

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate default rate at 2.6% at end of 2013

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.6% at the end of 2013, down from 3% at the end of September and from 3.1% at end-2012. It said that the corporate default rate remains below its historical average, given strong balance sheet fundamentals and ample liquidity. It expected the corporate default rate to trend lower this year, given the more robust economic growth prospects. It said that 62 corporate issuers have defaulted in 2013, that included nine in the last quarter of 2013. It forecast the global speculative-grade default rate at 2.3% at the end of 2014. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 1% at the end of 2013, down from 1.7% at the end of September 2013 and from 1.9% at the end of 2012. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 7.4% at the end of 2013, down from 8.6% at the end of September and from 14.1% at the end of 2012.

Source: Moody's Investors Service

Corporate bond issuance up 4% to \$3,231bn in 2013

Standard & Poor's indicated that global corporate bond issuance totaled \$3,231bn in 2013, constituting an increase of 3.9% from \$3,109bn in 2012 and the second highest level since the \$3,296bn issued in 2009. The issuance included \$1,782bn in investment grade bonds that rose by 2.6%, \$507bn in speculative grade issues that grew by 21%, and \$942bn in unrated bonds that fell by 1.3%. Bond issuance in Europe totaled \$1,112bn in 2013 and accounted for 34.4% of global bond issues, followed by the U.S. with \$1,074bn (33.2%), emerging markets with \$698bn (21.6%), and other developed markets with \$347bn (10.7%). Further, speculative-grade issuance in the U.S. reached \$277bn and represented 54.6% of global speculative grade issues, followed by Europe with \$151bn (29.8%), emerging markets with \$63bn (12.4%) and other developed markets with \$17bn (3.4%). Issuance by non-financial institutions totaled \$1,712bn and accounted for 53% of global corporate bond issuance, while issuance by financial firms represented the remaining \$1,519bn (47%). Investment-grade issuance in the non-financial sector totaled \$786bn and accounted for 44.1% of global investment grade issues, while speculative grade issuance in the non-financial sector reached \$400bn and represented 78.9% of global speculative grade issues.

Source: Standard & Poor's

EMERGING MARKETS

Private capital inflows to decrease by 1.2% to \$1,065bn in 2014

The World Bank projected net private capital inflows to developing countries at \$1,065.2bn in 2014, constituting a decrease of 1.2% from \$1,078.4bn in 2013. It expected net private inflows to be equivalent to 4.2% of developing economies' aggregate GDP in 2014 relative to 4.6% of GDP in 2013. It forecast net equity inflows to grow by 0.7% to \$686.2bn, driven by an increase of 31.6% in net portfolio equity flows to \$75.8bn that will offset a 2.1% drop in net FDI to \$610.4bn. Also, it projected net private debt inflows at \$379bn in 2014 relative to \$397.3bn in 2013. Further, the Bank forecast net private capital inflows to developing economies to reach \$1,149.6bn in 2015 and \$1,226bn in 2016, and to be equivalent to 4.2% of GDP in 2015 and 4.1% of GDP in 2016. In parallel, it projected net private capital inflows to East Asia & Pacific at \$506bn in 2014, which would account for 47.5% of private capital inflows to developing economies, followed by Latin America & the Caribbean with \$277.8bn (26.1%), Europe & Central Asia with \$111.6bn (10.5%), South Asia with \$87.7bn (8.2%), Sub-Saharan Africa (SSA) with \$66.9bn (6.3%), and the Middle East & North Africa with \$15.2bn (1.4%). It forecast net private capital inflows to South Asia to grow by 3.5% in 2014, followed by East Asia & the Pacific with a 2.2% rise; while it expected net inflows to Europe & Central Asia to drop by 2.3%, followed by Latin America & the Caribbean (-4.2%), SSA (-10.2%) and the MENA region (-23.2%).

Source: World Bank

MENA

Energy architecture of Arab countries lags global levels

The World Economic Forum included 16 Arab countries in its Energy Architecture Performance Index for 2014, which assesses the performance of energy systems across three primary objectives that are delivering economic growth, achieving economic growth in an environmentally-sustainable way, and providing universal energy access and security. The scores and ranks of each country are based on how well its current energy architecture contributes to the three objectives. Tunisia ranked in first place among Arab countries and in 60th place globally, followed by Algeria (66th), Morocco (79th), Egypt (81st), Libya (86th), the UAE (88th), Qatar (90th), Saudi Arabia (91st), Iraq (98th), Kuwait (105th), Syria (108th), Oman (111th), Jordan (115th), Bahrain (118th), Lebanon (123rd) and Yemen (124th). Arab countries received an average score of 0.42 points, below the global average of 0.52 points. In comparison, non-GCC Arab and GCC countries had average scores of 0.43 points and 0.42 points, respectively. The scores of 11 Arab countries regressed year-on-year, while the score of Qatar improved and those of the UAE and Kuwait remained unchanged. Iraq and Yemen were included for the first time in the index.

Source: World Economic Forum, Byblos Research

OUTLOOK

MENA

Medium-term economic prospects are below potential

The World Bank projected real GDP growth in the developing countries of the Middle East & North Africa at 2.8% in 2014 compared to an estimated contraction of 0.1% in 2013, and relative to growth rates of 5.3% for developing nations and 3.2% for the global economy. It forecast real GDP growth at 3.2% this year, when excluding Syria, relative to an estimated growth rate of 0.8% last year. The World Bank's growth forecast for the MENA geographic region becomes 3.6% in 2014 when including GCC economies. It expected the region's developing oil exporters to grow by 3% in 2014 compared to a contraction of 1.5% in 2013, and projected real GDP growth in developing oil importers at 2.6% in 2014 relative to 2.5% in 2013. Also, it forecast economic growth in GCC countries excluding Qatar at 4.6% in 2014 compared to 4.1% in 2013. It projected the MENA region's current account balance to post a deficit of 3.4% of GDP this year compared to a deficit of 3.1% of GDP in 2013, and forecast the fiscal deficit at 6.4% of GDP in 2014 relative to 7.5% of GDP in 2013.

The World Bank expected the region's prospects to remain weak and below potential over the medium-term, reflecting continued social and political tensions that have weakened macroeconomic strength and have worsened the severe structural challenges that existed prior to the start of regional unrest. It expected the gap between real and potential GDP growth to widen from -4.8% in 2013 to -5.1% in 2016 and for potential GDP growth to decrease from 2.7% in 2013 to 2.5% in 2016. It considered that political uncertainties are not likely to recede anytime soon, which would keep the balance of risks weighed to the downside. It said that further escalation of violence in Syria would increase economic, social and fiscal pressures in Lebanon, Jordan and Iraq. It cautioned that debt levels that have significantly increased in countries in political transitions over the past three years are approaching unsustainable levels. It added that setbacks in political transitions or further escalation of violence in Egypt, Iraq, Libya and Tunisia would further undermine confidence, delay structural reforms and reduce oil output.

Source: World Bank

SUDAN

Real GDP growth to accelerate to 2.5% in 2014

Business Monitor International projected Sudan's economic growth at 2.5% in 2014 relative to an estimated growth rate of 1.4% in 2013. It said that economic growth remains below the annual average growth rate of 6.8% during the 10 years prior to South Sudan's independence in 2011. It anticipated high inflation levels, security challenges, import dependence and severe economic imbalances to keep economic activity below its potential. It noted that the non-hydrocarbon sector has struggled to gain momentum, while critical investments have been put on hold as a result of the serious security challenges. It expected private investment to remain low over the medium-term due to international sanctions, political uncertainty as well as to domestic and regional unrest. Also, it anticipated public investment to be relatively weak over the medium-term as the govern-

ment will prioritize other spending. But it noted that selected sectors such as agriculture would benefit from a rise in public investment, given the country's high dependence on food imports. It expected public spending to rise due to rising security costs and the need to maintain social spending.

In parallel, BMI expected private consumption to grow by 2.3% in real terms this year as high inflation levels, random violent incidents and unrest in South Sudan will constrain demand. It noted that the inflation rate reached 42.6% in November 2013 relative to 23% in August 2013, following major cuts in fuel subsidies and the devaluation of the Sudanese pound in November. It expected inflationary pressures to remain high over the near-term despite the authorities' commitment to control inflation by refraining from printing money to finance public spending. But it considered that the government will reach its inflation target level of 25% at the end of 2014.

Source: Business Monitor International

TURKEY

Political risks to weigh on economic and financial outlook

The Institute of International Finance indicated that an extended corruption investigation in mid-December 2013 and repeated attempts by the government to suppress it have negatively affected Turkey's financial markets. It noted that financial markets in Turkey were already under pressure since mid-2013 due to concerns about the impact of the reduction of the U.S. Federal Reserve's quantitative easing (QE) program. It anticipated political uncertainty to continue, which would discourage capital inflows, weigh on the Turkish lira and adversely affect Turkish asset prices. It noted that the lira weakened by 6% against the U.S. dollar since December 18, indicating that the currency has been significantly affected by domestic uncertainty rather than by concerns about a reduction in the QE program. It said that the Central Bank of Turkey's (CBT) policy response to the sudden and significant weakening in the value of the lira has been limited to an increase in market interventions. But it considered that large-scale exchange market interventions would not be a sustainable option given the limited net foreign currency reserves of \$31bn at the end of 2013, compared to \$112bn in foreign holdings of lira-denominated debt and equity and a current account deficit of \$65bn.

In parallel, the IIF indicated that heightened political tensions would complicate the authorities' already difficult policy options. It considered that short-term macroeconomic policy would not significantly reduce the current account deficit over the near-term without a major loss in output, which would be politically difficult ahead of the 2014 elections. It forecast real GDP growth to decelerate to 2.5% in 2014 from an estimated growth rate of 4.2% in 2013, and for the current account deficit to marginally narrow from 7.6% of GDP in 2013 to 7.3% of GDP in 2014. It added that further lira depreciation could stimulate inflation expectations that already exceed the CBT's 5% target, and could undermine financial stability. As such, it expected the CBT to be forced to increase interest rates in order to limit further depreciation of the lira and to sustain enough capital inflows to finance the current account deficit.

Source: Institute of International Finance



ECONOMY & TRADE

SYRIA

Economic activity to contract by 8.6% in 2014

The World Bank forecast Syria's real GDP to contract by 8.6% in 2014, following contractions of 22.5% in 2013, 21.8% in 2012 and 3.4% in 2011. Syria's projected contraction for 2014 would make it the worst performing economy among 11 countries in the MENA region and the only economy in the region to contract this year. Further, the World Bank forecast Syria's current account deficit at 15.5% of GDP in 2014 compared to deficits of 20.5% of GDP in 2013 and 19% of GDP in 2012. Syria's projected current account deficit for this year would be the widest in the region. Further, the World Bank expected the gap between Syria's real and potential GDP growth rates to widen to -46.8% in 2014 from -42% in 2013, -25% in 2012 and -2.7% in 2011. It noted that the country's potential GDP growth has been on a downward trend since 2011 as it fell from 3.8% in 2010 to 2.9% in 2011, 1.4% in 2012 and 0.3% in 2013. It forecast Syria's potential GDP growth at -0.4% in 2014, constituting along with South Sudan (-6.5%) the only two economies with a negative potential GDP among developing countries.

Source: World Bank

BAHRAIN

Sovereign ratings affirmed, outlook stable

Fitch Ratings affirmed Bahrain's long-term foreign and local currency Issuer Default Rating (IDR) at 'BBB' and 'BBB+', respectively, with a 'stable' outlook. It also affirmed Bahrain's Country Ceiling at 'BBB+' and short-term foreign currency IDR at 'F3'. It said that the ratings reflect Bahrain's stronger external position than similarly-rated peers, its GDP per capita level and broader human development and business environment indicators that are close to the 'A' median, a stagnating political situation, a low-level of violence, a steady growth rate, a large banking sector and a high breakeven oil price. It estimated Bahrain's real GDP growth at 4.9% in 2013 relative to 3.4% in 2012, mainly driven by the resumption of oil production. It expected hydrocarbon output to stabilize in 2014 and 2015, and for non-hydrocarbon sector activity to benefit from disbursement of GCC funds. But it considered that Bahrain's high breakeven oil price at \$122 per barrel in 2013, recurring budget deficits and rising debt level negatively affect the country's fiscal profile and expose it to fluctuations in global oil prices. It noted that the debt level has tripled since 2008 to 43% of GDP at the end of 2013 and has exceeded the 'BBB' range median level. But it said that the net debt level stood at above 20% of GDP at the end of 2013 supported by public sector deposits. It pointed out that the banking sector is large with aggregate assets equivalent to 650% of GDP and has weathered several global, regional and domestic shocks in recent years. It noted that the wholesale banking sector's assets have stabilized after five years of decline and were equivalent to 350% of GDP.

Source: Fitch Ratings

SUDAN

Fiscal deficit to widen to 2.5% of GDP in 2014, government unlikely to meet targeted revenues

Business Monitor International projected Sudan's fiscal deficit to widen from an estimated deficit of 2.3% of GDP in 2013 to 2.5% of GDP in 2014. It said that achieving a fiscal surplus, as stated in the country's 2014 budget, is not likely as the government would not be able to meet its public revenues target for this year. First, it noted that the 2014 budget anticipates a three-fold increase in oil transit fees from South Sudan from an estimated \$500m in 2013 to \$1.5bn in 2014. It noted that transit fees would not triple given the current uncertainty in South Sudan. Second, it expected security spending to further rise as a result of the ongoing conflict in South Sudan. It added that the government would not be able to further reduce its social spending given the social discontent about the reduction in fuel subsidies last year. It noted that the 2014 budget does not include increases in tax rates or in price levels. Further, BMI indicated that the 2014 budget focuses on increasing the productive capacity of key sectors, such as agriculture. But it considered the budget to remain heavily tilted towards current spending, which accounts for just under 90% of total spending. It said that the 2014 budget includes increases in public-sector wages, while 22% of public spending this year will be allocated to social subsidies. It pointed out that the rise in public spending would be financed through savings generated by last year's cuts in fuel subsidies as well as by the improved collection of taxes.

Source: Business Monitor International

ARMENIA

Corruption perception is second lowest among CIS countries

Transparency International's 2013 Corruption Perception Index ranked Armenia in 94th place among 177 countries around the world and in second place among Commonwealth of Independent States (CIS). 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. Armenia's global rank improved by 11 spots from last year's survey, the ninth largest improvement globally; while its regional rank rose by one spot. Globally, Armenia has the same level of corruption as Algeria, Benin, Colombia, Djibouti, India, the Philippines and Suriname. It is considered to be less corrupt than Ecuador, Moldova and Panama; and is perceived as more corrupt than Sri Lanka, Morocco and Malawi. It is also perceived as more corrupt than only Georgia among CIS countries. Armenia received a score of 36 points, up from 34 points in last year's survey and constituting the 15th highest numerical increase globally and the largest among CIS countries. Armenia's score came below the global average score of 42.7 points, but higher than the CIS countries' average score of 28 points.

Source: Transparency International, Byblos Research



BANKING

WORLD

Dilution of leverage ratio eases pressure on banks

Fitch ratings anticipated that the Basel Committee on Banking Supervision's decision to amend the computation of the Basel III leverage ratio would ease capital pressure on global trading banks. It said that the Committee amended the "exposure measure" and left the "capital measure" unchanged. The Basel III leverage ratio is defined as the capital measure divided by the "exposure measure". It noted that the modifications that include reverse repos and derivatives reduce the assets included in the calculation and make it easier for banks to meet the requirements. It anticipated that reverse repos and secured funding at trading banks would further decrease, even with the amendments. It expected trading banks' on- and off-balance sheet exposures to reduce as banks make progress in meeting the leverage ratio requirements. It said that banks might take additional risks to benefit from the revised rules, but it noted that it would incorporate the increased risks in the banks' ratings. It considered that global and universal trading banks would be able to build capital and be in compliance with the leverage ratio by 2018, following the dilution of the ratio. It added that many banks will accelerate their compliance with the minimum 3% standard, given that public disclosure starts in 2015.

Source: Fitch ratings

UAE

Lending caps to positively affect banks, GREs and capital markets

Standard & Poor's anticipated that the UAE Central Bank's revision of limits on the amount of credit that domestic banks are allowed to extend to borrowers would support the credit risk profiles of domestic banks and would positively affect government related entities (GREs) and capital markets over the long-term. It noted that banks' investments in marketable bonds and sukuk entities rated 'AA-' or above are exempt from the exposure limits, as long as banks retain these assets until maturity or do not use them to meet the Central Bank's liquidity requirements. As such, it expected banks to push their borrowers that are or that could potentially be rated 'AA-' and above to issue bonds and sukuk rather than to seek traditional loans. Also, it pointed out that GREs that are rated 'BBB-' and above, that are profitable, and that can service their obligations from their own resources without any government support are treated as a single obligor and will not be subject to any aggregate limit. As such, it anticipated this exemption to be an important positive factor for the corporate governance profiles for certain non-rated GREs as they will have an incentive to obtain a credit rating and to manage their business without the reliance on government support. It considered that several major banks might currently be operating with exposures in excess of the stipulated limits, and will have to gradually reduce them over the next five years. It said that substantial reductions over the next few years would be more challenging in practice for Dubai-based banks than for their Abu-Dhabi counterparts. It noted that banks will prefer to increase regulatory capital rather than to call back credit or to sharply cut limits on new exposures.

Source: Standard & Poor's

QATAR

Private sector lending up 17% year-on-year in November 2013

Figures issued by the Central Bank of Qatar show that total assets reached QAR902.9bn, equivalent to \$248bn at the end of November 2013, constituting an increase of 10% from the end of 2012 and a rise of 11.4% from end-November 2012. Loans totaled QAR570.5bn, equivalent to \$156.7bn at end-November 2013, constituting a slight decline of 0.1% month-on-month as the 0.4% marginal increase in private sector lending was offset by a 1% decrease in public sector lending. Also, total loans grew by 12% from the end of 2012 and by 13.4% year-on-year in November 2013, driven by a 16.7% annual increase in private sector credit and a 10.8% rise in public sector lending. In parallel, aggregate deposits totaled QAR533.3bn, equivalent to \$146.5bn at end-November 2013, constituting a marginal decrease of 0.2% from QAR534.1bn in the preceding month, as the 4.2% rise in private sector deposits was offset by a 5% decline in public sector deposits. The sector's total deposits grew by 18.8% year-on-year and by 16.4% from the end of 2012, supported by rising public sector deposits. The loans-to-deposits ratio regressed to 107% at end-November 2013 from 111.3% at end-2012 and 112% a year earlier.

Source: Central Bank of Qatar, Byblos Research

CHINA

Banking sector assessment maintained

Standard & Poor's maintained China's Banking Industry Country Risk Assessment (BICRA) in 'Group 6', 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 BICRA's 'Group 5' also include Colombia, Estonia, India, Italy, Panama, Poland, Trinidad and Tobago, Turkey, and the UAE. Further, it said that China's economic risk score indicates that economic resilience is at "intermediate risk", while its credit risk in the economy and assessment of economic imbalances are both at "high risk". It noted that China's low level of GDP per capita constrains its economic resilience, despite its consistently high GDP growth and good fiscal flexibility. It added that the high risks in economic imbalances and credit risks in the economy reflect the rapid credit expansion from both regular and shadow banking systems. Further, it pointed out that its industry score indicates that the country faces "high risks" in its institutional framework and in its competitive dynamics, and "very low risks" in its system-wide funding. It noted that state ownership and administrative control of deposit rates challenge the banking sector's competitive dynamics, while the rapidly growing shadow banking reveals market distortions and compromises the transparency of banks. But it considered that these weaknesses are offset by the regulators' conservative approach, mainly relating to banks' capital and liquidity requirements, and strong system-wide funding due to China's high savings rate. It indicated that the trend for both economic and industry risk is "stable".

Source: Standard & Poor's



ENERGY / COMMODITIES

Brent oil prices to stay above \$100 a barrel mainly due to supply-led challenges

Brent oil prices are forecast to rise to \$104.8 a barrel on average in 2014, above Bloomberg's consensus of \$103 a barrel, mainly due to unplanned supply-led disruptions and to ongoing production risks in the Middle East and North Africa region. But oil prices could face significant downside pressures this year as there are about 1.1 million b/d of new oil coming on stream from various mega projects. In addition, Iraq and Iran are expected to cause the greatest uncertainty to global oil supply in 2014, while unplanned outages across OPEC and non-OPEC producers would continue to put upward pressures on Brent oil prices. WTI oil prices are forecast to rise in 2014, mainly due to a slower growth rate in U.S. oil production. WTI oil prices are projected to average \$101.5 a barrel in 2014, above Bloomberg's consensus price of \$97 a barrel. According to the International Monetary Fund, the probability of WTI oil prices falling below \$90 a barrel and Brent oil prices decreasing below \$100 a barrel in 2014 is about 40%. However, the risk of WTI prices rising above \$150 a barrel declined to 0.8% from 1.2%, while the probability of WTI prices increasing above \$110 a barrel decreased to 13.5% from 16.4% previously.

Source: Business Monitor International, Byblos Research

South Sudan requests help from Sudan

South Sudan requested engineers from Sudan in order to help it maintain the level of oil production, following the departure of many foreign oil workers due to the ongoing fighting between South Sudan's government forces and rebels loyal to former Vice President Riek Machar. South Sudanese oil production decreased by about 18.4% to between 190,000 b/d and 200,000 b/d from pre-fighting levels in mid-December 2013. Before the conflict, South Sudan had been working to restore its oil output to 350,000 b/d, its level reached prior to the January 2012 dispute with Sudan that shut down output for more than one year.

Source: Thomson Reuters, Byblos Research

KRG to export one million b/d of oil to Turkey at end-January 2014

The Kurdistan Regional Government (KRG) announced that it will start exporting one million b/d of oil through Turkey at the end of January 2014, without the consent of the Iraqi government. Kurdish oil exports are projected to increase to 4 million b/d in February and to 6 million b/d in March of this year. Iraq said that the planned Kurdish oil exports would breach a December 25 agreement with the KRG, and it threatened legal action against any company that trades in "smuggled" Kurdish oil or gas without passing through Iraq's State Organization for the Marketing of Oil (SOMO). The KRG currently holds an estimated 45 billion barrels in oil reserves.

Source: Thomson Reuters, Byblos Research

M&A up 233% in MENA region's oil & gas sector

The total number of completed mergers & acquisition deals that targeted the MENA region's oil & gas sector reached 8 in 2013, up from 5 deals in the previous year. The aggregate value of M&A transactions totaled \$88.1m last year, constituting an increase of 232.8% from \$26.5m in 2012. In parallel, the average value per M&A transaction rose by 108% year-on-year to \$11m in 2013.

Source: Zawya Monitor, Byblos Research

Base Metals: Aluminium prices to regress by 4% in 2014 due to continued market oversupply

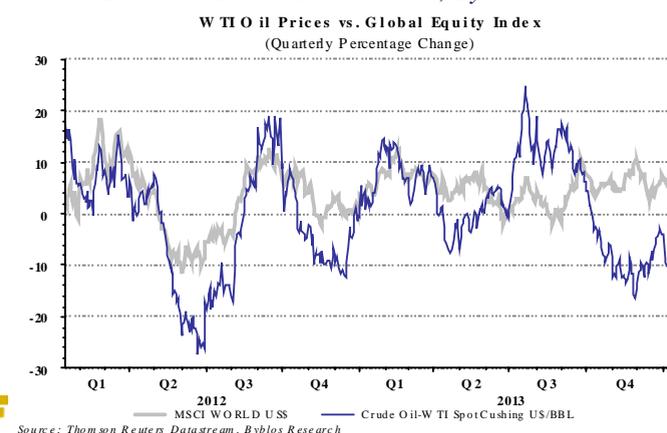
Global aluminium consumption is forecast to reach 52.4 million tons in 2014, up 5.6% from the previous year and compared to a growth rate of 6% in 2013. China's aluminium demand is expected to reach 25.6 million tons this year, equivalent to 49% of global consumption. It would be followed by non-China developing economies with 11.1 million tons (21.2%), EU countries with 8.3 million tons (15.8%) and North America with 7.5 million tons (14.3%). In parallel, global aluminium production is projected to reach 52.9 million tons this year, constituting an increase of 5.9% from 2013 and relative to a growth rate of 3.7% last year. China's aluminium production is projected to reach 26.6 million tons in 2014, equivalent to 50.3% of global output. It would be followed by Europe & North American production with 8.1 million tons (15.3%), Middle Eastern countries with 4.8 million tons (9.1%) and Russia with 3.4 million tons (6.4%). The aluminium market is expected to post surpluses of 0.44 million tons and 0.26 million tons in 2014 and 2015, respectively, as supply outweighs demand. As such, aluminium prices are forecast to reach \$1,813 a metric ton on average in 2014, constituting a decline of about 4% from a year earlier.

Source: Deutsche Bank, Byblos Research

Precious Metals: Gold prices to fall by 18% this year mainly due to metal's lower consumption

Gold prices recovered by about 5% to \$1,251 a troy ounce on January 14, 2014 since reaching a three-year low of \$1,195 a troy ounce in December 2013. But the medium-term outlook for gold prices remains uncertain. Gold prices are projected to decrease due to a rise in US Treasury yields and as the U.S. economy strengthens. Also, the liquidation of gold investments, particularly exchange-traded funds holdings, would continue to rise and offset the price-supportive impact of Chinese demand. In addition, global gold demand growth would be limited by India's import restriction as well as from the reduced appetite of central banks to diversify their reserve holdings away from the US dollar. Gold prices are forecast to average \$1,150 a troy ounce in 2014, down by 18.4% from \$1,409 a troy ounce on average in 2013. According to the International Monetary Fund, the probability of the 12-month forward gold prices dropping below \$900 a troy ounce increased to 5.2% from 3.3% in November; while the probability of gold prices in rising above \$1800 a troy ounce declined to 3% from 4.3% previously, which reflects a weakening in investors' demand.

Source: Business Monitor International, 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
Angola	BB-	Ba3	BB-	-	BB	7.0	28.0	15.9	32.4	3.0	49.1	8.5	0.3
Egypt	B-	Caa1	B-	B-	CCC	-10.9	80.4	13.5	59.0	4.3	324.4	-3.1	0.6
Ethiopia	-	-	-	-	B	-2.3	22.2	18.2	111.2	-	-	-6.1	0.2
Ghana	B	B1	B	-	B	-5.6	44.9	21.5	36.2	-	-	-9.1	3.2
Ivory Coast	-	-	-	-	B	-3.7	62.6	18.8	33.4	-	-	-3.1	0.3
Libya	-	-	B	-	B	19.4	-	6.5	16.5	2.5	-	21.8	-
Dem Rep Congo	B-	B3	-	-	-	-2.4	36.0	21.0	-	-	-	-12.4	16.3
Morocco	BBB-	Ba1	BBB-	-	B	-5.9	58.9	30.8	64.6	4.6	180.2	-8.5	2.5
Nigeria	BB-	Ba3	BB-	-	B	-0.4	14.7	4.8	6.9	0.5	-	3.5	1.9
Sudan	-	-	-	-	C	-4.0	112.1	84.8	159.6	-	-	-7.8	-
Tunisia	-	Ba3	BB-	-	CCC	-5.5	46.7	53.6	103.1	9.3	299.8	-8.7	2.4
Burkina Faso	B	-	-	-	-	-3.2	27.3	23.8	-	2.8	-	-2.1	0.4
Middle East													
Bahrain	BBB	Baa2	BBB	BBB	BB	-1.5	32.4	147.5	399.2	16.2	905.0	3.7	-4.1
Iran	-	-	-	B	CCC	-3.5	14.6	3.2	13.1	17.6	19.1	-1.6	3.8
Iraq	-	-	-	-	CCC	-1.9	76.2	70.9	94.9	-	83.1	23.1	1.5
Jordan	BB-	B1	-	BB-	CCC	-7.1	79.7	57.9	47.8	6.4	213.8	-16.1	5.4
Kuwait	AA	Aa2	AA	AA-	A	28.2	6.9	19.0	16.7	12.4	142.9	40.5	-4.4
Lebanon	B-	B1	B	B	CCC	-9.7	140.7	102.1	131.1	19.2	118.0	-12.6	1.1
Oman	A	A2	-	A	A	7.0	4.9	18.2	23.5	3.4	101.7	11.3	3.8
Qatar	AA	Aa2	-	AA-	AA	6.5	35.6	69.7	94.4	11.6	704.8	32.9	0.2
Saudi Arabia	AA-	Aa3	AA-	AA-	A	15.5	5.7	13.7	21.8	2.1	13.3	28.3	2.1
Syria	-	-	-	-	CC	-16.3	48.5	-	87.7	-	-	-13.3	0.3
UAE	-	Aa2	-	AA-	BB	4.4	22.4	51.1	36.6	4.4	476.9	16.4	1.0
Yemen	-	-	-	-	CC	-5.7	44.9	17.8	72.4	-	157.5	-2.7	-



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+	-	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	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
Emerging Markets					
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



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