

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Downgrades outpace upgrades in 2013

Standard & Poor's indicated that it downgraded 568 issuers worth \$4,898bn in rated debt and upgraded 488 issuers worth \$2,226bn in rated debt globally in 2013. It noted that the global downgrade ratio which is the proportion of downgrades to total rating actions, stood at 53.8% last year compared to the historical average of 62% since 1987, constituting the lowest level in four years. In parallel, S&P downgraded 542 corporate issuers, representing \$2,558bn in rated debt last year, while it upgraded 479 corporate issuers worth \$1,634bn. The U.S. had 262 downgrades worth a total of \$611bn and 296 upgrades representing \$991bn; followed by Europe with 132 downgrades (\$1,736bn) and 83 upgrades (\$325bn), other developed economies with 53 downgrades (\$101bn) and 36 upgrades (\$96bn), Latin America with 52 downgrades (\$71bn) and 29 upgrades (\$162bn), Eastern Europe, the Middle East & Africa (EEMEA) with 22 downgrades (\$17bn) and 18 upgrades (\$41bn), and Asia-Pacific with 21 downgrades (\$22bn) and 17 upgrades (\$18bn). Further, the agency downgraded 26 sovereigns for a total of \$2,340bn in 2013, while it upgraded nine sovereigns representing \$592bn. The EEMEA had 10 downgrades worth a total of \$85bn and two upgrades representing \$9bn; followed by Latin America with eight downgrades (\$1,825bn) and four upgrades (\$534bn), Europe with eight downgrades (\$429bn) and two upgrades (\$17bn), and Asia-Pacific with one upgrade (\$33bn).

Source: Standard & Poor's

Positive outlook for global M&As in 2014

EY's Global Capital Confidence Barometer expects global mergers & acquisitions (M&A) to increase in 2014 after falling in the past five years, driven by high confidence in the global economy, enhanced credit availability, and the implementation of growth strategies. The survey indicated that 69% of respondents expect global M&A deal volume to increase over the next 12 months, while 26% of participants said that it will remain the same. Also, 35% of executives acknowledged that they will pursue an acquisition in the next 12 months, driven by the significant increase in the number and quality of acquisition opportunities, as well as the substantial improvement in the likelihood of deal closing. Further, 58% of companies acknowledged that they will focus on growth over the next 12 months as continued operational efficiency and cost control measures have largely eliminated concerns about stability and survival. In parallel, 38% of respondents cited increased global political instability as the greatest risk to their business over the next six to 12 months, followed by persistence of the Eurozone crisis (28% of participants), failure to manage the withdrawal of the U.S. quantitative easing program (22% of respondents) and continued slow economic growth in China (12% of participants). The survey noted that only 21% of respondents have confidence in short-term market stability. As such, it said that companies are carefully managing the rate at which they are implementing their growth and investment strategies.

Source: EY

MENA

Equity issuance down 39% to \$4.2bn in 2013

Figures issued by Thomson Reuters show that Equity Capital Markets' (ECM) issuance in the Middle East reached \$4.2bn in 2013, down 39.1% from \$6.9bn in 2012. The drop in ECM issuance is mainly due to an 80% decrease in follow-on offerings. Initial public offerings totaled \$2.7bn last year, their highest level since 2008, and accounted for 66% of ECM activity in the region; while follow-on offerings' share fell from 69% in 2012 to 23% last year. The telecommunications sector was the most active sector last year with total issuance of \$1.3bn, or 31% of ECM activity, followed by the industrial sector with \$641m (15.3%) and the financial sector with \$518m (12.3%). Also, debt issuance in the region totaled \$38.6bn in 2013, constituting a marginal decrease of 0.5% from \$38.8bn in 2012. Islamic debt issuance reached \$32.5bn from 85 issues last year, constituting a decline of 11% from the previous year. Further, the volume of mergers and acquisitions (M&A) reached \$43.4bn in 2013, up 6.6% from \$40.7bn in 2012, and posted the strongest activity level since 2010. In parallel, investment banking and advisory fees in the Middle East stood at \$722.2m in 2013, reflecting a rise of 19.8% from \$602.6m in 2012. Syndicated lending fees totaled \$303m and accounted for 42% of the overall fee pool, followed by fees from M&A deals with \$212.8m (29.5%), debt capital markets fees with \$144.1m (20%), and equity capital markets with \$62.4m (8.6%).

Source: Thomson Reuters

Value of completed construction projects at \$70bn in 2013, new projects at \$71bn

Figures released by management consulting firm Ventures Middle East show that the value of completed construction projects in the Gulf Cooperation Council (GCC) economies totaled \$70bn in 2013, while that of projects awarded amounted to \$71bn. Completed residential construction projects accounted for 43.3% of the total value, followed by commercial projects with 18.2%, educational buildings with 10%, hospitality projects with 6.6%, medical buildings with 3.4% and retail projects with 2.6%. Ventures ME forecast the value of construction projects to be completed in GCC countries this year at \$83.4bn and that of projects to be awarded at \$82.8bn. It expected projects that would be completed in the healthcare sector to more than triple to \$8.4bn this year. But it noted that the residential and commercial sectors will continue to be the market's main drivers. In parallel, the value of the GCC interior contracting and fit-out market rose by 8% to \$7.8bn last year. Saudi Arabia was the largest market with \$3.7bn or 47.4% of the total, followed by the UAE with \$2.4bn (30.6%) and Qatar with \$953m (12.2%). The residential sector accounted for almost \$3.3bn, followed by the commercial sector with \$1.4bn and the hospitality sector with \$1.1bn. Ventures ME projected the GCC interior contracting and fit-out market at \$9.2bn this year, with the residential sector accounting for 36% of the total, followed by the hospitality sector with 19.8% and the commercial sector with 15.7%.

Source: Ventures Middle East

OUTLOOK

EMERGING MARKETS

Growth to pick up to 5.1% in 2014

The United Nations projected growth in developing economies at 5.1% in 2014 compared to a growth rate of 4.6% in 2013, and relative to growth rates of 3% for the global economy and 1.9% for developed economies. It expected economic activity in East Asia to marginally accelerate to 6.1% this year from 6% last year, mainly driven by a gradual recovery in export growth. It anticipated that private consumption and investment would continue to expand at a solid pace, supported by stable labor market conditions, low inflation rates, accommodative monetary policies and expansionary fiscal policies. It projected Africa's real GDP growth at 4.7% in 2014 compared to 4% in 2013, supported by an improving global and regional business environment, relatively high commodity prices, easing infrastructure constraints and increasing trade and investment ties with other emerging economies. It forecast real GDP growth in South Asia at 4.6% in 2014 compared to 3.9% in 2013, driven by a gradual recovery in India, an end to the recession in Iran and a recovery in external demand. But it noted that private consumption and investment will remain constrained by energy and investment bottlenecks, volatile security conditions and macroeconomic imbalances. It projected Western Asia's real GDP growth at 4.3% this year relative to 3.6% in 2013, supported by solid economic activity in the Gulf Cooperation Council countries. It forecast growth in Latin America & the Caribbean at 3.6% in 2014 compared to 2.6% in 2013, due to a better economic activity in Mexico and Central America.

In parallel, the United Nations indicated that several developing economies continue to face significant challenges that include high unemployment rates, a lack of economic diversification and poor infrastructure, mainly in the energy sector. Further, it noted that developing economies' prospects are subject to a number of risks and uncertainties. It noted that the reduction of the U.S. Federal Reserve's quantitative easing program would significantly affect capital flows and exchange rates. It anticipated that most currencies in developing economies would remain under depreciating pressure this year.

Source: United Nations

Net private capital inflows to decrease by 3.6% to \$1,079bn in 2014

The Institute of International Finance projected net private capital inflows to emerging markets at \$1,079bn in 2014, constituting a decrease of 3.6% from \$1,119bn in 2013, but a rise of \$50bn from its forecast in October. It revised upwards its October forecast for inflows to Emerging Asia by \$38bn to \$511bn, to Emerging Europe by \$20bn to \$212bn, and to the Middle East & Africa by \$3bn to \$87bn; while it revised downwards its projections for inflows to Latin America by \$10bn to \$269bn for 2014. It forecast net private capital inflows to emerging markets at \$1,138bn in 2015. The IIF anticipated that capital inflows would gradually rebound in line with the global recovery and the U.S. Federal Reserve's reduction of its Quantitative Easing program. It pointed out that the main downside risk for aggregate flows is market expectations about the timing of the Federal Reserve's policy rate hiking. It considered

that countries with large external financing requirements, macroeconomic policy gaps and political uncertainties are the most vulnerable.

The IIF forecast net direct investment to emerging economies at \$560bn in 2014 and \$585bn in 2015 compared to \$554bn in 2013. It estimated net portfolio investment at \$84bn last year and expected inflows to increase to \$104bn in 2014 and \$112bn in 2015. Also, it forecast net commercial bank lending to remain unchanged at \$135bn in 2014 from 2013 and to rise to \$154bn in 2015. It estimated net non-bank private lending to drop from \$345bn in 2013 to \$280bn in 2014 and \$288bn in 2015. It revised upwards by \$31bn its forecast for net direct investment for 2014, by \$13bn for non-bank private lending and by \$11bn for net portfolio investment; while it revised downwards by \$5bn its projections for net commercial bank lending.

Source: Institute of International Finance

ALGERIA

Economy performing below potential, hydrocarbon-related vulnerabilities to increase

The International Monetary Fund projected Algeria's real GDP growth at 4.3% in 2014, compared to an estimated growth rate of 2.7% in 2013. It forecast non-hydrocarbon growth at 5.3% this year relative to 5.9% last year. It pointed out that the economy continues to perform below its potential, and at a slower pace than the growth level required to significantly reduce the unemployment rate estimated at about 10% in 2013. It said that the economy is vulnerable to a prolonged decline in global oil prices, a worsening of the global environment and an intensification of regional tensions. It added that Algeria has become more vulnerable to developments in the hydrocarbon sector, as the decline in hydrocarbon production and the surge in domestic consumption are weighing on export volumes. It forecast the average inflation level at 4.5% this year, unchanged from last year and compared to 8.9% in 2012. But it cautioned that new inflationary pressures could arise following the recent surge in bank lending and the new increase in public sector wages.

In parallel, the IMF forecast the fiscal deficit to widen to 2.1% of GDP this year from 0.2% of GDP last year. It considered that the government's fiscal policy is not on a sustainable path despite the ongoing consolidation process. It encouraged the government to contain the wage bill, to gradually eliminate subsidies, to stabilize transfers to public entities and to reduce tax exemptions. It called on authorities to adopt a new fiscal rule to better manage hydrocarbon revenue volatility and achieve fiscal sustainability, to increase the transparency of hydrocarbon revenue collection and to develop an integrated financial management information system. Further, the Fund considered that increasing hydrocarbon production and strengthening reserves would preserve fiscal and external sustainability. It called on the government to improve the business environment, attract foreign direct investment into the hydrocarbon sector and implement the national oil company's investment plan. It said that reducing subsidies would help contain domestic energy consumption and support exports.

Source: International Monetary Fund



ECONOMY & TRADE

SYRIA

Economy losing \$109m in daily output

The United Nations Economic and Social Commission for Western Asia (ESCWA) estimated that the conflict in Syria costs the economy \$109m in GDP per day and eight years in development per year. It said that the country has lost 37 years in development since the start of the conflict in 2011. It cautioned that Syria would become a failed state by 2015 if the conflict continues. Further, the ESCWA said that Syria risks losing a whole generation of human potential given that 38% of students are currently not enrolled in the educational system. It added that the unemployment rate has reached 42%, with about 10,000 persons losing their jobs every week. It indicated that 9,000 Syrians fall below the poverty line each day; 6,000 persons die every month and 300 people flee their homes every hour. Overall, it estimated that, if the conflict ends today, it would take about seven years of high economic growth for the Syrian economy to recover to the pre-crisis level of economic activity. In parallel, the Syrian Center for Policy Research estimated the total economic losses from the start of the conflict up until the second quarter of 2013 at \$103.1bn in current prices, equivalent to 174% of the country's 2010 GDP. It said that losses from damaged capital stock totaled \$49.6bn during the covered period and accounted for 48.2% of total economic losses, followed by output loss with \$47.9bn (46.5%) and the increase in military spending with \$5.5bn (5.4%). It estimated total economic losses at \$17.6bn in the second quarter of 2013 and at \$23.4bn in the first quarter of 2013, relative to losses of \$49.5bn in 2012 and \$12.6bn in 2011.

Source: ESCWA, Syrian Center for Policy Research

IRAQ

Iraq's creditworthiness in line with 'BB'-rated sovereigns

Merrill Lynch estimated Iraq's sovereign rating at around 'BB', constituting an upgrade from 'CCC' in 2007. It attributed the improvement in Iraq's creditworthiness to the threefold increase in its GDP per capita between 2007 and 2012, the significant decrease in its inflation level and the strengthening of its external balance on the back of rising global oil prices and domestic production. It noted that Iraq is broadly well-placed compared to similarly-rated countries given its increasing oil production, faster real GDP growth and fiscal and current account surpluses. It added that the debt relief strengthened Iraq's external balances and allowed the accumulation of external assets to levels consistent with peers. But it said that Iraq ranks poorly in terms of political risks compared to similarly-rated countries. In parallel, Merrill Lynch considered that Iraq has investment grade potential over the medium- to long-term, assuming that oil production reaches 6.7 million barrels per day by 2024. It added that Iraq's macroeconomic balances could strengthen to levels broadly in line with 'BBB-' rated countries. But it said that even if hydrocarbon production increases and macroeconomic indicators strengthen, authorities still need to address the weak state of the country's institutional and political framework. It added that strengthening the political process and rule of law constitutes a key factor to Iraq's creditworthiness over time.

Source: Merrill Lynch

ARMENIA

Economy is "moderately free", ranks 41st globally on Economic Freedom Index

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2014, a broad indicator of economic freedom in 178 countries, ranked Armenia in 41st place globally, ahead of Latvia and Macedonia; and behind Jordan and Brunei Darussalam. Armenia also ranked second among the Commonwealth of Independent States (CIS), behind only Georgia. The index evaluates individual economies on the basis of 10 broad factors of economic freedom. Armenia came in the "moderately free" category with a 68.9% level of economic freedom, a marginal decline from 69.4% in 2013, mainly due to deteriorations in business, investment and fiscal freedom; while it remains above the global average of 60.3% and the CIS average of 56.4%. Armenia's score improved by 26.7 percentage points since the inception of the index, constituting the fourth largest increase globally. Armenia ranked in 19th place globally in Financial Freedom, in 27th place in Business Freedom, in 35th place in Labor Freedom, in 46th place in each of Investment, Fiscal and Trade Freedoms, in 49th place in Government Spending, in 73rd place in Monetary Freedom, in 93rd place in Property Rights, and in 124th place in Freedom from Corruption. Regionally, Armenia ranked first in Financial Freedom, second in Business and Investment Freedom, third in Trade Freedom, Government Spending, Property Rights and Freedom from Corruption, and fourth in Monetary and Labor Freedoms, and ninth in Fiscal Freedom.

Source: Heritage Foundation, Byblos Research

CÔTE d'IVOIRE

Current account to remain in deficit between 2014 and 2018

Business Monitor International projected Côte d'Ivoire's current account deficit to narrow from 2.9% of GDP in 2013 to 1.8% of GDP in 2014, supported by rising cocoa prices. But it anticipated Côte d'Ivoire's current account deficit to widen to 2.5% of GDP in 2014 and to reach 4.4% of GDP by 2018. It attributed the widening of the deficit to stagnating cocoa production and high import demand for capital goods. It expected cocoa production to grow by less than 1% annually during the 2014-18 period due to low fertilizer use, less favorable weather conditions and poor revenues for farmers. It considered that the stagnating cocoa production in Côte d'Ivoire, that accounts for around 36% of global cocoa production, as well as the significant improvement in cocoa demand, mainly from Europe, will keep upward pressure on cocoa prices over the medium-term. It said that the weak cocoa production will adversely affect the country's export revenues over the medium-term as cocoa will continue to account for a substantial share of exports. But it considered that the outlook for the country's balance-of-payments remains favorable, supported by robust foreign direct investment inflows. It noted that solid economic activity and a reform-oriented government would sustain foreign interest in the country. It cautioned from a deterioration in the security situation that would slow down reform momentum and deter foreign investments.

Source: Business Monitor International



BANKING

UAE

Banking sector risk assessment maintained

Standard & Poor's maintained the UAE's Banking Industry Country Risk Assessment (BICRA) in 'Group 5', and its economic and industry 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 systems and 'Group 10' the riskiest ones. S&P noted that other countries in BICRA's 'Group 5' include China, India, Poland, Turkey, Italy, Colombia, and Panama. In parallel, the agency indicated that the UAE's economic risk score reflects its "low risks" in economic resilience and "high risks" in economic imbalances and credit risks in the economy. It added that economic imbalances and credit risks in the economy reflect high levels of uncertainty in renegotiated and restructured lending, limited legal infrastructure and relaxed underwriting standards. It considered that the recovery in the real estate sector is still fragile and expected credit losses to remain well above their pre-2008 levels over the next 12 to 18 months, mainly for Dubai-based banks. Further, it pointed out that the industry score reflects the country's "high risks" in its institutional framework and "intermediate risks" in its competitive dynamics and system-wide funding. It noted that the banking sector has high profit rates, adequate corporate governance and a strong customer deposit base. It indicated that the trend for economic risk is "positive" while that for industry risk is "stable".

Source: Standard & Poor's

EGYPT

Banks' exposure to government debt up 21% year-on-year in October 2013

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,647bn at the end of October 2013, constituting an increase of 14.3% from end-2012 and a rise of 14.7% from end-October 2012. The private sector's aggregate lending reached EGP508bn and rose by 6.4% from end-2012 and by 7.5% year-on-year. Banks' exposure to government securities totaled EGP628.7bn and rose by 14.2% from end-2012 and by 20.6% from a year earlier. Banks' sovereign exposure in local currency stood at EGP570bn and increased by 13.5% from end-2012 and by 18.4% year-on-year; while their exposure in foreign currency reached the equivalent of EGP58.6bn and grew by 22.3% from end-2012 and by 47.8% from a year earlier. Further, total deposits reached EGP1,242bn, constituting an increase of 13.8% from end-2012 and of 16.7% from a year earlier, with private sector deposits totaling EGP1,099bn at end-October 2013 and rising by 13.3% from end-2012 and by 16% year-on-year. Private sector deposits in foreign currency rose by 11.7% year-on-year to the equivalent of EGP217.2bn at the end of October 2013; while private sector deposits in local currency rose by 17.2% from end-October 2012 to EGP881.6bn. The dollarization rate of private sector deposits reached 19.8% at the end of October 2013 relative to 20.5% a year earlier. The private sector loans-to-deposits ratio was 46.2% relative to 50% a year earlier.

Source: Central Bank of Egypt, Byblos Research

TURKEY

Interest rates increase reduces capital flow vulnerability

Fitch Ratings indicated that the Central Bank of Turkey's (CBT) decision to increase interest rates would reduce the sovereign's vulnerability to short-term capital outflows and would ease the pressure on the Turkish lira and on foreign currency reserves. It said that the increase in rates would depress domestic demand and renew concerns about a slowdown in economic activity. But it noted that the appreciation of the lira and the improved prospects for a global economic recovery would support higher net Turkish exports and a faster current account adjustment. Also, it considered that the CBT's actions would reinforce market confidence in its independence and its credibility as a policy-making institution. It added that the CBT's decision to simplify its operational framework is important given that its current framework has created policy and investor uncertainty. Further, Fitch said that the increase in interest rates broadly supports Turkish banks' credit profiles by reducing overall risks to macroeconomic stability. It noted that a more stable lira would reduce banks' foreign exchange risks resulting from lending in foreign currency to unhedged corporate borrowers. However, the agency indicated that banks' asset quality would weaken given that higher rates would reduce the affordability of debt repayments and would lower economic growth. It added that higher rates would weigh on margins as deposits continue to re-price more quickly than loans.

Source: Fitch Ratings

MOZAMBIQUE

Capital adequacy ratio at 15.1%, NPLs at 3% at end-July 2013

The risk-weighted capital adequacy ratio of banks operating in Mozambique reached 15.1% at the end of July 2013 relative to 17.9% at the end of 2012 and 17.1% at end-2011. Also, the banks' Tier One capital ratio was 14.4% at end-July 2013 relative to 16.9% at end-2012 and 16.1% at end-2011. The sector's liquid assets reached 28.4% of total assets at end-July 2013 relative to 33.4% in 2012 and 27.8% in 2011. Total customer deposits were equivalent to 136.6% of total loans at end-July 2013, compared to 143.8% in 2012 and 131.6% in 2011. Also, foreign currency loans accounted for 27.8% of total loans at the end of July 2013 relative to 28.1% in 2012 and 25.1% in 2011. The sector's non-performing loans were equivalent to 3% of total loans at end-July 2013, down from 3.2% at end-2012 and up from 2.6% at end-2011. Further, the sector's NPLs net of provisions-to-capital ratio increased to 7.2% at end-July 2013 from 6.8% at end-2012 and 6.6% at end-2011. In parallel, banks' annualized return on assets reached 2% at end-July 2013, up from 1.9% in 2012 and relative to 2.5% in 2011; while their annualized return on equity reached 22.4% at end-July 2013 relative to 19.6% in 2012 and 26.5% in 2011. The sector's interest margin-to-gross income reached 56.1% at end-July 2013 compared to 58.9% in 2012 and 64.9% in 2011; while non-interest expenses-to-gross income stood at 64.5% at the end of July relative to 66.1% in 2012 and 61.3% in 2011.

Source: International Monetary Fund



ENERGY / COMMODITIES

Natural gas to account for 31% of primary energy consumption in OECD by 2035

Global natural gas demand is expected to grow by 1.9% per year during the 2012-35 period and to reach 497 billion cubic feet per day by 2035. Natural gas consumption in the Organization for Economic Cooperation and Development (OECD) countries is forecast to grow by 1% per year during the covered period, while that of non-OECD countries would rise by 2.7% per year. Natural gas is projected to surpass crude oil as the most consumed fuel in the OECD by 2031, and would account for 31% of primary energy consumption by 2035. But natural gas consumption in non-OECD economies would remain lower than that of coal and oil. Natural gas demand by the industrial sector is expected to grow by 1.9% per year during the 2012-35 period, constituting the fastest growing segment in volume terms. The power sector is projected to be the main driver of natural gas demand in OECD countries, while the industrial sector would remain the main driver of demand in non-OECD economies. In parallel, global natural gas supply is expected to grow by 1.9% per year during the 2012-35 period. Shale gas is projected to remain the fastest growing source of global supply at 6.5% per year, and would provide about 50% of the growth in output.

Source: BP

Iraq to significantly raise oil production in 2015

Iraq plans to increase its crude oil production to 4.7 million b/d in 2015 from a current supply level of over three million b/d. It recently announced that it is seeking to raise its crude oil output to more than 4 million b/d in 2014, while it indicated that it could raise its oil exports to 3.4 million b/d this year, which includes 400,000 b/d from the Iraqi Kurdistan Region. Iraq's long-term energy plan is to raise crude oil supply to 9 million b/d by 2020 and maintain that level for 20 years. Iraq currently holds an estimated 150 billion barrels of proven oil reserves.

Source: Thomson Reuters, Byblos Research

Middle East energy consumption to grow by 77% by 2035

The Middle East region's energy production is expected to grow by 37% during the 2012-35 period, while its energy consumption is projected to rise by 77% during the covered timeframe. The region's oil production is forecast to increase by 22%, while local demand is anticipated to grow by 55% during the 2012-35 period. The Middle East is projected to remain the world's largest oil producer and exporter during the covered period, as its share of global supply is projected to grow from 32% currently to 34% in 2035.

Source: BP

OPEC capable of avoiding oil supply shock

The Organization of Petroleum Exporting Countries (OPEC) indicated that it will be able to handle additional crude oil supply expected from Iran, Iraq and Libya. Saudi Arabia, OPEC's leading producer, as well as the UAE and Kuwait, have previously raised their own supply to fill the gap left from supply-led challenges in Libya, Iraq and Iran. But a resolution of these issues could add at least two million barrels per day (b/d) to global production, which would lead OPEC members to cut back on production, instead of causing oil prices to decrease.

Source: Thomson Reuters, Byblos Research

Base Metals: Aluminium prices to decrease by 2% in 2014 as production outweighs demand

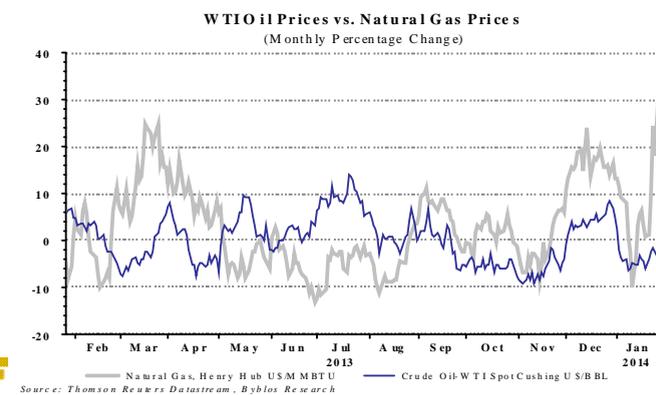
Aluminium consumption growth is expected to lag that of production in 2014 due to slowing Chinese demand growth and to weak fundamentals in the developed world. Global aluminium consumption is anticipated to rise by 3.5% year-on-year to 48.5 million tons in 2014. Chinese consumption, which is equivalent to about 40% of the metal's global demand, is projected to slow to an annual average of 4.7% through 2017, constituting a significant slowdown from the previous 10 years. Aluminium consumption in automotive and aerospace manufacturing is forecast to remain an important driver of the metal's global demand growth. In parallel, global aluminium production is expected to grow by 3.6% to 49.7 million tons in 2014 and to rise by an annual average growth rate of 3.2% during the 2014-17 period. Chinese production is projected to remain strong in coming quarters. As such, Chinese aluminium exports could increase in coming quarters and would further add to the global surplus. Aluminium prices are expected to trade at between \$1,750 a ton and \$1,850 a ton in the near term. Overall, aluminium prices are forecast to decrease by 2% year-on-year to \$1,850 a ton on average, below Bloomberg's consensus of \$1,877 a ton, in 2014.

Source: Business Monitor International, Byblos Research

Precious Metals: Gold prices to ease due to economic recovery and to monetary policy tightening

Gold prices are forecast to average \$1,240 a troy ounce in the first quarter of 2014, constituting a decrease of 2.7% from the preceding quarter and a decline of 24% from the same quarter last year. Overall, gold prices are projected to decline by 11.8% in 2014 to \$1,245 a troy ounce on average as the global economic recovery strengthens and monetary tightening materializes, which would lead more investors out of the gold market. However, the decline in prices may reverse in late 2015 and into 2016. The gold market surplus is expected to get smaller in 2014 as jewelry demand proves resilient and the ETF market stabilizes, while it would shift into deficit in 2015 due to weaker supply growth and still-strong jewelry demand. Global gold supply is forecast to remain on a declining trend in 2014 and 2015 as the metal's lower prices hold back miners and recyclers' activities. Also, constant gold purchases by central banks would further constrain supply as they continue to diversify their reserve holdings. In parallel, gold consumption is projected to return to positive growth due to the metal's lower prices, which would strengthen jewelry consumption, as well as to persistent concerns about inflation in developing countries.

Source: Economist Intelligence Unit, 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	-2.2	14.3	1.5	7.0	1.4	-	2.9	-
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	BB	1.2	33.2	22.8	-21.1	2.6	76.5	7.1	-1.6
	Stable	Stable	Positive	-	Stable								
Egypt	B-	Caa1	B-	B-	CCC	-13.6	97.5	14.6	74.0	4.7	343.8	-2.1	0.9
	Stable	Negative	Stable	Negative	Stable								
Ethiopia	-	-	-	-	B	-2.8	22.5	18.9	110.6	-	-	-6.4	2.5
	-	-	-	-	Stable								
Ghana	B	B1	B	-	B	-10.2	51.2	27.8	54.1	3.2	247.3	-11.9	7.1
	Negative	Negative	Stable	-	Stable								
Ivory Coast	-	-	-	-	B	-3.1	41.5	17.3	95.0	-	-	-2.9	3.0
	-	-	-	-	Stable								
Libya	-	-	B	-	B	-4.5	4.5	7.9	-304.0	3.0	-	6.3	-
	-	-	Stable	-	Stable								
Dem Rep Congo	B-	B3	-	-	-	0.1	35.1	39.7	73.6	1.5	6.0	-2.1	10.2
	Stable	Stable	-	-	-								
Morocco	BBB-	Ba1	BBB-	-	B	-6.1	62.0	38.5	89.7	6.9	250.8	-7.3	2.8
	Negative	Negative	Stable	-	Stable								
Nigeria	BB-	Ba3	BB-	-	B	-1.9	20.1	5.6	13.4	0.4	33.0	3.3	2.3
	Stable	Stable	Stable	-	Stable								
Sudan	-	-	-	-	C	-2.0	100.0	85.8	-	-	-	-11.9	-
	-	-	-	-	Stable								
Tunisia	-	Ba3	BB-	-	CCC	-7.1	47.4	54.1	111.0	9.8	333.9	-5.8	2.0
	-	Negative	Negative	-	Stable								
Burkina Faso	B	-	-	-	-	-2.3	31.4	23.8	113.7	2.7	263.7	-5.2	0.4
	Stable	-	-	-	-								
Middle East													
Bahrain	BBB	Baa2	BBB	BBB	BB	-5.9	39.9	142.4	44.2	15.3	611.5	5.3	0.3
	Stable	Negative	Stable	Stable	Stable								
Iran	-	-	-	B	CCC	-4.5	21.9	1.7	22.3	17.6	22.6	-0.5	-
	-	-	-	Negative	Stable								
Iraq	-	-	-	-	CCC	-0.6	41.0	12.5	51.7	-	-	5.5	-
	-	-	-	-	Stable								
Jordan	BB-	B1	-	BB-	CCC	-6.1	83.9	63.3	52.2	10.2	260.4	-10.2	4.9
	Negative	Stable	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	31.3	6.5	16.3	30.7	7.2	110.5	43.2	-4.8
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B-	B1	B	B	CCC	-11.1	143.9	81.8	144.6	21.0	122.0	-11.3	4.7
	Negative	Negative	Negative	Stable	Stable								
Oman	A	A1	-	A	A	3.3	4.0	19.4	18.1	3.6	101.1	7.3	2.4
	Negative	Stable	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	7.3	32.0	87.8	75.8	12.7	481.9	27.6	-0.2
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA-	AA-	A	8.7	3.7	12.9	36.0	1.8	12.4	20.1	1.1
	Positive	Stable	Positive	Stable	Stable								
Syria	-	-	-	-	C	-14.0	57.4	20.7	-	-	-	-14.1	-
	-	-	-	-	Negative								
UAE	-	Aa2	-	AA-	BB	13.6	32.1	49.2	25.9	3.9	366.8	15.7	1.8
	-	-	-	Stable	Stable								
Yemen	-	-	-	-	CC	-5.8	48.1	16.4	49.7	-	-	-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								
Asia													
Armenia	-	Ba2	BB-	-	-	-2.2	45.5	74.8	125.1	18.8	553.5	-9.0	3.4
	-	Stable	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-2.1	27.7	8.4	31.0	1.6	21.5	2.0	2.1
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-8.0	67.9	23.5	18.7	5.8	173.3	-3.9	1.9
	Negative	Stable	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB-	-	BB	4.8	13.2	59.8	148.2	18.4	728.3	0.9	5.7
	Stable	-	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa3	BBB-	-	BB	-2.0	18.2	93.2	136.0	20.9	282.3	-0.6	3.1
	Stable	Stable	Stable	-	Stable								
Romania	BB+	Baa3	BBB-	-	B	-2.7	38.4	75.2	150.1	21.3	281.8	-1.7	1.5
	Stable	Negative	Stable	-	Stable								
Russia	BBB	Baa1	BBB	-	BBB	-0.7	14.1	29.4	85.1	25.4	139.6	2.6	0.1
	Stable	Positive	Stable	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-1.8	34.4	45.7	116.4	27.0	327.4	-7.5	1.2
	Stable	Stable	Stable	Stable	Stable								
Ukraine	B	B3	B	-	CC	-4.3	43.0	79.4	141.5	28.2	759.4	-7.0	4.4
	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 2013



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	09-Jan-14	No change	06-Feb-14
UK	Bank Rate	0.50	09-Jan-14	No change	06-Feb-14
Japan	O/N Call Rate	0-0.10	22-Jan-14	No change	14-Feb-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	22-Jan-14	No change	05-Mar-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	26-Dec-13	No change	25-Mar-14
South Korea	Base Rate	2.50	09-Jan-14	No change	13-Feb-14
Malaysia	O/N Policy Rate	3.00	07-Nov-13	No change	29-Jan-14
Thailand	1D Repo	2.25	22-Jan-14	No change	12-Mar-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	22-Jan-14	No change	18-Feb-14
South Africa	Repo rate	5.00	03-Dec-13	No change	29-Jan-14
Kenya	Central Bank Rate	8.50	Jan-14	No change	11-Mar-14
Nigeria	Monetary Policy Rate	12.00	21-Jan-14	No change	25-Mar-14
Ghana	Prime Rate	16.00	27-Nov-13	No change	19-Feb-14
Angola	Base rate	9.25	Nov-13	Cut 50bps	N/A
Mexico	Target Rate	3.50	06-Dec-13	Cut 25bps	31-Jan-14
Brazil	Selic Rate	10.50	15-Jan-14	Raise 50bps	26-Feb-14
Armenia	Refi Rate	7.75	24-Dec-13	Cut 25bps	11-Feb-14
Romania	Policy Rate	3.75	08-Jan-14	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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