed out that reinsurers are adopting a variety of strategies to face these challenges. It said that larger reinsurers are using their balance sheet strength and technical ability to offer more capacity and more complex, multi-class, multi-year deals. It noted that merger & acquisition deals are always an option for larger companies as they look to produce growth through acquisitions. Overall, it expected the skills of reinsurers and intermediaries to be tested this year given the rising challenges.

*Source: Willis Re*

#### EMERGING MARKETS

##### **Bond and equity outflows at \$16bn in 2013, AUM at \$1,337.5bn**

Capital flows to emerging market equity and bond funds posted net outflows of \$15.9bn in 2013, with bond outflows at \$12.2bn and net equity outflows at \$3.7bn. Latin America posted outflows of \$6.7bn from bond funds in 2013, followed by Emerging Europe, the Middle East & Africa (EMEA) with outflows of \$4.1bn and Emerging Asia with outflows of \$1.5bn. Emerging Asia attracted \$5bn in inflows to equity funds; while Latin America posted outflows of \$6.4bn and the EMEA region posted \$2.3bn in outflows from equity funds in 2013. China was the biggest recipient of bond inflows with \$1.2bn, while South Korea was the largest recipient of equity inflows with \$5.8bn in 2013. Further, Brazil was the largest source of bond outflows at \$5bn last year, followed by Russia with \$1bn and Indonesia with \$643m. Brazil was also the largest source of equity outflows at \$7.4bn, followed by Russia with \$4bn, China with \$2.6bn and India with \$1.5bn in 2013. In parallel, assets under management (AUM) in emerging markets totaled \$1,337.5bn at the end of 2013, with bonds reaching \$354.9bn and equities totaling \$982.6bn. The EMEA region had \$141.1bn in bond-related AUM, followed by Latin America with \$129bn and Emerging Asia with \$84.8bn. Further, Emerging Asia had \$666.3bn in equity-related AUM, followed by the EMEA region with \$173.2bn and Latin America with \$143.2bn.

*Source: Barclays Capital*

#### MENA

##### **Payroll-to-population ratio at 18%, second lowest globally**

A survey conducted by opinion polling and consulting firm Gallup shows that the payroll-to-population (P2P) ratio in the Middle East & North Africa region was 18% in 2012, higher than that of only Sub-Saharan Africa (SSA) at 11% and compared to a global ratio of 26%. In comparison, the P2P ratio was 42% in North America, 38% in the Commonwealth of Independent States, 33% in the European Union, 40% in other European countries, 31% in Latin America & the Caribbean, 29% in the Balkans, 28% in East Asia, 23% in South Asia and 21% in South-East Asia. Gallup defines the payroll-to-population rate as the percentage of the adult population with full-time employment and who work at least 30 hours per week. It included the entire adult population and not just those who are currently in the workforce, which makes the P2P measurement unaffected by changes in the workforce participation rate. It attributed the MENA region's low P2P ratio to the fact that 56% of the population in the region are not participating in the workforce, the highest percentage among all regions. It added that the region's youth are more likely to be out of the workforce than their counterparts in other regions, reflecting the high challenges facing youth in the MENA region. Further, the survey noted that 10% of the population in the MENA region is full-time self employed, the sixth highest share among all regions.

*Source: Gallup*

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# POLITICAL RISK OVERVIEW - December 2013

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## EGYPT

The interim government has officially declared the Muslim Brotherhood (MB) a terrorist organization on December 25th despite the lack of evidence of its involvement in a series of bomb attacks. The move, which effectively rules out the possibility of reconciliation with the group, has significantly complicated Egypt's political scene. A political transition roadmap moved ahead as the Constitutional Committee finalized a controversial draft constitution. The committee's president said that the draft constitution gives an unprecedented rights to women and removes religious clauses included in the December 2012 constitution. The MB and the Islamist Alliance for the Support of Legitimacy (ASL) rejected the draft constitution; while the Coptic Church, the Salafi Nour Party and the Tamarrod movement voiced their support for the draft. The April 6 movement criticized the draft over the powers granted to the military and to the Defense Minister. Interim President Adly Mansour said that a referendum on the draft constitution will be held in mid-January 2014. Deposed President Mohammed Morsi was charged with treason, espionage and sponsoring terrorism.

## IRAN

The government, the UN Security Council's permanent members plus Germany (P5+1) and the International Atomic Energy Agency (IAEA) met to discuss technical details of the November 24 Geneva nuclear deal. But Iran pulled out of talks after the U.S. blacklisted 19 companies linked to Iran's nuclear program. Tehran said that the new sanctions "violated" the spirit of the Geneva agreement. Also, talks were further jeopardized after a bipartisan group of U.S. senators introduced a new bill that would strengthen existing sanctions if Iran breaks the interim deal. A group of 100 hardline Iranian lawmakers are seeking to oblige the government to increase the country's uranium enrichment to 60% if new U.S. sanctions are imposed on Tehran. The head of Iran's nuclear negotiating team and the six world powers proposed January 20 as the date to implement the Geneva deal. The IAEA inspected the Arak nuclear plant.

## IRAQ

Sectarian violence across the country continued in December with at least 759 deaths and over 1,345 injuries. The UN reported that at least 7,818 civilians were killed in 2013, constituting the deadliest year since 2008. Security forces raided the home of Sunni lawmaker Ahmed al-Alwani and arrested him on terrorism charges. The U.S. has reportedly shipped Hellfire missiles and reconnaissance drones to help the government combat militants. The government closed the border with Syria following the start of a military operation against al-Qaeda.

## DEM REP CONGO

The security situation deteriorated as supporters of pastor Gideon Mukungubila, a former presidential hopeful, attacked state and military buildings in Kinshasa with the aim of ousting President Joseph Kabila. The government along with the M23 movement and the Ugandan government reached a peace agreement that includes limited amnesty for M23 fighters.

## LIBYA

The General National Congress (GNC) voted on December 23 to extend the transition period for one year, and has set an August 2014 deadline for drafting the constitution. The UN Security Council expressed concerns over the country's worsening security and political divisions. The GNC voted to make Sharia law the foundation of all legislation in the country.

## SOUTH SUDAN

South Sudan is on the brink of a civil war after President Salva Kiir accused former Vice President Riek Machar of an attempted coup d'état on December 17th. The UN reported that over 1,000 people were killed and at least 180,000 persons were displaced by the escalating violence. Clashes between government troops and rebel forces loyal to former VP Machar began in Juba, and have rapidly spread to the Unity and Jonglei states. The African Union said that "war crimes" were committed in the Bor county of the Jonglei state. Former VP Machar agreed to hold peace talks mediated by the Intergovernmental Authority on Development (IGAD), which began on January 2nd in Ethiopia. The UN Security Council increased its peace-keeping force in the country to 12,500 troops.

## SUDAN

President Omar al-Bashir unveiled a partial new Cabinet on December 8th in a move prompted by urgent calls for reforms, with new appointees mainly selected from the army and security services. The Sudan Revolutionary Front (SRF) claimed that over 100 Sudanese security personnel were killed in attacks on three military convoys near the border between North and South Kordofan. The army indicated that 17 areas in South Kordofan were recaptured from rebels.

## SYRIA

Syria's Western-backed rebels are in disarray after Washington and London suspended their non-lethal aid, following the loss of a key border crossing point and arms depots to the Islamic Front (IF). The Islamic State of Iraq and the Levant (ISIS) kidnapped over 50 Kurdish civilians from the Minbej and Jarablus towns near Aleppo following recent losses against Kurdish militias. The month saw the most significant fighting between the ISIS and the Ahrar al-Sham Islamist group. Syrian regime forces and allied militias continue their advances in the Qalamoun mountains, while they regained control of the key Damascus-Homs highway. The IF, ISIS and Jabhat al-Nusra attacked the town of Adra near Damascus. The Syrian government indicated that President Bashar al-Assad will lead any transition agreed upon at the Geneva II peace talks. The Syrian National Coalition remains divided on whether to attend the Geneva talks. UN human rights chief Navi Pillay said that there is "massive evidence" that implicates the Syrian regime in war crimes and crimes against humanity.

## TUNISIA

The ruling coalition, led by the An-Nahda Party and opposition parties, agreed on a new technocratic caretaker Prime Minister, Mehdi Jomaa, to form and lead an interim government until elections. President Moncef Marzouki published a "black book", which details a list of journalists, TV channels and others who collaborated with the previous regime to improve former President Zine El Abidine Ben Ali's public image.

## YEMEN

The country's security situation deteriorated after armed forces killed Saad bin Habrih, a prominent Hadrami sheikh, at a military checkpoint in early December. In response, the Hadrami tribes, supported by southern separatist movement Hiraak, called for assuming themselves security responsibilities in Hadramout. Several political parties signed an agreement granting a measure of autonomy to the South, although there is still no agreement on the number of federal regions.

*Source: International Crisis Group*



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# OUTLOOK

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## JORDAN

### Real GDP to grow by 3.5% in 2014

The World Bank projected Jordan's real GDP growth to improve to 3.5% in 2014 from 3.1% in 2013 and 2.7% in 2012 and to be driven by public investment and private consumption. It anticipated private consumption to accelerate due in part to growing demand from Syrian refugees, and expected the public investment program to be supported by GCC countries. It noted that the government lacks the flexibility to divert capital spending towards current spending as financial support from Gulf countries is project-specific and is based on bilateral agreements. It pointed out that regional developments continue to pose significant downside risks to Jordan. It said that a worsening of the Syrian crisis would raise spending pressure on public goods and services, increase social tensions and negatively affect the domestic security situation. It noted that a deterioration in the Egyptian situation would further disrupt the supply of Egyptian gas and, in turn, would weigh on Jordan's balance-of-payments. It considered that further economic reforms remain politically and socially difficult to implement.

The World Bank projected the fiscal deficit to widen from 10% of GDP in 2013 to 10.7% of GDP in 2014 when excluding grants, and to rise from 5.9% of GDP in 2013 to 7.2% of GDP in 2014 when including grants. It forecast foreign grants at 3.6% of GDP in 2014 compared to 4.1% of GDP in 2013. But it expected the debt level to further increase from 82.8% of GDP in 2013 to 85.5% of GDP in 2014. It forecast the current account deficit to widen from 11.3% of GDP in 2013 to 12.5% of GDP in 2014 despite foreign grants. It considered external financing to be crucial in meeting the fiscal and balance-of-payments needs over the medium-term. It forecast foreign currency reserves to rise from \$9bn in 2013 to \$10.6bn in 2014, equivalent to 4.7 and 5.3 months of imports, respectively.

Source: World Bank

## IRAN

### Growth prospects depend on reaching permanent agreement on domestic nuclear program

The Institute of International Finance projected real GDP in Iran to range between a contraction of 4% and a growth of 3.7% in fiscal year 2014/15 that ends in March 2015, depending on the unfolding scenarios.

The IIF's first scenario projects economic activity to contract by 4% in FY2014/15 and by another 3.3% in FY2015/16 in case Iran and the five permanent members of the UN Security Council plus Germany fail to reach a permanent agreement on the nuclear program, following the expiration of the current interim nuclear agreement. Under this scenario, it assumes that the Iranian economy would suffer from more sanctions, a further contraction in output, mass unemployment, a sharp exchange rate depreciation, higher inflation levels, wider fiscal deficits and depletion of accessible foreign currency reserves. As such, it forecast Iran's fiscal deficit to widen to 5% of GDP in FY2014/15 from a deficit of 3.9% of GDP in FY2013/14, and for official reserves to decline to \$50.2bn from \$76.9bn in FY2013/14. It projected the rial to trade at IRR40,000 against

the US dollar in the black market in FY2014/15 and at IRR29,950 on the official market.

The IIF's second scenario projects real GDP growth at 3.7% in FY2014/15 and at 4.2% in FY2015/16 on the assumption that Iran and the P5+1 countries reach an agreement. Under this scenario, it considered that most existing sanctions would be gradually lifted, which would allow steady increases in crude oil exports and a possible restoration of access to the global financial system. It anticipated that oil exports would reach pre-sanction levels by the end of 2016. It expected market sentiment to improve and for external trade to gradually open, which would ease the shortage in foreign currency, narrow the exchange rate spread between the black and the official markets, and reduce the inflation rate to lower double-digit levels by the end of 2015. Under this scenario, it forecast Iran's fiscal deficit at 3.6% of GDP in FY2014/15 and its official reserves at \$79.6bn. But it considered that Iran would not achieve a high and sustainable growth path without the implementation of comprehensive structural reforms.

Source: Institute of International Finance

## GHANA

### Real GDP growth above 7% in 2014-16 period, fiscal risks persist

Standard & Poor's projected Ghana's real GDP growth at 7.5% in 2014 and above 7% during the 2014-16 period relative to an estimated growth rate of 7.4% in 2013. It anticipated economic activity to benefit from high FDI inflows in the off-shore oil and gas sector, and from public investment in energy infrastructure. It considered that difficulties in accessing financing and inadequate energy supply are constraining further economic diversification. It projected the average inflation rate at 10% annually during the 2013-16 period driven by rising oil exports, strong economic growth, increased public spending and the persistent financing of the government by the Central Bank of Ghana.

In parallel, S&P said that Ghana has a track record of missing fiscal targets, which limits fiscal predictability. It anticipated that the fiscal adjustment would be very gradual over the next three years and forecast the fiscal deficit to narrow from 10.4% of GDP in 2013 to 9% of GDP in 2014 and to 7% of GDP by 2016. It considered that Ghana's fiscal problems are related to public spending rather than to revenues, with public-sector wages absorbing more than 50% of revenues annually between 2013 and 2016, and debt servicing absorbing more than 15% of government receipts. It noted that cuts in subsidies will have a limited impact on reducing spending. As such, it forecast the debt level to rise from 49.2% of GDP in 2013 to 53% of GDP in 2014 and to 56% of GDP by the end of 2016.

Further, S&P forecast the current account deficit to remain wide at 13% of GDP this year relative to 13.4% of GDP last year, and to stay in double-digits during the 2014-16 period. It estimated Ghana's gross external financing needs to average 122% of current account receipts and usable reserves during the 2013-16 period, and for its foreign currency reserves to cover less than three months of current account payments.

Source: Standard & Poor's



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## ECONOMY & TRADE

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### AFRICA

#### Sovereign upgrades not likely in 2014

Fitch Ratings indicated that sovereign ratings upgrades in Sub-Saharan Africa (SSA) are not likely to take place in 2014, despite a pick-up in economic activity, a single-digit average inflation rate and the absence of serious fiscal or external imbalances in most countries. It noted that sovereign upgrades have been slow in SSA over the past decade, partly due to large structural weaknesses in most countries that need time to change. Further, it noted that the outlook on the ratings is sensitive to external risks such as a slowdown in China's economic activity and the reduction of the U.S. government's quantitative easing (QE) program, as well as to domestic risks such as highly expansionary fiscal policies. It anticipated that the impact of a deceleration in China's real GDP growth would be significant on SSA countries, but it noted that such risk is less likely to materialize this year. Further, it said that the eventual tapering is not likely to place serious pressure on the domestic and external financing capacity of countries in SSA due to the region's improved credit fundamentals over the past decade. But it said that countries that run large current account and fiscal deficits such as South Africa and Ghana, those that rely heavily on short-term portfolio flows for current account financing such as South Africa and Kenya, and those that have a large foreign presence on their local markets such as Ghana, Nigeria and South Africa are the most vulnerable.

Source: Fitch Ratings

### EGYPT

#### Outlook on sovereign ratings upgraded to 'stable'

Fitch Ratings revised the outlook on Egypt's long-term foreign currency Issuer Default Rating (IDR) to 'stable' from 'negative'. It simultaneously affirmed the country's long-term foreign and local currency IDRs at 'B-' and the short-term foreign currency IDR at 'B'. It maintained the Country Ceiling and the senior unsecured foreign and local currency bonds at 'B-'. It attributed the outlook revision to significant financial support from Kuwait, Saudi Arabia and the UAE that has eased the pressure on the exchange rate and public finances, increased the level of foreign currency reserves to more than three months of current account payments, and improved business confidence. It added that the three countries have disbursed \$10.7bn out of the \$15bn pledged funds since June 2013. Also, it considered that reduced political disruption, greater availability of foreign currency reserves, and the government's fiscal and monetary stimulus are supporting some improvement in economic activity. Further, it said that the country's IDRs reflect the substantial fiscal deficit, the rapid increase in the debt level and the small net external debtor position. It considered that the government's fiscal flexibility is limited given that interest payments, wages and salaries, and subsidies account for around 75% of total public spending. It said that state-owned banks will remain capable of absorbing further increases in the public debt level, but it noted that the authorities are likely to continue to resort to cheaper financing from the Central Bank of Egypt.

Source: Fitch Ratings

### UAE

#### Agencies assign ratings to Emirate of Sharjah

Standard & Poor's assigned to the Emirate of Sharjah long-term foreign and local currency sovereign credit ratings of 'A' and short-term foreign and local currency ratings of 'A-1'. It noted that the long-term ratings have a 'stable' outlook. The agency indicated that the ratings are supported by the local government's limited fiscal risks and by the emirate's wealthy and diverse economy. It noted that Sharjah has low spending responsibilities given that the cost of providing public services in the emirate is partly covered by the federal government. It pointed out that the ratings are constrained by under-developed political institutions, highly centralized policy-making and limited availability of timely economic and demographic data. Further, it said that Sharjah's government maintains a conservative fiscal policy and aims to meet its current spending from its recurrent revenue base. It expected the government to consolidate its capital spending over the medium-term and forecast an average fiscal deficit of 0.9% of GDP during the 2014-16 period. It anticipated government borrowing to be limited to that required for capital spending, and for net government debt to average 4.3% of GDP during the 2013-16 period. In parallel, Moody's Investors Service assigned to the Emirate of Sharjah local and foreign-currency rating of 'A3' with a 'stable' outlook. It said that the ratings are supported by the emirate's strong government finances that include a narrow fiscal deficit and very low debt ratio, as well as by the social, economic and financial benefits derived from being part of the UAE. But it noted that the ratings are constrained by institutional weaknesses, moderate susceptibility to geopolitical event risk as well as by the economy's small size and limited hydrocarbon reserves.

Source: Standard & Poor's, Moody's Investors Service

### BURKINA FASO

#### IMF support to continue over next three years

The International Monetary Fund indicated that Burkina Faso maintained one of the highest growth rates in Sub-Saharan Africa in recent years despite external shocks. It noted that authorities have implemented reforms to improve the country's resilience, increase agricultural productivity and manage natural resource revenues more transparently. It estimated real GDP growth at 6.8% in 2013 and the inflation rate at low levels. But it noted that the current account deficit was wider-than-expected, mainly due to lower global gold prices. It said that the fiscal deficit remained low, but the execution of the investment budget was slower-than-projected. In parallel, the IMF indicated that it approved a new 36-month Extended Credit Facility (ECF) of \$41.6m for Burkina Faso to support the government's economic reforms program, following the expiration of the previous three-year \$126.8m ECF in December 2013. It said that the ECF would continue to support the authorities' efforts towards fiscal sustainability, macroeconomic stability and inclusive growth. It noted that sound revenue management and the efficient use of resources from mining activity will continue to play a critical role in stimulating investment and promoting growth. It considered that a reliable supply of energy, broader access to finance, and an enabling environment for private sector investment are crucial for creating employment.

Source: International Monetary Fund

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# BANKING

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## SAUDI ARABIA

### Private sector lending up 14% year-on-year in November 2013

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR1,875.2bn, equivalent to \$500.1bn at the end of November 2013, constituting a growth of 8.1% from end-2012 and a rise of 11.7% from November 2012. Loans to the private sector totaled SAR1,123.8bn, equivalent to \$299.7bn at the end of November 2013 and increased by 1% from the previous month, by 12.5% from end-2012 and by 13.8% year-on-year. In parallel, aggregate deposits reached SAR1,365.2bn, equivalent to \$364.1bn at the end of November 2013, constituting an increase of 1.7% from the preceding month, a rise of 8.3% from end-2012 and a growth of 14% from November 2012. The month-on-month rise in the banking sector's total deposits is mainly due to a rise in retail and private institutions' deposits that was partly offset by a 1.2% contraction in public sector deposits. Demand deposits accounted for 62.2% of total deposits in November 2013 compared to 59.8% in December 2012 and 58.9% in November 2012. The loans-to-deposits ratio stood at 82.3% in November 2013 compared to 79.3% at end-2012 and 82.5% in November 2012. Also, the sector's aggregate profits fell by 13.5% month-on-month to SAR2.7bn in November 2013, and was 13% below the monthly average profits for the first 10 months of 2013. The sector's aggregate profits totaled SAR34.1bn in the first 11 months of 2013 and rose by 9% from the same period of 2012.

Source: Saudi Arabia Monetary Agency, EFG Hermes

## ALGERIA

### Anti-money laundering deficiencies remain, insufficient progress in action plan

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 Algeria has not made sufficient progress in implementing its action plan within the established timelines, despite the country's high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its AML/CFT deficiencies. It added that certain strategic AML/CFT deficiencies remain in Algeria. The FATF called on authorities to address the remaining deficiencies by adequately criminalizing terrorist financing and by establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets. It encouraged officials to continue the process of implementing their action plan.

Source: Financial Action Task Force

## NIGERIA

### Naira to remain under pressure in 2014

Business Monitor International anticipated that the Nigerian naira will remain under pressure during the early months of 2014. It noted that the naira was trading at 160.55 against the US dollar in December 2013 and almost reached the exchange rate of NGN160 per dollar assumed in the 2014 budget. It indicated that the naira traded between 157.60 and 163.90 per dollar in the second half of 2013, in the context of declining foreign currency reserves. It expected demand for US dollars to

continue to exceed supply in the local market this year. It attributed the shortage of US dollars to the continued disruptions in oil production from theft and sabotage. It noted that uncertainty about the reduction of the U.S. government's quantitative easing has diminished following the U.S. Federal Reserves' announcement that it will cut its monthly bond-buying program by \$10bn starting in January 2014. It anticipated that the demand for US dollars from domestic market participants will remain elevated as a result of the 2015 elections and uncertainty about the monetary policy's outlook once the term of the current Central Bank Governor ends in June 2014.

Source: Business Monitor International

## ANGOLA

### Anti-money laundering deficiencies remain

The Financial Action Task Force (FATF) indicated that Angola made a high-level political commitment to work with the FATF to address its strategic anti-money laundering and combating the financing of terrorism (AML/CFT) deficiencies, mainly through the revision of its action plan in June 2010 and in February 2013. However, it said that certain strategic AML/CFT deficiencies remain. The FATF called on authorities to address the remaining deficiencies, including by adequately criminalizing money laundering and terrorist financing; establishing and implementing an adequate legal framework to confiscate funds related to money laundering and to identify and freeze terrorist assets without delay; ensuring an effectively functioning Financial Intelligence Unit; and by ensuring that appropriate laws and procedures are in place to provide mutual legal assistance.

Source: Financial Action Task Force

## INDIA

### Banking sector's assessment maintained

Standard & Poor's maintained India's Banking Industry Country Risk Assessment (BICRA) in 'Group 5', and its industry and economic risk scores at '5' each. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors and 'Group 10' the riskiest ones. S&P noted that other countries in BICRA's 'Group 5' include China, Italy, the UAE, Poland, Colombia, Turkey and Panama. Further, it said that India's economic risk score reflects its "high risks" in economic resilience and credit risk in the economy, and its "low risks" in economic imbalances. It noted that India's low-income economy constrains its economic resilience, while the large and persistent fiscal deficit limits the government's ability to stimulate growth through fiscal policies. It said that the trend for the economic risk is 'negative' due to high credit risks and pressure on asset quality over the next 12 months, and to further deterioration in economic resilience. In parallel, it said that India's industry score indicates that the country faces "high risks" in its institutional framework and in its competitive dynamics, and "low risks" in its system-wide funding. It noted that directed lending and the dominance of state-owned banks distort the market. It pointed out that the industry risk is 'stable'.

Source: Standard & Poor's



# ENERGY / COMMODITIES

## Oil prices to decrease by 3% in first quarter

Brent oil prices are expected to face downward volatility in the first quarter of 2014 as speculation about tightening monetary stimulus in developed economies increases. But the potential rise in geopolitical tensions, particularly in the Middle East and North Africa, would support prices. Brent oil prices are forecast to average \$106 a barrel in the first quarter of 2014, constituting a decrease of 2.6% from the previous quarter and a drop of 6.1% from the same quarter last year. Also, WTI oil prices are projected to decline by 2.2% quarter-on-quarter to \$95.4 a barrel in the first quarter of the year. Global oil consumption is forecast to grow by 1.5% in 2014, while global production is expected to rise by 1.9% during the year. The global oil market is projected to remain in surplus in 2014, while the stocks-to-consumption ratio is anticipated to marginally decrease from 8.34 weeks in 2013 to 8.3 weeks in 2014. In parallel, the Dow Jones-UBS Energy Sub-Index rose by 4.8% last month and by 5.2% in 2013, while the Petroleum Sub-Index increased by 3.6% in December and by 5.1% last year. Also, the Dow Jones-UBS WTI Crude Oil Sub-Index improved by 6% last month and by 6.8% in 2013, the Brent Crude Sub-Index grew by 1.4% in December and by 7.2% from end-2012, while that of Natural Gas rose by 6.9% last month and by 5% in 2013.

Source: Economist Intelligence Unit, Byblos Research

## GCC oil output unchanged in December 2013

Crude oil production in the Gulf Cooperation Council (GCC) countries, excluding Oman and Bahrain, totaled 16.1 million barrels per day (b/d) on average in December 2013, unchanged from the preceding month. Saudi Arabia's oil production reached 9.68 million b/d in December, equivalent to about 60.1% of total GCC oil production. It was followed by Kuwait with 2.9 million b/d, or 18% of the total, the UAE with 2.76 million b/d (17.1%) and Qatar with 0.7 million b/d (4.3%). Overall, GCC countries' oil supply averaged 15.9 million b/d in 2013 and was unchanged from a year earlier.

Source: Bloomberg, Byblos Research

## Iraqi oil exports down 2% in December 2013

Iraqi crude oil exports averaged 2.34 million b/d in December 2013, down by 1.7% from 2.38 million b/d in the preceding month. Exports of 2.08 million b/d, or 88.9% of the total were shipped from the southern oil port of Basra, and the remaining 260,000 b/d were exported from the northern port of Kirkuk. In parallel, proceeds from oil exports reached \$7.47bn in December, constituting an increase of about 1.9% from \$7.33bn in the preceding month.

Source: Arab News, Byblos Research

## Cocoa prices to increase in medium term

Cocoa prices are expected to rise in the medium term, partly due to weak supply prospects from the world's largest cocoa exporters. Cocoa prices are forecast to average GBP1,850 a ton in 2014 and GBP2,000 a ton in 2015. Côte d'Ivoire's cocoa production is projected to decline by 4.4% to 1.42 million tons during the 2013-14 season. The decline is mainly due to the country's weak security situation, low fertilizer usage and labor shortages. The global cocoa market is forecast to remain in deficit this year due to strong improvements in demand, mainly from Europe, the world's largest cocoa consumer.

Source: Business Monitor International, Byblos research

## Base Metals: Copper prices to rise by 1.4% in first quarter of 2014

Copper prices are forecast to average \$7,250 a metric ton in the first quarter of 2014, constituting an increase of 1.4% from the previous quarter and a decrease of 8.5% from the same quarter of last year. Overall, copper prices are expected to rise by a marginal 0.5% year-on-year to \$7,363 a metric ton in 2014. The global refined copper market is projected to remain oversupplied in 2014 as new mining capacity comes online. The market surplus is expected to reach 271,000 tons this year, up from 152,000 tons in 2013, but remains relatively small relative to size of the global copper market of 21 million tons. In parallel, the Dow Jones-UBS Industrial Metals Sub-Index increased by 4.9% in December and dropped by 13.6% in 2013, while the Dow Jones-UBS Aluminium Sub-Index improved by 1.8% last month and regressed by 20.7% from end-2012. The Dow Jones-UBS Copper Sub-Index rose by 6% in December and fell by 8.8% last year, while the Nickel Sub-Index increased by 2.7% last month and dropped by 20.1% in 2013.

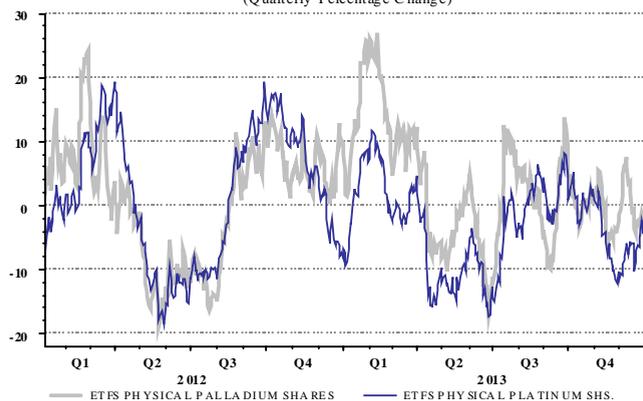
Source: Economist Intelligence Unit, Dow Jones Indices, Byblos Research

## Precious Metals: Platinum production to remain at risk from labor unrest in South Africa

Global platinum supply is forecast to drop by 1.6% in 2014, but to grow by an annual average growth rate of 0.9% during the 2013-17 period, as supply-led disruptions in South Africa continue to weigh on operations. The global platinum industry is expected to grow only modestly in coming years as South Africa's mining sector continues to suffer from pronounced challenges. South Africa is expected to remain the world's largest producer with a market share of 73.2% in 2014, followed by Russia with 14.3% and Zimbabwe with 7.1% of the total. Russia's share in the platinum market is increasingly at risk as Zimbabwe's vast reserves are continually being developed and brought online. The main risk to the metal's global production are supply-led disruptions in South Africa. In parallel, the Dow Jones-UBS Precious Metals Sub-Index decreased by 3.7% in December and by 30.8% in 2013, while the Gold Sub-Index regressed by 3.8% last month and by 28.7% from end-2012. Also, the Dow Jones-UBS Silver Sub-Index declined by 3.3% in December and by 36.6% last year, and the Platinum Sub-Index was nearly unchanged last month and fell by 11.8% in 2013.

Source: Business Monitor International, Dow Jones Indices, Byblos Research

Platinum ETF vs. Palladium ETF  
(Quarterly Percentage Change)



# 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								
<b>Africa</b>													
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	Stable	Negative	Stable								
Ethiopia	-	-	-	-	B	-2.3	22.2	18.2	111.2	-	-	-6.1	0.2
	-	-	-	-	Stable								
Ghana	B	B1	B	-	B	-5.6	44.9	21.5	36.2	-	-	-9.1	3.2
	Negative	Negative	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	B-	B3	-	-	-	-2.4	36.0	21.0	-	-	-	-12.4	16.3
	Stable	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	-	Ba3	BB-	-	CCC	-5.5	46.7	53.6	103.1	9.3	299.8	-8.7	2.4
	-	Negative	Negative	-	Stable								
Burkina Faso	B	-	-	-	-	-3.2	27.3	23.8	-	2.8	-	-2.1	0.4
	Stable	-	-	-	-								
<b>Middle East</b>													
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	-	Stable	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								



# 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								
<b>Asia</b>													
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								
<b>Central &amp; Eastern Europe</b>													
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	18-Dec-13	No change	29-Jan-14
Eurozone	Refi Rate	0.25	05-Dec-13	No change	09-Jan-14
UK	Bank Rate	0.50	05-Dec-13	No change	09-Jan-14
Japan	O/N Call Rate	0-0.10	20-Dec-13	No change	22-Jan-14
Australia	Cash Rate	2.50	03-Dec-13	No change	04-Feb-14
New Zealand	Cash Rate	2.50	12-Dec-13	No change	30-Jan-14
Switzerland	3 month Libor target	0.00-0.25	12-Dec-13	No change	20-Mar-14
Canada	Overnight rate	1.00	04-Dec-13	No change	22-Jan-14
<b>Emerging Markets</b>					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	18-Dec-13	No change	29-Jan-14
Taiwan	Discount Rate	1.88	19-Dec-13	No change	26-Dec-13
South Korea	Base Rate	2.50	12-Dec-13	No change	09-Jan-14
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	18-Dec-13	Raise 25bps	28-Jan-14
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	8.25	08-Dec-13	Cut 50bps	N/A
Turkey	Base Rate	4.50	17-Dec-13	No change	22-Jan-14
South Africa	Repo rate	5.00	03-Dec-13	No change	29-Jan-14
Kenya	Central Bank Rate	8.50	05-Dec-13	No change	Jan-14
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	06-Dec-13	Cut 25bps	31-Jan-14
Brazil	Selic Rate	10.00	27-Nov-13	Raise 25bps	15-Jan-14
Armenia	Refi Rate	7.75	24-Dec-13	Cut 25bps	N/A
Romania	Policy Rate	4.00	06-Nov-13	Cut 25bps	N/A
Bulgaria	Base Interest	0.02	01-Jan-14	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	13-Dec-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](mailto:research@byblosbank.com.lb)  
[www.byblosbank.com](http://www.byblosbank.com)

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# 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  
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: basrabranch@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 Amiryman 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  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 8518 8100  
Fax: (+ 44) 20 8518 8129  
E-mail: byblos.london@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

