

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

FDI up 10% to \$885bn in 2013

Figures released by the United Nations Conference on Trade & Development (UNCTAD) show that foreign direct investment (FDI) in developing and transition economies reached \$885bn in 2013, constituting an increase of 10.3% from \$802bn in 2012. FDI in developing economies reached a record high of \$759bn last year, up 6.2% year-on-year; and inflows to transition economies reached a record high of \$126bn, up 45.1% from 2012. In comparison, FDI in developed countries totaled \$576bn in 2013 and increased by 11.6% from the preceding year; while global FDI reached \$1,461bn and rose by 11% year-on-year. FDI in developing and transition economies accounted for 60.6% of global FDI and exceeded FDI in developed economies by \$309bn. In parallel, FDI in Latin America & the Caribbean reached \$294bn and accounted for 38.7% of inflows to developing economies; followed by East Asia with \$219bn (29%); South-East Asia with \$116bn (15.3%), Africa with \$56bn (7.4%), West Asia with \$38bn (5%) and South Asia with \$33bn (4.3%). Further, FDI in Latin America rose by 17.5% year-on-year, followed by Africa (+6.8%), South Asia (+3.2%), South-East Asia (+2.4%) and East Asia (+1.1%); while FDI in West Asia fell by 19.6%.

Source: UNCTAD

New bond issuance at \$425bn in 2014

Merrill Lynch projected corporate and sovereign bond issuance in emerging markets at \$425bn in 2014, that include \$283bn in investment grade bonds and \$142bn in high-yield bonds. Bond issuance in Emerging Europe, the Middle East & Africa (EMEA) would reach \$173bn or 40.7% of total issuance this year, followed by Latin America with \$131bn (30.8%) and Emerging Asia with \$122bn (28.7%). Corporate bond issuance would total \$330bn in 2014, and would include \$230bn in investment grade bonds and \$100bn in high-yield bonds. The corporate segment in EMEA, Latin America and Emerging Asia would issue \$110bn each this year. Also, sovereign bond issuance would total \$95bn in 2014 and would include \$53bn in investment grade bonds and \$42bn in high-yield bonds. Sovereign bond issuance in EMEA would reach \$63bn or 66.3% of total sovereign issuance this year, followed by Latin America with \$21bn (22.1%) and Emerging Asia with \$12bn (12.6%). In parallel, Merrill Lynch projected the aggregate size of the bond market in emerging markets at \$1,664bn at the end of 2014, including \$1,081bn in corporate bonds and \$584bn in sovereign bonds. As such, new corporate issuance would account for 30.5% of total corporate bonds, while new sovereign issuance would represent 16.3% of total sovereign bonds. Further, it projected debt servicing at \$210bn this year, equivalent to 49.3% of total new issuance. It forecast debt servicing in the corporate sector at \$132bn in 2014, equivalent to 40% of new corporate issuance, and that in the sovereign segment at \$78bn, equivalent to 82% of new sovereign issuance.

Source: Merrill Lynch

MENA

Equity markets up 4% in January 2014

Arab stock markets increased by 4% and GCC markets rose by 3.3% in January 2014 compared to increases of 3.6% and 4.2%, respectively, in the same month of 2013. Activity on the Beirut stock exchange increased by 23% in January 2014 and posted the best performance among Arab markets during the month. It was followed by the Dubai financial market with an 11.9% improvement, the Palestine equity market with a 10.6% increase, the Khartoum stock market with a 9.8% rise, the Egyptian equity market with a 9.2% growth, the Abu Dhabi exchange with an 8.9% improvement, the Qatar financial market with a 7.5% increase, the Amman stock market with a 6.8% growth, the Oman stock exchange with a 3.7% expansion, the Bahrain bourse with a 3.6% rise, the Kuwait exchange and the Tunis stock market with a 2.7% appreciation each, the Saudi Arabia equity market with a 2.6% improvement and the Casablanca stock exchange with a 0.8% growth. In parallel, activity on the Libyan stock market dropped by 2.7% and posted the weakest performance among Arab stock markets in January 2014. It was followed by the Damascus financial market with a decrease of 1.1% and the Iraqi bourse with a 0.5% drop. In comparison, global equities decreased by 3.8% and emerging market equities declined by 6.2% in January 2014.

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

M&A deals down 50% to \$13bn in 2013

The value of mergers & acquisitions (M&A) deals targeting Arab countries totaled \$13bn in 2013, constituting a decline of 50% from \$26bn in 2012. Targeted M&A deals in the region increased to 356 transactions in 2013, up from 340 transactions in the previous year. Each of the value and number of deals targeting the region accounted for less than 1% of global value and volume, constituting the lowest such shares among regions worldwide. The UAE was the top targeted M&A country by value with \$5.2bn or 40% of the region's aggregate value, followed by Qatar with \$2.2bn (17%), Kuwait with \$1.7bn (13%), Saudi Arabia with \$1.2bn (10%) and Jordan with \$1bn (8%). Jordan was the top targeted M&A country by volume with 158 transactions, followed by the UAE with 90 deals, Saudi Arabia with 36 transactions, Oman with 22 deals and Kuwait with 21 transactions. Targeted M&A deals in the banking and construction sector accounted for about 60% of the region's total, with the banking sector representing almost 40% and the construction sector accounting for around 20% of the aggregate value of deals. In parallel, there were 29 private equity deals in the region worth \$250m in 2013, constituting a decline of 69% from \$805m in 2012.

Source: Zephyr, Bureau van Dijk

POLITICAL RISK OVERVIEW - January 2014

EGYPT

The results of the January referendum on the country's amended constitution indicated that over 98% of participants voted in its favor with a voter turnout of 38.6% of the Egyptian population. The Muslim Brotherhood (MB) and the Islamist Alliance for Support of Legitimacy (ASL) campaigned to boycott the referendum, while the Strong Egypt Party campaigned for a "no" vote. Monitoring NGOs reported a number of violations during the two-day voting period. Interim President Adli Mansour announced in late January that presidential elections would take place within three months. The Supreme Council of the Armed Forces approved the Defense Minister Abdelfattah el-Sisi's nomination for presidency. Clashes between supporters of ousted President Mohammed Morsi and security forces increased ahead, during and after the constitution's referendum, which led to at least 85 deaths and more than 120 injuries. Multiple attacks continued in the Sinai Peninsula, including the first-ever use of surface-to-air missile by militants to bring down a military helicopter. Arrests of MB supporters continued, mainly on charges of rioting and on weapons' possession.

IRAN

The UN Security Council's permanent members plus Germany (P5+1) and Iran agreed on January 10 on the implementation of a six-month Joint Plan of Action (JPA) that was signed in Geneva in November 2013. The JPA took effect on January 20th. The International Atomic Energy Agency (IAEA) confirmed that Iran has stopped 20% of its uranium enrichment activities, while it also provided better access to IAEA inspectors, stopped installing new centrifuges and suspended construction of a heavy water reactor in Arak. The EU and the U.S. initiated sanctions relief in accordance with the deal. The P5+1 countries and Iran are set to reconvene on February 18 in Vienna to negotiate a final comprehensive agreement.

IRAQ

The Islamic State of Iraq and the Levant (ISIL) took advantage of the national army's withdrawal from the Anbar province to seize key areas, such as the main cities of Ramadi and Falluja. Fighting between the ISIL and government forces backed by local allies led to over 100 deaths. The UN's refugee agency said that over 100,000 persons fled the fighting in the cities of Falluja and Ramadi fearing clashes between the army, locals and ISIL militants. Government forces regained control of areas in the west of Baghdad after weeks of fighting. The government said that over 1,000 persons were killed during the month, constituting the highest number of deaths since April 2008.

DEM REP CONGO

The army and the UN Organization Stabilization Mission in the DRC launched an offensive in the east against the Allied Democratic Forces-National Army for the Liberation of Uganda. The UN Special Envoy Mary Robinson praised the preparation of an electoral roadmap and a draft amnesty law.

LIBYA

Political tensions remained high with the General National Congress (GNC) still deadlocked over a new transition roadmap. The majority of GNC members favor Prime Minister Ali Zeidan's removal, but key groups refused to hold a no-confidence vote until a successor was agreed upon. Political tensions mounted after a failed attempt to hold a no-confidence vote and on popular calls to dismiss the GNC by February 7th. Violence continued to escalate across the country.

SOUTH SUDAN

The government charged seven opposition politicians with treason, including former Vice President Riek Machar, over an alleged December coup attempt. The decision raised fears over the fate of a ceasefire deal reached on January 23rd between the government and the armed opposition, following the Intergovernmental Authority on Development's (IGAD) mediation. Former Vice President Machar said that the treason charges were a government attempt to derail the peace process, and called for President Salva Kiir's resignation. The January ceasefire deal included an agreement on the release of political detainees held by the government, but failed to address the underlying causes of the conflict. The ongoing fighting in the Unity State forced thousands of persons to flee in late January.

SUDAN

President Omar al-Bashir's long-awaited speech on political reforms failed to set out a specific plan, despite reports that the ruling National Congress Party (NCP) had begun discussions with the opposition on postponing the July 2015 general elections for two years, amending the elections law, and changing the composition of the electoral commission. The conflict in the Darfur, South Kordofan and Blue Nile states continued. President al-Bashir visited Juba to discuss the deployment of a joint force to protect South Sudan's oilfields.

SYRIA

The first round of the Geneva II peace talks did not result in an agreement on confidence-building measures or on allowing aid to besieged areas in the city of Homs. The next round of the Geneva peace talks is scheduled for February 10th. Peace talks began on January 22 with the Syrian regime's delegation rejecting the Syrian National Coalition's demands for President Bashar al-Assad's removal from power and for the creation of a transitional government. President al-Assad indicated that there is a "significant" chance that he will seek a new presidential term in the 2014 elections. The Syrian regime escalated the systematic starvation and barrel bombing operations of rebel-held areas. Clashes between the Islamic State of Iraq and the Levant (ISIL) and other opposing groups intensified after the Islamic Front accused the ISIL of killing a popular rebel commander and being worse than the al-Assad regime. The ISIL rejected a reconciliation initiative endorsed by other rebel groups. The Syrian Observatory for Human Rights indicated that more than 1,400 persons were killed in rebel infighting last month.

TUNISIA

The new democratic constitution was signed into law on January 27 after it was approved by 200 out of 216 members of the National Constituent Assembly. The new charter was praised as one of the most secular democratic constitutions in the Arab world. Prime Minister Mehdi Jomaa's new technocratic government replaced the an-Nahda-led administration under an accord to end political turmoil and prepare for new elections.

YEMEN

The National Dialogue concluded in January and endorsed a new federal political system, while it extended the president's term by one year to mainly oversee the drafting of a new constitution. The outcome of the Dialogue included a "solutions document" that agrees on federalism in principle. But the document failed to win the support of the entire Southern Separatist Movement.

Source: *International Crisis Group*



OUTLOOK

IRAN

Economy to grow by 1% in 2014, swift recovery unlikely over the short term

The World Bank projected Iran's real GDP to grow by 1% in 2014 relative to an estimated contraction of 2.1% in 2013. It said that the interim nuclear agreement reached between Iran and the five permanent members of the UN Security Council plus Germany would ease some international sanctions and release \$4bn in Iranian oil revenues. It pointed out that the current government has announced several measures to reverse the downward trend in economic activity. It noted that these measures include greater autonomy of the Central Bank of Iran, reforming the tax system, stabilizing the Iranian rial, reinstating the Management and Planning Organization that was in charge of drafting the government's five-year development plans, and opening the oil sector to foreign companies for investment and technical assistance. However, the Bank pointed out that a swift recovery in economic activity is not likely to happen anytime soon. It noted that oil exports have been cut in half, the financial system remains constrained by sanctions and the inflation level is very high. It projected the inflation rate at 22.5% this year relative to 35.7% in 2013. Further, it said that the economy remains largely dependent on the hydrocarbon sector, despite diversification efforts. It noted that the persistent dependency on oil receipts, the high volatility in global oil prices and international sanctions on oil exports have destabilized the economy and resulted in large fluctuations in economic activity.

In parallel, the World Bank indicated that structural weaknesses continue to weigh on economic prospects. It noted that weaknesses include the mismanagement of the oil wealth and lack of economic diversification, the large public and quasi-public enterprises that are blocking the development of the private sector, the substantial barriers to doing business, a high and chronic unemployment rate especially among females and youth, and a growing number of vulnerable people living just above the poverty line despite a low poverty rate for the whole economy. It forecast the unemployment rate at 15% this year, almost unchanged since 2012.

Source: World Bank

MOROCCO

Economy to grow by 4% in 2014

The International Monetary Fund projected Morocco's real GDP growth at 3.9% in 2014 relative to growth of 4.5% in 2013. It forecast real primary GDP to contract by 1% this year following a 17% growth last year. It said that the strong performance of the agriculture sector has supported overall economic activity in 2013, given that non-agricultural sectors have been severely affected by the European crisis. But it expected non-agricultural sectors to recover and drive economic activity this year. It pointed out that Morocco's economic outlook is contingent on the sustained delivery of policy and structural reforms, given the significant downside risks and persistently high unemployment rate. It noted that inflation remains well under control and projected the average inflation rate at 2.5% in 2014 compared to 0.4% last year.

The Fund forecast the current account deficit to narrow to 6.5% of GDP in 2014 from 7.4% of GDP last year. It anticipated foreign currency reserves to stabilize at 4.3 months of import cover in 2013, supported by sustained FDI inflows equivalent to about 3% of GDP. It noted that the current account deficit would continue to narrow in coming years to 4.2% of GDP by 2017. It considered that the consolidation of the country's external position depends on improving its external competitiveness. It noted that a shift towards a more flexible exchange rate would increase the economy's resilience to external shocks. It called on authorities to strengthen the business climate, transparency and the judiciary system, and to improve the labor market in order to attract private investment and promote strong job growth.

In parallel, the IMF projected the fiscal deficit at 4.9% of GDP this year relative to a deficit of 5.4% of GDP last year. It welcomed the cut in energy subsidies in 2013. It called on authorities to implement reforms that would broaden the tax base, review tax incentives and exemptions, moderate the public wage bill and restructure the pension system.

Source: International Monetary Fund

TURKEY

Monetary tightening and reduced confidence to affect economic prospects

Deutsche Bank anticipated that Turkey's real GDP growth would slow down to 2.8% this year, mainly due to domestic political uncertainty. It noted that consumption and investment would weaken in the first quarter of 2014 as a result of tighter monetary policy and lower confidence. It added that credit growth has significantly decelerated so far this year. But it said that confidence would recover rapidly if the local elections scheduled in March 2014 reduce uncertainty. It noted that strong external demand, mainly as a result of a recovery in Europe and reduced uncertainty in the Middle East & North Africa would support the Turkish economy. It cautioned that the current political environment would delay necessary reforms to reduce the economy's chronic external vulnerabilities. It revised upward its inflation rate to 7.8% at end-2014 from 7.3% previously, and compared to a target inflation rate of 6.6%. It attributed the change mainly to higher food prices. It said that inflationary pressure will depend on the stabilization of the lira following the increase in interest rates. It considered that the tightening in monetary policy needs to be sustained in order to lower the inflation rates, build credibility and stabilize the lira.

In parallel, Deutsche Bank forecast the current account deficit to narrow to 6.4% of GDP this year, reflecting weaker domestic demand. Also, it considered that the exposure of corporate balance sheets to currency weakness is a source of potential concern, given that Turkish companies have borrowed heavily in foreign currency. Further, it said that Turkey's public finances are sound given the low public debt level and moderate fiscal deficit. It added that the Ministry of Finance has based its 2014 budget on an optimistic 4% real GDP growth and a 3.5% rise in tax revenues. But it noted that public finances have enough margin to accommodate a wider-than-targeted fiscal deficit if economic growth and public revenues fall short of expectations.

Source: Deutsche Bank



ECONOMY & TRADE

UAE

Non-hydrocarbon sector to support growth

The International Monetary Fund projected real GDP growth in the UAE at 4.5% in 2014, unchanged from last year. It expected the ongoing momentum in non-hydrocarbon sectors such as tourism, hospitality, and real estate to continue to drive economic activity this year. It noted that further growth in oil production could be limited this year, mainly due to ample supply in the global oil market. It expected the inflation rate to increase moderately, driven by rising rents. It anticipated that economic activity in coming years would benefit from a number of megaprojects and from the Expo 2020. But it noted that the total cost, pace of execution and financing of the new megaprojects remain uncertain. It cautioned that such projects would increase the risk of a real estate bubble if they are not implemented prudently. It added that these projects would create additional financial risks for Dubai's government-related entities and for the UAE's banking system in light of the still considerable debt overhang from the 2009 crisis. Further, the Fund pointed out that the increase in Dubai's real estate registration fees from 2% to 4% in October 2013 would help address speculation in the real estate market. It considered that the newly introduced loan concentration limits would help contain risks to banks' balance sheets in the context of the newly planned megaprojects. It added that the new maximum loan-to-value ratios for mortgage lending would provide banks with a buffer against undue exposures, and help limit speculation in the real estate market. It noted that authorities would further increase registration fees and tighten regulations in case the pace of price increases does not fall sufficiently.

Source: *International Monetary Fund*

RWANDA

Sovereign ratings affirmed, outlook 'positive'

Fitch Ratings affirmed Rwanda's long-term foreign and local currency Issuer Default Ratings, Country Ceiling and short-term currency rating at 'B', with a 'positive' outlook. It said that the ratings are supported by strong economic activity with an average real GDP growth of 8% per year over the past decade, large foreign capital inflows and a low public debt level. But it pointed out that the ratings are constrained by a low GDP per capita, a poorly diversified economy with a narrow export base, political risk, and high reliance on international aid that accounts for 40% of government receipts. It expected international support to shift from budgetary grants to concessional loans in coming years and to be diversified given the growing role of non-Western countries like China. It anticipated that the authorities' focus on tax policy that include broadening the valued-added tax base, reducing current exemptions on mining and agriculture and improving tax compliance, would increase tax revenues and gradually lessen the economy's dependence on aid. It forecast the fiscal deficit to narrow from 5.1% of GDP in FY2012/13 to 2.9% of GDP in FY2015/16, reflecting lower net lending, higher tax revenues and strong control on public spending. But it projected the current account deficit that reached 10.4% of GDP in 2013 to remain high due to the continuing investment in infrastructure and high GDP growth.

Source: *Fitch Ratings*

ARMENIA

Authorities reach an agreement with IMF

The International Monetary Fund indicated that it has reached an agreement with the Armenian authorities on a new Extended Fund Facility (EFF) arrangement for the 2014-17 period. It said that the economy continues to face significant challenges that include reducing vulnerabilities and enhancing medium-term growth. It noted that the inflation and growth rates remain volatile, while the external current account deficit and dollarization rate continue to be high. As such, it pointed out that the \$125m EFF would preserve sound public finances, provide more space for growth-enhancing and poverty reducing spending, and would continue monetary and financial sector policies that strengthen resilience and buffers. It expected the fiscal policy to provide a stimulus this year, following two years of significant fiscal over-performance, due to under-spending on major foreign-financed infrastructure projects and gains in tax revenues. It noted that additional domestic resources will be channeled to capital outlays and to increases in civil service wages and pensions. It said that authorities will start fiscal consolidation by 2015, which would reduce the public debt level. The IMF indicated that risks to the program include adverse geopolitical events and external shocks. It considered that the authorities' sound policy framework, efforts to further build buffers and commitment to a strong structural reform agenda would mitigate risks.

Source: *International Monetary Fund*

UKRAINE

Agencies downgrade ratings, outlook 'negative'

Moody's Investors Service downgraded Ukraine's sovereign rating to 'Caa2' from 'Caa1' with a 'negative' outlook. It attributed the downgrade to the escalation of social and political tensions, the increased risk of a sharp rise in external liquidity needs and the heightened uncertainty regarding the predictability of external liquidity support from Russia. It said that the spread of anti-government protests has increased the likelihood of a severe administrative crisis, a power vacuum and prolonged political uncertainty. It noted that the substantial increase in Ukraine's external liquidity needs reflects the rising domestic demand for foreign currency as a result of the ongoing political crisis and the recent weakening of the local currency. It cautioned that Russia's willingness to disburse the remaining amount of the pledged \$15bn support packaged will be sharply reduced in the event of a regime change that would lead to a rapprochement with the European Union. In parallel, Standard & Poor's lowered Ukraine's long- and short-term foreign currency sovereign credit ratings to 'CCC+/C' from 'B-/B', and affirmed the long- and short-term local currency ratings at 'B-/B'. It said that the long-term ratings have a 'negative' outlook. It pointed out that the country's ability to serve its debt obligations is contingent on favorable political and economic developments. It projected Ukraine's gross external financing needs at 155% of current account receipts and usable reserves this year. It anticipated that Ukraine will have to roll-over trade financing and other private sector debt, in addition to the direct financial support from Russia, in order to cover its financing needs.

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



BANKING

GCC

Market conditions favorable for banks' creditworthiness

Standard & Poor's anticipated that banks in the Gulf Cooperation Council (GCC) would not be affected by the reduction of the U.S. Federal Reserve's quantitative easing program nor by the subdued global economic growth. It expected the sound economic growth in GCC economies, supported by high global oil prices, to stimulate business and local government demand for loans, which would strengthen banks' earnings this year. It forecast market conditions to remain favorable for the creditworthiness of banks in Gulf countries. It noted that, unlike many other emerging markets, GCC sovereigns benefit from the absence of recourse to external debt. It said that all Gulf banking systems, except for the Qatari banking system, have a net external asset base position, which makes them less dependent on foreign investors. It noted that commercial banks in GCC countries mostly fund themselves through domestic deposit markets at attractive rates, but that foreign funding plays a more important role for Bahrain's wholesale banks. It considered that this would allow Gulf banks to weather any market volatility, such as reduced liquidity or higher funding costs. In parallel, S&P considered that oil or geopolitical risks constitute the main risks for GCC banks, given that such shocks would reduce the sovereigns' solid external and fiscal positions. But it forecast oil prices to remain high with Brent prices averaging about \$100 a barrel this year. It added that regional unrest that started in 2011 has mostly left Gulf countries unaffected, with the exception of Bahrain where domestic political and economic risks weigh on banks' ratings.

Source: Standard & Poor's

SAUDI ARABIA

Private sector lending up 12% in 2013

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR1,893.3bn, equivalent to \$504.9bn at the end of 2013, constituting a growth of 9.2% from end-2012. Loans to the private sector totaled SAR1,123.7bn, equivalent to \$299.6bn at the end of 2013, remained flat from the previous month and rose by 12.5% from end-2012. In parallel, aggregate deposits reached SAR1,402bn, equivalent to \$373.9bn at the end of 2013, constituting an increase of 2.7% from the preceding month and a rise of 11.2% from end-2012. The month-on-month rise in the banking sector's total deposits is mainly due to a 4% rise in time deposits. Demand deposits accounted for 61.2% of total deposits in December 2013 compared to 59.8% in December 2012. The loans-to-deposits ratio stood at 80.1% in December 2013 compared to 79.3% at end-2012. Also, the sector's aggregate profits fell by 43.5% month-on-month and by 29.4% year-on-year to SAR1.6bn in December 2013, the lowest monthly profit since September 2010. The substantial drop in profits reflects higher impairment charges that are typically recorded in the final month of each quarter. Also, the sector's return on equity fell to 7.3% in December 2013, well below the full year average return of 14.2%. Overall, the sector's aggregate profits rose by 6.5% to SAR35.7bn, equivalent to \$9.5bn in 2013.

Source: Saudi Arabia Monetary Agency, Deutsche Bank

KUWAIT

Banking sector risk assessment maintained

Standard & Poor's maintained Kuwait's Banking Industry Country Risk Assessment (BICRA) in 'Group 4', its economic score at '4' and its industry risk score at '5'. 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 4' include Qatar, Oman, Brazil, Mexico, the Czech Republic, South Africa, Taiwan, and Malaysia. In parallel, the agency indicated that Kuwait's economic risk score reflects its "low risks" in economic resilience, "intermediate risks" in economic imbalances and "high risks" in credit risks in the economy. It said that there are no major economic imbalances, such as credit-fueled asset bubbles, that would put at risk the performance of banks in Kuwait. It noted that credit growth over the past four years has remained very limited and below the country's nominal GDP growth, residential real estate prices have largely remained stable, and current account surpluses have been large. But it cautioned from the adverse effects of an oversupplied commercial real estate market. Further, it pointed out that the industry score reflects the country's "very high risks" in its institutional framework, "intermediate risks" in its competitive dynamics and "low risks" in its system-wide funding. It said that overall regulation and supervision of the financial services market will remain a challenge despite positive actions by authorities over the past three years. It indicated that the trend for economic and industry risks is "stable".

Source: Standard & Poor's

YEMEN

Ratings downgraded to reflect sovereign risks

Capital Intelligence downgraded the long-term foreign currency ratings of National Bank of Yemen (NBY), International Bank of Yemen (IBY) and Tadhamon International Islamic Bank (TIIB) from 'B-' to 'C+' and revised the outlook on the ratings to 'stable' from 'negative'. It affirmed the three banks' short-term foreign currency ratings at 'C'. It attributed its action to the recent review of sovereign risk factors in Yemen. Further, CI maintained the Financial Strength Rating (FSR) of NBY at 'BB-', that of TIIB at 'B+' and that of IBY at 'B'. It revised the outlook on IBY's FSR to 'positive' from 'negative' and that on TIIB to 'stable' from 'negative', while it maintained the 'stable' outlook on NBY's FSR. It said that IBY's FSR is supported by its solid capital adequacy ratio (CAR), good liquidity and high level of operating profit. But it noted that the bank's FSR is constrained by its weak asset quality and the very difficult operating environment. It pointed out that BNY's FSR reflects its high capital adequacy, continued profitability, good liquidity and improved asset quality. But it noted that the difficult environment constrains the bank's FSR. It said that TIIB's return to profitability, good financing provisioning, adequate funding and liquidity and slightly improved CAR support its FSR. But it noted that the bank's FSR is constrained by its risk profile, weak profitability and an extremely difficult operating environment.

Source: Capital Intelligence



ENERGY / COMMODITIES

Brent oil prices to trade between \$100 and \$110 a barrel in 2014 and average \$105 a barrel this year

Brent oil prices are forecast to fluctuate between \$100 a barrel and \$110 a barrel in 2014, and would average \$105 a barrel for the year. The oil market in 2014 is projected to get softer as the U.S. continues to raise its crude oil output and the Organization of Petroleum Exporting Countries' members would maintain or increase their current production. As such, global supply is anticipated at 93.1 million b/d on average in 2014, up 1.6% from the previous year. Supply-led disruptions are expected to remain limited this year, while Libya's oil production would likely recover but would remain significantly below its pre-2011 levels. In parallel, global demand is projected to grow by 1.4% year-on-year to an average of 92.5 million b/d this year, mainly due to the steady global economic recovery. Non-OECD countries' oil consumption is expected to continue to be the main driver of demand growth in 2014. In parallel, Brent oil prices decreased by 3.1% to \$108 a barrel in January 2014, WTI prices regressed by 0.6% to \$97.6 a barrel, while prices of U.S. Henry Hub natural gas rose by 15.4% to \$5 per million British thermal unit last month.

Source: Institute of International Finance, Byblos Research

Iraqi oil exports down 5% in January 2014

Iraqi crude oil exports averaged 2.23 million b/d in January 2014, down by 4.8% from 2.34 million b/d in the preceding month. The decline in exports was mainly attributed to attacks on the pipeline carrying oil from the northern Kirkuk oilfields to Turkey, as well as to the shipping disruptions from Iraq's southern ports due to bad weather. Exports of 2.04 million b/d, or 91.4% of the total, were shipped from the southern oil port of Basra, and the remaining 192,000 b/d were exported from the northern port of Kirkuk. Iraq's oil production is currently estimated at 3.52 million b/d on average. Iraq is the second-largest crude oil producer among OPEC countries.

Source: Thomson Reuters, Shafaq News, Byblos Research

Middle East to become world's largest per capita consumer of liquid fuels by 2035

The industrial sector in the Middle East region is expected to remain the world's main consumer of primary energy as it would account for 44% of global market share in 2035. The region is projected to become the world's most energy intensive by 2035. Also, it is forecast to become the largest consumer of liquid fuels per capita by 2035 and would surpass North America. The region is anticipated to consume over three times liquid fuels per capita than the global average by 2035.

Source: BP

Angola's oil production to rise by 18% by 2015

Angola's crude oil production reached 1.7 million b/d on average in 2013 and is expected to rise by about 17.6% to 2 million b/d by 2015 as new deepwater oil fields come online. The country's seismic and exploratory drilling in pre-salt formations is expected to accelerate in 2014. In addition, Angola is projected to auction 10 onshore oil blocks in the Lower Congo and Kwanza basins in 2014. Angola is currently the second-largest oil producer in Sub-Saharan Africa.

Source: U.S. Energy Information Administration

Base Metals: Electrical & electronic products to account for 38% of global copper demand in 2014

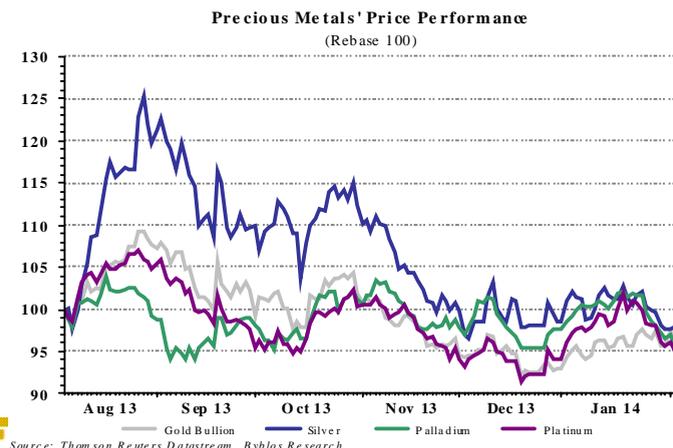
The copper market is expected to remain oversupplied at 221,000 tons in 2014, down from a surplus of 285,000 tons in 2013. Global refined copper production is forecast to reach 20 million tons in 2014, constituting a marginal decrease of 0.3% from the previous year. In parallel, global copper consumption is projected to reach 19.8 million tons this year, nearly unchanged from 2013. The electrical and electronic products' industry is projected to account for about 38% of global consumption in 2014, followed by building construction with 30.8%, transportation equipment with 11.4%, consumer & general products with 9.8% and industrial machinery & equipment with 9.7% of the total. Copper prices are forecast to fluctuate between \$6,625 a ton and \$7,780 a ton in 2014 and to average \$7,069 a ton for the year. In parallel, LME Copper Grade A 3-month future prices declined by 4.1% to \$7,065 a metric ton in January 2014, Aluminium High grade 3-month future prices decreased by 5.2%, Zinc high grade 3-month futures prices fell by 4%, while prices of Nickel futures increased by 0.6% in January 2014.

Source: Thomson Reuters GFMS, Byblos Research

Precious Metals: Platinum prices to rise in first quarter mainly due to labor unrest in South Africa

Global platinum supply is expected to reach 7.2 million tons in 2014, constituting a marginal increase of 0.2% from the previous year, of which mine production would account for 78.3% of total output. In parallel, global platinum demand is projected to grow by 4% year-on-year to 7.6 million tons this year, of which auto-catalyst demand would account for 41.8% and jewelry consumption would be equivalent to 33.1% of total consumption. Global auto sales are expected to grow in 2014 as Europe is anticipated to introduce more stimulus measures to encourage consumption. Platinum prices are projected to continue to be significantly influenced by the labor unrest in South Africa during 2014. As such, platinum prices are expected to increase to \$1,530 a ton on average in the first quarter of 2014. Overall, platinum prices are forecast to rise by 4.3% year-on-year to \$1,550 a ton on average in 2014. In parallel, platinum prices rose by 1.8% to \$1,382 a troy ounce in January 2014, the price of gold increased by 2.9% to \$1,243 a troy ounce, while that of silver fell by 1% to \$19.3 an ounce. Also, palladium prices regressed by 1.3% to \$707 a troy ounce last month.

Source: Thomson Reuters GFMS, 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

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	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	CCC+	Caa2	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	29-Jan-14	No change	19-Mar-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	30-Jan-14	No change	13-Mar-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	29-Jan-14	No change	19-Mar-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	29-Jan-14	No change	06-Mar-14
Thailand	1D Repo	2.25	22-Jan-14	No change	12-Mar-14
India	Reverse repo rate	8.00	28-Jan-14	Raise 25bps	01-Apr-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	10.00	22-Jan-14	Raise 550bps	18-Feb-14
South Africa	Repo rate	5.50	29-Jan-14	Raise 50bps	27-Mar-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	3.50	04-Feb-14	No change	N/A
Bulgaria	Base Interest	0.04	01-Feb-14	Raise 2bps	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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