

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Tightening in lending conditions moderates in fourth quarter of 2013

The Emerging Markets Lending Conditions Index rose to 49.4 in the fourth quarter of 2013 from 48.3 in the preceding quarter, but remained below the 50 mark for the third consecutive quarter, reflecting an ongoing tightening in overall bank lending conditions. The rise in the index reflects a slower pace of tightening in domestic and international funding conditions, a stabilization of non-performing loans and an ongoing improvement in loan demand and supply of trade finance. But banks continued to tighten their credit standards. The Lending Conditions Index for Sub-Saharan Africa (SSA) was the highest globally at 52 in the fourth quarter of 2013, down from 53 in the preceding quarter. The index for the MENA region rose to 52 from 51.5 in the third quarter of last year, that for Latin America (LA) grew to 50.6 from 47.6, that for Emerging Europe (EE) increased to 49.8 from 49.4 and the index for Emerging Asia (EA) improved to 45.2 from 44.1. The Funding Conditions Index rose to 47.2 from 43.7 in the third quarter of last year and the Trade Finance Index increased to 53.6 from 52.3 in the third quarter of 2013. Further, the Non-Performing Loans Index rose to 50.1 in the fourth quarter of 2013 and exceeded the 50 mark for the first time since the third quarter of 2011, reflecting a fall in NPLs. But banks expect NPLs to rise in the first quarter of 2014 as banks in EE forecast a deterioration in their asset quality, while banks in the remaining regions expect NPLs to continue to fall.

Source: Institute of International Finance

Private equity investments down 7% to \$24bn in 2013

Private equity funds dedicated to emerging markets raised \$36.4bn in 2013, constituting a decrease of 18.8% from \$44.8bn in 2012. Emerging Asia funds raised \$26bn, with China accounting for \$9.6bn and India for \$1.2bn; followed by multi-regional funds with \$4.4bn. Also, Latin America & the Caribbean funds raised \$3.2bn, with Brazil accounting for \$1bn; followed by CEE & CIS funds with \$1.4bn, with Russia accounting for \$601.3m, Sub-Saharan Africa funds with \$921.7m, and MENA funds with \$568.5m. In parallel, private equity investments in emerging markets totaled \$23.9bn in 2013, down 6.9% from \$25.6bn in 2012. Also, the number of transactions reached 883 deals last year, down from 918 deals in 2012. The average deal was worth \$27m in 2013, with the median investment size at \$10m. Emerging Asia attracted 66.2% of private equity investments in value terms, followed by Latin America & the Caribbean with 18%, the CEE & CIS with 8.2%, Sub-Saharan Africa with 6.7% and the MENA region with 0.9%. China attracted 28.4% of emerging markets private equity investments last year, followed by India with 14.6% and Brazil with 11.7%. Private equity fundraising in emerging markets accounted for 11.9% of aggregate funds raised globally in 2013, while private equity investments in emerging markets represented 9.6% of total investments worldwide.

Source: Emerging Markets Private Equity Association

MENA

Region has high barriers to investment in oil & gas exploration and production

The 2013 Global Petroleum Survey's Policy Perception Index indicated that the Arab world has higher barriers to investment in oil & gas exploration and production relative to the global level. The region received an average score of 50.8 points in 2013 on the Index, which is better than its score of 54.5 points in 2012, but still worse than the global average of 49.5 points. Qatar has the lowest barriers to investment in oil & gas exploration and production among 16 Arab economies and ranks in 18th place among 157 countries and jurisdictions around the world. It is followed by the UAE in 25th place, Oman (31st), Bahrain (44th), and Jordan (45th) as the five Arab economies with the lowest barriers to investment in energy. The survey, which is issued by the Canada-based independent think tank Fraser Institute, captures the opinions of managers and executives about the level of investment barriers in oil & gas exploration and production. Iraq has the highest barriers to investment in the region and came in 149th place globally. It was preceded by Libya in 145th place, Syria (143rd), Algeria (126th) and Yemen (120th) as the five Arab countries with the highest barriers to investment. Barriers to investment increased the most in Tunisia as its score deteriorated by 11.7 points, followed by Lebanon (6.6 points), Syria (3.9 points) and Iraq (0.3 points). In contrast, barriers to investment regressed the most in Jordan as its score improved by 24.3 points, followed by Bahrain (15.2 points), Yemen (10.1 points) and Mauritania (9.1 points).

Source: Fraser Institute, Byblos Research

Average cost of mobile broadband subscriptions at \$44 per month in 2012

Figures released by the World Bank show that the average cost of mobile broadband subscriptions was \$44 per month in the Middle East & North Africa region in 2012. Jordan had the least expensive mobile broadband services in the region at \$13.6 per month, followed by Oman (\$14.8), Qatar (\$15.7) and Saudi Arabia (\$17) as the four countries in the region to have a monthly fee of less than \$20. In contrast, Libya (\$453.3), Djibouti (\$157.5), Syria (\$58.3) and Lebanon (\$54.6) had the most expensive mobile broadband services in the region in 2012. In parallel, the mobile broadband penetration rate in the MENA region, which is the number of subscriptions to the service per 100 inhabitants, was 22.2% in 2012. The mobile broadband penetration rate stood at 60% in GCC economies, at 30.9% in North African countries, at 3.8% in Mashreq economies and at 1.8% in the remaining Arab states. Bahrain was the only economy to have a "mature" mobile broadband market, while Egypt, Oman, Kuwait, Jordan, Saudi Arabia, Qatar, Lebanon and the UAE are at the "developing" stage. Also, Djibouti, Libya, Yemen, Syria, Tunisia and Morocco are at the "emerging" stage. Mobile broadband penetration in each of Iran and Iraq was below 1%.

Source: World Bank

OUTLOOK

IRAN

Economy to contract by up to 2% in current fiscal year

The International Monetary Fund projected Iran's real GDP to contract by about 1% to 2% in fiscal year 2013/14 ending in March 2014. It said that economic activity has weakened due to the implementation of inadequately-funded social programs, the introduction of the first phase of the subsidy reforms and the marked deterioration in the external environment resulting from the intensification of trade and financial sanctions. It noted that the inflation rate reached 30% in December 2013 compared to 45% in July 2013, mainly reflecting tighter credit by the Central Bank of Iran and the appreciation of the rial. It forecast the inflation rate at about 20% to 25% at the end of March 2014. It considered that Iran's prospects for the coming fiscal year have improved following the interim nuclear agreement reached between Iran and the five permanent members of the UN Security Council plus Germany. It projected real GDP growth at between 1% and 2% in FY2014/15. But it noted that uncertainties the outlook remain high.

In parallel, the IMF indicated that external and domestic shocks have exposed structural weaknesses in the economy and in the policy framework. It called on authorities to tighten monetary policy, adopt fiscal consolidation plans and implement supply-side reforms in order to address stagflation. It considered that containing the fiscal deficit at around 2% to 3% of GDP would support economic activity and help reduce the inflation level. Further, it considered that several reforms to the fiscal policy framework would strengthen its countercyclical role, limit fiscal risks and enhance macroeconomic coordination. It called on authorities to reform the management of hydrocarbon savings and quasi-fiscal activities such as the government's mandated credit policies, to proceed with the subsidy reforms and to adopt a fiscal rule. In parallel, the Fund considered that the monetary policy should target price stability. It welcomed the authorities' intention to unify the foreign exchange market as external conditions normalize.

Source: International Monetary Fund

LIBYA

Economic activity to contract by 7.4% this year due to disruption to oil production

Business Monitor International changed its projection for Libya's economic activity to a contraction of 7.4% this year from real GDP growth of 13% previously, and compared to an estimated contraction of 8.2% in 2013. It attributed the change to the larger-than-expected negative impact on exports resulting from disruptions to hydrocarbon production. It anticipated that the central government is not likely to reach an agreement with federalists in the first half of the year, which would keep ports in the Cyrenaica region closed. But it noted that both parties would start negotiations in the second half of 2014 in order to reduce the economic losses resulting from their dispute. As such, it forecast oil production to gradually recover in the second half of the year and for crude oil exports to rebound in 2015. It projected real GDP to grow by 32.1% in 2015 and to average 10.8% annually during the 2014-18 period. But it noted

that the high growth rates reflect elevated oil exports and government spending rather than successful efforts to diversify the economy. BMI indicated that an earlier-than-expected resolution of disputes would lead to a rapid rebound in oil exports and to an acceleration in economic activity, while a failure to reach an agreement and the deterioration of domestic security conditions would lead to a more pronounced contraction in activity.

In parallel, BMI forecast private consumption to grow by 13% in real terms in 2014 and by 15% in 2015, but it noted that it will remain below potential given the slow private sector development, which would maintain the unemployment rate at about 30%. Further, BMI forecast government consumption to increase by 12% in real terms in 2014 and by 14% in 2015, mainly due to spending on healthcare and education. It expected gross fixed capital formation to expand by 15% in 2014 and by 20% in 2015, supported by large infrastructure needs. BMI expected Libya's net external position to worsen and to remain in a negative position this year. It projected total exports to contract by 30% this year due to a 19.2% decline in oil production. It anticipated that import growth would remain significant and would reach 11% in 2014.

Source: Business Monitor International

NIGERIA

Banking sector to benefit from strong economic activity

Standard & Poor's anticipated that Nigeria's strong economic activity and economic reforms would continue to support banks' lending growth, earnings generation and balance sheet expansion in 2014. It said that lending growth was slower-than-expected last year given that banks had to adjust to regulatory changes, adopt a more cautious approach towards credit growth, and focus on strengthening their financial indicators. But it considered that banks are better positioned to fund growth in the real economy and achieve their growth potential due to their stronger balance sheets. It forecast credit growth to accelerate to between 20% and 30% in 2014, supported by strong prospects in the manufacturing, telecommunications and power sectors. It cautioned that some banks could resume rapid lending this year as they try to take advantage of the ongoing growth in the power, agriculture and infrastructure sectors, which would undermine the progress achieved in underwriting standards.

In parallel, S&P expected banks' asset quality to remain stable this year, reflecting lower credit growth in the sector last year and expectations of a broadly stable operating environment for 2014. It estimated credit losses at between 1.5% and 2% in 2013 and forecast them to increase to about 3% and 3.5% towards the end of 2014 and 2015 as loans start to season. It cautioned from higher credit losses resulting from banks' exposure to the oil and gas sector. It added that a depreciation of the naira would affect trade finance and cause asset quality to deteriorate. Further, it forecast banks' earnings to deteriorate this year due to tighter liquidity in the banking sector and regulatory changes. It expected banks' capital to gradually deteriorate during the 2014-15 period due to slower growth in profits, increased shareholder demands and banks' effort to balance the growth in lending.

Source: Standard & Poor's



ECONOMY & TRADE

EGYPT

Sovereign ratings unlikely to be upgraded in the foreseeable future

Fitch Ratings indicated that Egypt's sovereign ratings have stabilized on tentative political and economic improvements, but it noted that a swift upgrade is not likely to happen anytime soon. It expected economic activity to improve in the coming two years, but to remain much weaker than its performance in 2010. It noted that the modest improvement in economic growth would not be sufficient to prevent a further rise in the unemployment level. It said that large financial inflows since June 2013 have eased the pressure on foreign currency reserves, on the exchange rate and on public finances. It added that the approval of a new constitution in January 2014 paves the way for new elections later this year. However, Fitch considered that Egypt's ratings are low and reflect substantial risks and challenges. It anticipated that donor inflows would not be sufficient to end foreign exchange rationing, while reducing the large fiscal deficit would be difficult. It said that a significant narrowing of the fiscal deficit would be contingent on cutting subsidies. It forecast the fiscal deficit at 10% of GDP in fiscal year 2014/15 ending in June 2015 and the debt level at 90.3% of GDP, significantly higher than in similarly-rated peers. Further, it said that the country's external finances shifted from a rating strength to a neutral factor since 2010. It noted that Egypt lost its net creditor position and is not likely to regain it by 2015. The agency has downgraded Egypt five notches since 2011.

Source: Fitch Ratings

TUNISIA

Fiscal consolidation essential to reduce vulnerabilities

The International Monetary Fund indicated that Tunisia is going through an extended period of political transition and is facing a challenging domestic and regional environment. It noted that the economy continues to grow, but at a moderate pace, inflationary pressures are contained and the external position has stabilized. The Fund welcomed the recent approval of a new constitution and the appointment of a new government to oversee the upcoming elections. It pointed out that authorities have postponed fiscal consolidation plans for 2014 to allow space for pro-growth spending. But it considered that fiscal consolidation remains essential to reduce vulnerabilities. It welcomed the increase in electricity tariffs as well as the introduction of measures to protect poor households. But it noted that further cuts in energy subsidies, strict control of the wage bill and public revenues, and public financial management reforms would improve the fiscal position and strengthen the budget. It encouraged authorities to avoid under-spending on public investment and social programs, which are both important to promote growth. Also, it said that the Central Bank of Tunisia would further tighten monetary policy if the inflation outlook worsens and pressure on the exchange rate increases. The IMF approved the disbursement of \$506.7m to Tunisia under the 24-month Stand-By Arrangement of \$1.8bn, bringing total disbursements under the arrangement to about \$659m.

Source: International Monetary Fund

TURKEY

Outlook revised to 'negative' on increased economic risks

Standard & Poor's affirmed Turkey's long-term foreign and local currency sovereign credit rating at 'BB+' and 'BBB', respectively, and revised the outlook on the ratings to 'negative' from 'stable'. It also maintained the short-term foreign and local currency rating at 'B' and 'A-2', respectively. It attributed the outlook revision to a potential hard economic landing, and to an unanticipated erosion of governance standards and of institutional checks and balances. It said that the country's fiscal and monetary policies have exposed the economy to a potential hard landing as external conditions tighten. The agency lowered its forecast for the average annual real GDP growth rate to 2.2% for the 2014-15 period from 3.4% previously. It considered that unfavorable exchange and interest rate dynamics would pose further risks to the outlook. Further, it considered that the domestic policy environment is becoming less predictable, which would weigh on the economy's resilience and long-term growth potential. In parallel, S&P anticipated that external funding would become more expensive in the context of tighter global and domestic monetary policies in 2014 and 2015, and declining foreign currency reserves. It added that unfavorable conditions would narrow the current account deficit from 7.6% of GDP last year to 2.9% of GDP in 2014. It forecast Turkey's narrow external debt at 147% of current account receipts (CARs) at the end of 2014 compared to 135% of CARs at the end of 2013. It projected the country's gross external financing needs at 124.2% of CARs plus usable reserves in 2014 and at 128% in 2015.

Source: Standard & Poor's

IRAN

Construction sector to grow by 3.8% annually, risks to the downside

Business Monitor International estimated that Iran's construction sector contracted by 1% in real terms in 2013 due to constrained public spending, an unfavorable business environment and a complex macroeconomic situation. But it expected the construction sector to grow by 1% in real terms this year and to post an annual average growth rate of 3.8% in the next five years. It attributed the sector's positive outlook to reduced international sanctions, a favorable statistical base and high demand for infrastructure projects. It considered that the interim nuclear agreement between Iran and the five permanent members of the UN Security Council plus Germany would help attract foreign investment for infrastructure projects. However, BMI indicated that risks to the outlook are elevated and are associated with the country's challenging macroeconomic situation and weak business environment. It added that the devaluation of the Iranian rial would increase the cost of imported construction materials, which would weigh on the construction sector's development. It noted that the continued pressure from the U.S. Congress for additional sanctions on Iran would undermine the potential for improved growth, and in turn would weigh on activity in the construction sector.

Source: Business Monitor International



BANKING

WORLD

Revision of leverage ratio to have moderate impact on banks

Standard & Poor's indicated that the Basel Committee on Banking Supervision's revision of the Basel III leverage ratio would have a moderate effect on the ratios that will be reported by most banks. But it noted that banks with sizeable securities financing transactions, derivatives operations or trade finance activities would benefit the most from the amendments. It said that the latest revision of the ratio aims to reduce the double-counting of exposures and other inconsistencies that existed. It added that modifications did not compromise the ratio's transparency, relative simplicity and global consistency. Further, it said that the revised Basel III leverage ratio constitutes a useful addition, but is not a substitute to risk-weighted capital metrics. It considered that the excessive reliance on any single metric could lead financial institutions to ignore the build-up of specific risks. In parallel, it pointed out that the leverage ratio requirements set by the Basel Committee constitute a minimum baseline and that they may not be implemented uniformly by national regulators. It noted that several regulators would exceed the Basel Committee's recommendations in terms of both the minimum requirements and the speed at which banks are required to implement the requirements. S&P indicated that the Basel Committee could make further adjustments to the Basel III leverage ratio framework prior to its introduction as a binding measure in 2018.

Source: Standard & Poor's

JORDAN

Private sector lending up 7.3% in 2013

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD42.8bn at the end of 2013, constituting a rise of 9% from the end of 2012 and compared to a growth rate of 4.2% in 2012. Resident private sector loans rose by 8% from end-2012 to JD17.2bn, while credit facilities to the non-resident private sector fell by 4.1% to JD818m, leading to an increase of 7.3% in overall private sector lending in 2013. Resident private-sector lending accounted for 40.2% of total assets at end-2013 compared to 40.6% at the end of 2012. In parallel, resident private sector deposits reached JD22.2bn, constituting an increase of 8.9% from the end of 2012 and relative to a rise of 2.4% in 2012. Also, deposits of non-bank financial institutions rose by 1.1% from end-2012 to JD277.9m. The central government's deposits totaled JD744m, up 15% from end-2012, while those of public non-financial institutions increased by 11.4% to JD350.8m. Further, claims on the public sector increased by 15.9% to JD10.5bn in 2013, with claims on the central government accounting for 95.6% of lending to the public sector. Claims on the public sector accounted for 24.4% of total assets at end-2013 compared to 23% a year earlier. Further, reserves at the Central Bank of Jordan totaled JD5.7bn, up 44.5% from JD4bn at end-2012; while capital accounts and allowances rose by 5.1% to JD6.1bn. Deposits with foreign banks reached JD3.3bn at end-2013, down 24.5% from end-2012, while the sector's foreign liabilities increased by 15.3% to JD6.7bn.

Source: Central Bank of Jordan, Byblos Research

ALGERIA

Capital adequacy at 23%, NPL ratio at 11%

The risk-weighted capital adequacy ratio of banks operating in Algeria reached 23.4% at the end of 2012 relative to 23.7% at the end of 2011. The capital adequacy ratio of public banks was 21.6% at end-2012, compared to 21.9% at end-2011; while that of private banks was 31.9% at end-2012, compared to 31.2% at end-2011. The sector's liquid assets were equivalent to 107.5% of short-term debt at the end of 2012 compared to 103.7% at end-2011. Further, the sector's non-performing loans (NPLs) reached 11.5% of total loans at end-2012, relative to 14.5% at end of 2011 and 18.3% at end-2010. Public banks' NPLs reached 12.3% of total loans at end-2012 compared to 16.1% at end-2011 and 20.5% at end-2010; while private banks' NPLs were 5.2% at end-2012, up from 4% at end-2011 and 4.1% at end-2010. The drop in the NPL ratio reflects the government's repurchase of the debt of state-owned enterprises, debt restructuring of viable small- and medium-sized enterprises and growth in lending. Further, the sector's provisions-to-classified loans ratio reached 69.5% at end-2012, relative to 69.8% at end-2011 and 76.5% at end 2010. Public banks' provisions-to-classified loans ratio reached 69.4% at end-2012 compared to 69.6% at end-2011 and 73.7% at end-2010; and the private bank's ratio reached 71.7% compared to 75.9% at end-2011 and 66.7% at end-2010. The state-owned banks' return on equity was 22.7% and that of privately-owned banks at 24.8% in 2012.

Source: International Monetary Fund, Banque d'Algérie

GHANA

Central Bank's actions unlikely to stop currency depreciation

Fitch Ratings indicated that the Bank of Ghana's (BoG) decision to increase interest rates by 200 basis points to 18% and to introduce new foreign currency controls is not likely to ease the pressure on the Ghanaian cedi in the absence of fiscal consolidation to address Ghana's growing macroeconomic imbalances. It said that the country's double-digit fiscal and current account deficits constrain the BoG's capacity to accumulate foreign currency reserves, which currently cover about three months of import. It pointed out that concerns about funding the wide fiscal and current account deficits have weighed on the cedi, which depreciated by 14.6% in 2013 and by another 7.8% so far this year. It added that the inflation rate reached 13.5% in December 2013, partly due to the loose fiscal policy and the weak exchange rate. In parallel, Business Monitor International anticipated that the BoG's actions would negatively affect domestic economic activity. It considered that the increase in interest rates would significantly increase the cost of borrowing for businesses and consumers. It added that businesses would face difficulties in adjusting to the new foreign exchange rules given that most of their transactions involve foreign exchange. As such, it projected Ghana's real GDP growth at less than 6% this year, constituting its lowest level since 2009. Further, it said that the rise in interest rates would maintain bond yields at high levels. But it considered that investors are not likely to rush back to the market given the significant currency risk and concerns about the wide fiscal deficit and rising debt level.

Source: Fitch Ratings, Business Monitor International



ENERGY / COMMODITIES

LNG prices to grow by 16.1% in first quarter

Liquefied natural gas (LNG) prices for delivery to North Asia are forecast to average \$18.5 per million British thermal unit (Btu) in the first quarter of 2014, up 16.1% from the fourth quarter of 2013 and by 14.1% from the same quarter last year. Global LNG imports are projected to rise by 2.4% year-on-year to 337.6 billion cubic meters in 2014 as new gas-fired power generation comes on stream. Japan is expected to remain the world's largest LNG importer in 2014 as it accounts for 35.5% of the LNG's consumer market. It would be followed by South Korea with 55.2 billion cubic meters (16.4%) and China with 28.1 billion cubic meters (8.3%). Japan's LNG import growth is forecast to rise slightly during the 2014-15 period as the country continues to rely on gas-powered energy to replace its nuclear capacity shut down following the Fukushima disaster in 2011. In parallel, global LNG exports are projected to rise by 2.4% year-on-year to 337.8 billion cubic meters in 2014 relative to an estimated growth rate of 0.6% in 2013. Qatar is expected to remain the world's leading LNG supplier this year and would account for about 31.4% of global exports. In parallel, the Dow Jones-UBS Energy Sub-Index rose by 3.4% last month, while the Petroleum Sub-Index decreased by 2.9% in January 2014. Also, the Dow Jones-UBS WTI Crude Oil Sub-Index regressed by 1.1% last month, the Brent Crude Sub-Index declined by 4.1%, while that of Natural Gas grew by 17.9% in January 2014.

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

OAPEC's oil proven reserves account for 55% of global reserves in 2013

The Organization of Arab Petroleum Exporting Countries' (OAPEC) crude oil proven reserves reached 703 billion barrels in 2013, equivalent to 55% of global reserves. Saudi Arabia, Iraq, Kuwait, the UAE and Libya held 53% of the world's proven oil reserves last year. Also, OAPEC countries' natural gas reserves reached 53 trillion cubic meters, equivalent to 26.6% of global gas reserves in 2013. Further, OAPEC countries' crude oil and liquefied natural gas production reached 85.6 million barrels per day, or about 29% of global reserves in 2013.

Source: Saudi Press Agency

Iran holds world's second-largest proven gas reserves as of January 2014

The stockpile of the world's top 10 holders of proven natural gas reserves reached 5,407 trillion cubic feet (tcf) as of January 2014. Russia's natural gas reserves totaled 1,688 tcf as of January 2014, or 31.2% of the world's top 10 states. It was followed by Iran with 1,193 tcf, equivalent to 22.1% of the total, Qatar with 885 tcf (16.4%), the United States with an estimated 334 tcf (6.2%) and Saudi Arabia with 291 tcf (5.4%).

Source: U.S. Energy Information Administration

GCC oil production down 1% in January 2014

Crude oil output in the Gulf Cooperation Council (GCC) countries, excluding Oman and Bahrain, declined by 0.7% to about 16.1 million b/d in January 2014. Saudi Arabia's oil production declined by 0.5% month-on-month to 9.7 million b/d in January, equivalent to about 60.2% of total GCC oil production. Also, the UAE and Kuwait's oil output decreased by 0.4% and by 1.2% to 2.8 million b/d and 2.9 million b/d, respectively.

Source: Emirates NBD, Byblos Research

COUNTRY RISK WEEKLY BULLETIN

Base Metals: Aluminium prices to ease in near-term and average \$1,835 a ton in 2014

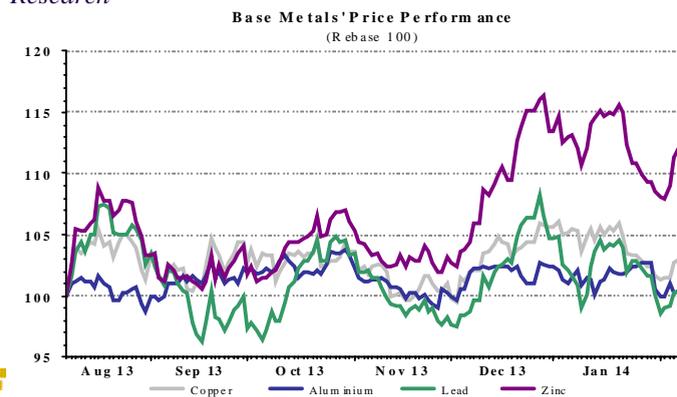
Aluminium prices have been on a downward trend since the start of 2014 as they averaged below \$1,700 a ton since the end of January, constituting the first such instance since July 2009. The aluminium market is forecast to post a larger deficit of one million tons in 2014 relative to the previous year. The divergence between the metal's price and the global physical balance is partly due to the market's focus on the surplus in the Chinese market rather than on deficits elsewhere. But China's surplus is expected to tighten by the end of 2014. Aluminium prices are forecast to average \$1,800 a ton in the first quarter of 2014 and to rise by 1.7% to \$1,830 a ton on average in the second quarter of the year. Overall, Aluminium prices are projected to average \$1,835 a metric ton in 2014. In parallel, the Dow Jones-UBS Industrial Metals Sub-Index regressed by 4.9% in January 2014, while the Dow Jones-UBS Aluminium Sub-Index decreased by 6.1% last month. The Dow Jones-UBS Copper Sub-Index declined by 5.9%, while the Nickel Sub-Index increased by 0.5% in January 2014.

Source: Standard Chartered, Barclays, Dow Jones Indices

Precious Metals: Gold prices to drop by 13% in 2014 as investors' concerns of systemic risk ease

Gold prices are forecast to average \$1,225 a troy ounce in 2014, constituting a decrease of 13.2% from 2013 as concerns over the health and stability of the global financial system diminish. Gold prices are expected to fluctuate between \$980 a troy ounce and \$1,380 a troy ounce in 2014. Gold prices are projected to average above \$1,200 an ounce this year, supported by strong global jewelry, bars, coins and industrial consumption. But the metal's prices could decrease towards \$1,000 a troy ounce in case the tapering of the Federal Reserve's Quantitative Easing program accelerates and the US dollar significantly strengthens. Gold mine production is forecast to decrease by 0.5% year-on-year to 2,968 tons in 2014, constituting the first such instance in six years. In parallel, global gold demand is projected to reach 4,230 tons in 2014, down 10.7% from last year. China's consumption is expected to remain strong in 2014 but would grow at a lower rate than last year, while India is forecast to face another troubled year as import restrictions and currency depreciation weigh on demand. In parallel, the Dow Jones-UBS Precious Metals Sub-Index increased by 1.9% in January 2014, while the Gold Sub-Index rose by 3.1% and the Dow Jones-UBS Silver Sub-Index declined by 1.3% last month.

Source: Thomson Reuters GFMS, Dow Jones Indices, 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	-
Angola	BB-	Ba3	BB-	-	BB	1.2	33.2	22.8	-21.1	2.6	76.5	7.1	-1.6
Egypt	B-	Caa1	B-	B-	CCC	-13.6	97.5	14.6	74.0	4.7	343.8	-2.1	0.9
Ethiopia	-	-	-	-	B	-2.8	22.5	18.9	110.6	-	-	-6.4	2.5
Ghana	B	B1	B	-	B	-10.2	51.2	27.8	54.1	3.2	247.3	-11.9	7.1
Ivory Coast	-	-	-	-	B	-3.1	41.5	17.3	95.0	-	-	-2.9	3.0
Libya	-	-	B	-	B	-4.5	4.5	7.9	-304.0	3.0	-	6.3	-
Dem Rep Congo	B-	B3	-	-	-	0.1	35.1	39.7	73.6	1.5	6.0	-2.1	10.2
Morocco	BBB-	Ba1	BBB-	-	B	-6.1	62.0	38.5	89.7	6.9	250.8	-7.3	2.8
Nigeria	BB-	Ba3	BB-	-	B	-1.9	20.1	5.6	13.4	0.4	33.0	3.3	2.3
Sudan	-	-	-	-	C	-2.0	100.0	85.8	-	-	-	-11.9	-
Tunisia	-	Ba3	BB-	-	CCC	-7.1	47.4	54.1	111.0	9.8	333.9	-5.8	2.0
Burkina Faso	B	-	-	-	-	-2.3	31.4	23.8	113.7	2.7	263.7	-5.2	0.4
Middle East													
Bahrain	BBB	Baa2	BBB	BBB	BB	-5.9	39.9	142.4	44.2	15.3	611.5	5.3	0.3
Iran	-	-	-	B	CCC	-4.5	21.9	1.7	22.3	17.6	22.6	-0.5	-
Iraq	-	-	-	-	CCC	-0.6	41.0	12.5	51.7	-	-	5.5	-
Jordan	BB-	B1	-	BB-	CCC	-6.1	83.9	63.3	52.2	10.2	260.4	-10.2	4.9
Kuwait	AA	Aa2	AA	AA-	A	31.3	6.5	16.3	30.7	7.2	110.5	43.2	-4.8
Lebanon	B-	B1	B	B	CCC	-11.1	143.9	81.8	144.6	21.0	122.0	-11.3	4.7
Oman	A	A1	-	A	A	3.3	4.0	19.4	18.1	3.6	101.1	7.3	2.4
Qatar	AA	Aa2	-	AA-	AA	7.3	32.0	87.8	75.8	12.7	481.9	27.6	-0.2
Saudi Arabia	AA-	Aa3	AA-	AA-	A	8.7	3.7	12.9	36.0	1.8	12.4	20.1	1.1
Syria	-	-	-	-	C	-14.0	57.4	20.7	-	-	-	-14.1	-
UAE	-	Aa2	-	AA-	BB	13.6	32.1	49.2	25.9	3.9	366.8	15.7	1.8
Yemen	-	-	-	-	CC	-5.8	48.1	16.4	49.7	-	-	-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-	-	-	-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
	Negative	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	06-Feb-14	No change	06-Mar-14
UK	Bank Rate	0.50	06-Feb-14	No change	06-Mar-14
Japan	O/N Call Rate	0-0.10	22-Jan-14	No change	18-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	19-Feb-14	Raise 200 bps	Apr-14
Ghana	Prime Rate	18.00	27-Nov-13	No change	19-Feb-14
Angola	Base rate	9.25	Nov-13	Cut 50bps	N/A
Mexico	Target Rate	3.50	31-Jan-14	Cut 25bps	31-Mar-14
Brazil	Selic Rate	10.50	15-Jan-14	Raise 50bps	26-Feb-14
Armenia	Refi Rate	7.50	11-Feb-14	Cut 25bps	N/A
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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