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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Sovereign borrowing from commercial sources at $614bn in 2014

Standard & Poor's projected the aggregate long-term sovereign borrowing from commercial sources by the 17 emerging markets included in the JP Morgan Emerging Markets Bond Plus Index at $614bn in 2014, compared to $612bn in 2013. It said that $329bn or 53.6% of total sovereign borrowing would refinance maturing long-term debt, which would result in an estimated net borrowing requirement of $285bn in 2014. Latin America would account for 65.5% of total borrowing, Europe & Africa for 29.5% and Asia for 5.1% this year. On a country level, Brazil's gross sovereign commercial borrowing would account for 44.5% of the total, followed by Turkey with 13.6% and Mexico with 11.6%. In parallel, S&P forecast the total sovereign commercial debt stock of the 17 countries at $2,844bn at the end of 2014 relative to $2,671bn at end-2013, and would include $2,653bn in medium- and long-term debt and $191bn in short-term debt. Latin America would account for 61.5% of total issuance, Europe & Africa for 29.6% and Asia for 9% this year. Brazil would account for the highest share in the aggregate debt stock at 34.3%, followed by Mexico (13.7%) and Turkey (8.4%). Further, gross long-term sovereign commercial borrowing would be equivalent to 6% of aggregate GDP of the 17 economies this year, while the total sovereign commercial debt stock would reach 28% of their GDP.

Source: Standard & Poor's

MENA

Equity markets up 8% in first two months of 2014

Arab stock markets increased by 8.4% and GCC markets rose by 7.4% in the first two months of 2014 compared to increases of 2.7% and 3.6%, respectively, in the same period of 2013. Activity on the Beirut stock exchange increased by 26.1% in the first two months of 2014 and posted the best performance among Arab markets during the period. It was followed by the Dubai financial market with a 25.2% improvement, the Egyptian equity market with a 19.8% growth, the Abu Dhabi exchange with a 15.6% rise, the Qatar financial market with a 13.4% increase, the Bahrain bourse with a 9.9% expansion, the Palestine equity market with a 9.1% appreciation, the Tunis stock market with a 7.6% increase, the Saudi Arabia equity market with a 6.7% improvement, the Amman stock market with a 5.4% growth, the Oman stock exchange with a 4.1% expansion, the Casablanca stock exchange with a 3.6% rise, the Khartoum stock market with a 3.4% increase and the Kuwait exchange with a 1.9% appreciation. In parallel, activity on the Libyan and the Iraqi stock markets dropped by 3.3% each and posted the weakest performance among Arab stock markets in the first two months of 2014. They were followed by the Damascus financial market with a decrease of 2.3%. In comparison, global equities increased by 0.7% and emerging market equities declined by 3.1% in the first two months of 2014.

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

Retirement environment improves in several Arab countries

The Global Retirement Index (GRI) for 2014 ranked the UAE as the ideal country for retirement among 18 Arab countries and the 26th most favorable destination for retirees among 150 countries worldwide. It was followed by Qatar (31st), Kuwait (40th), Saudi Arabia (45th), Bahrain (57th), Jordan (67th), Lebanon (72nd), Algeria (78th), Libya (80th), Tunisia (85th), Egypt (88th), Morocco (97th), Syria (103rd), Iraq (106th), Yemen (117th), Mauritania (118th), Sudan (126th) and Djibouti (134th). The GRI, which is issued by global asset management firm Natixis, covers key aspects for welfare in retirement that are access to quality health services, having enough material means to live a comfortable life, having access to quality financial services, and living in a clean and safe environment. Countries with the highest rankings and scores are the ideal ones for retirement. The region received an average score of 52.2% in 2014, which is better than its score of 51.7% in 2013, but still worse than the global average of 54%. The GCC countries' average score was 65.6%, significantly higher than that of non-GCC Arab countries of 47%. Further, the scores of nine Arab countries improved, eight declined and one remained unchanged year-on-year, while the rankings of 11 Arab countries improved and seven deteriorated. Lebanon's score fell by seven percentage points and its rank declined by 19 spots annually, constituting the steepest drop in terms of rank and score in the region; while Bahrain's score rose by eight percentage points and its rank improved by 35 spots, the best improvement on both indicators among Arab countries.

Source: Natixis, Byblos Research

Environmental performance below global average

The 2014 Environmental Performance Index (EPI) indicated that Arab countries are farther from achieving their environmental policy goals relative to the environmental performance worldwide. The region received an average score of 49.22 points in 2014, lower than the global average of 50.68 points. Also, the GCC countries' average score of 61.02 points was higher than that of non-GCC Arab countries of 43.78 points. The index uses a methodology that tracks national performance on a core set of environmental policy goals for which every government can be held accountable. It identifies specific targets for environmental performance and measures how close each country comes to these goals. Higher rankings reflect better environmental performance. The EPI ranked the UAE in first place among 19 Arab countries and in 25th place among 178 countries globally. It was followed by Saudi Arabia (35th), Kuwait (42nd), Qatar (44th), Egypt (50th), Tunisia (52nd), Jordan (60th), Syria (68th), Morocco (81st), Bahrain (82nd), Lebanon (91st), Algeria (92nd), Oman (99th), Libya (120th), Iraq (149th), Yemen (157th), Djibouti (161st), Mauritania (165th) and Sudan (171st). In parallel, the scores of 15 Arab countries improved and four declined in the past 10 years. Bahrain's score regressed by 4.1 points, the steepest decline among Arab countries; while Kuwait's score rose by 23 points, the best improvement in the region over the 10-year period.

Source: Columbia and Yale universities, World Economic Forum, Byblos Research

POLITICAL RISK OVERVIEW - February 2014

EGYPT

The army's raids and airstrikes against militants in the Sinai Peninsula continued throughout the month, while officials claimed the death of senior members in the jihadi group Ansar Beit al-Maqdis (ABM). A suicide bomber, member of the ABM, detonated explosives in a tourist bus near the Egyptian-Israeli border, which resulted in the death of three South Korean tourists and an Egyptian national. Violence in and around Cairo continued. The military-backed government resigned on February 24 in an alleged move designed to pave the way for the nation's military chief Abdelfattah el-Sisi to leave his post as Defense Minister and run in the upcoming presidential elections. Housing Minister Ibrahim Melheb was tasked to form a new Cabinet. Field Marshal el-Sisi's expected presidential candidacy received endorsements from former President Husni Mubarak and from Russian President Vladimir Putin. Field Marshal el-Sisi and Foreign Minister Nabil Fahmy have allegedly led negotiations of a $2bn arms deal with Russia.

IRAN

The UN Security Council's permanent members plus Germany (P5+1) and Iran reached a deal on the framework for comprehensive negotiations over Tehran's nuclear program. The International Atomic Energy Agency (IAEA) reported that Iran is complying with confidence-building measures. Iran and the IAEA agreed on additional steps to clarify some aspects of Tehran's nuclear program and to start implementation by May 15, 2014. President Hassan Rouhani vowed to pursue peaceful nuclear technology "forever", while Supreme Leader Ali Khamenei said that he is not opposed to talks but predicted that they would lead to nowhere. Iran has reportedly signed a $195m deal to sell Iraq both arms and ammunition, which would be considered a breach of a UN weapons embargo. The U.S. has targeted businesses for evading sanctions, constituting the second such move since the November 2013 interim-agreement.

IRAQ

The army maintained Anbar province under siege following the Islamic State of Iraq and the Levant's (ISIL) early-January seizure of key areas. The ISIL seized parts of Suleiman Pek in the north but government forces recaptured the city and its surrounding areas after a week of fighting. Shiite cleric Moqtada al-Sadr announced his retirement from politics two months prior to parliamentary elections. Cleric al-Sadr referred to Prime Minister Nouri al-Maliki as a "tyrant" and a "dictator", and said that the government is corrupt. Sectarian violence continued last month, leading to at least 744 deaths and over 1,381 injuries.

DEM REP CONGO

UN Special Representative of the Secretary-General, Martin Kobler, called on militias in the Katanga province to disarm. The UN Organization Stabilization Mission in the DRC announced that reinforcements would be sent to the Pweto territory following a rise in attacks on civilians by local militias. Parliament approved a law that grants amnesty for acts of insurgency and political offenses, excluding amnesty for crimes such as genocide, crimes against humanity and war crimes.

LIBYA

The UN Support Mission in Libya expressed "deep concern" over the ongoing assassinations of public figures and bombings. Seven Egyptian Christians were found executed near Benghazi. At least eight congressmen resigned from the General National Congress (GNC) in a protest over a January extension of the GNC's mandate beyond its alleged end-date of February 7th. Several armed groups threatened to forcibly disband the GNC, while most Islamist groups offered their support.

SOUTH SUDAN

Fighting between President Salva Kiir's government and Sudan People's Liberation Movement/Army-in-Opposition (SPLM/A) rebels led by former Vice President Riek Machar escalated despite the January ceasefire agreement. The SPLM/A's advance towards lucrative oilfields in the north threatened the fiscally fragile government, and could lead to a non-payment of soldiers' salaries. The ongoing fighting forced thousands of persons to displace, while the UN issued a famine warning.

SUDAN

Talks between the government and the Sudan People's Liberation Movement-North began under the sponsorship of the African Union High-Level Implementation Panel on Sudan (AUHIP). The government agreed to accept a draft framework agreement put forward by the AUHIP. The country's national assembly urged the government to revoke the decision taken by the Humanitarian Aid Commission to suspend the work of the International Committee of the Red Cross. The UN Security Council has extended the mandate of the Panel of Experts appointed to its Sudan Sanctions Committee for 13 months.

SYRIA

The second round of the Geneva II peace talks failed to generate meaningful discussion on a political resolution to the conflict or on improving humanitarian conditions. The regime's delegation refused to discuss the opposition's transition plan, emphasizing instead the need to fight "terrorism". The Syrian Observatory for Human Rights (SOHR) said that more people were killed every day since the beginning of peace talks than at any other time during the conflict. The UN Security Council adopted a resolution to increase aid access in Syria. The UN and the Red Crescent evacuated about 1,400 people from the besieged parts of Homs, following a UN-mediated agreement. Rebel infighting continued with the Islamic State of Iraq and the Levant (ISIL) conducting an assassination campaign against senior leaders of the Islamic Front-affiliated groups. Al-Qaeda-linked Jabhat al-Nusra gave the ISIL until March 1st to end infighting in Syria or it would face expulsion from the region. The SOHR estimated on February 27 that 3,300 were killed in rebel infighting since early January 2014. The government missed a UN-endorsed deadline for handing its chemical weapon stockpiles and it accepted an end of April deadline.

TUNISIA

The country's political tensions eased as the new technocratic government led by Prime Minister Mehdi Jomaa started to prove its competence. The an-Nahda and the secular Nidaa Tounes parties struggled to reach an agreement on the legal framework for the upcoming elections. Minister of Interior Lotfi Ben Jeddou announced that about 400 Tunisians returned from fighting in Syria's ongoing civil war. U.S. Secretary of State John Kerry praised the country's democratic progress and promised to help the country's fight against Islamist militants.

YEMEN

Tensions in the northern parts of the country continued, which threatened to undermine a patchwork of ceasefire agreements between the Huthi movement and its various adversaries. The Huthis won a significant battle against al-Ahmar fighters in the 'Amran governorate in the north. A presidential panel agreed to transform Yemen into a six-region federation as part of its political transition. The six regions consist of four in the north and two in the south. The UN Security Council established a sanctions regime to impose travel bans and asset freezes on individuals or entities obstructing the transition.

Source: International Crisis Group

OUTLOOK

EMERGING MARKETS

Domestic policy choices and implementation are key risks to emerging economies

Standard & Poor's anticipated that current market conditions and their impact on emerging markets would not lead to widespread sovereign rating actions on emerging economies. It said that the significant tightening in global liquidity conditions, domestic political events in several emerging markets and concerns about a potential slowdown of the Chinese economy have altered the risk appetite of international investors. It pointed out that currency, equity and bond markets in most emerging economies have come under pressure. But it indicated that vulnerabilities to tighter global liquidity differ significantly between emerging economies. It noted that some sovereigns are more prepared than others to deal with the potentially sustained capital outflows either because their currencies float and provide an automatic shock absorber, or because they can rely on their large foreign currency reserves and/or official funding sources. It said that Ukraine, Turkey and Ghana are the most exposed to shifting capital flows; while China, the Philippines and Angola are the most resilient. However, it pointed out that current sovereign bond market conditions reflect more accurately the underlying fundamentals compared to a year earlier.

In parallel, S&P pointed out that the downside risks to emerging markets' sovereign ratings are not negligible, given that many ratings carry a 'negative' outlook. It considered that domestic policy choices and implementation are key risks to the ratings, rather than the possible effects of the tightening of the U.S. Federal Reserve's quantitative easing program. It noted that inadequate policies, such as unsustainable expansionary macroeconomic policies, would lead to increased vulnerability to external shocks. It added that rising vulnerabilities would reduce the margin of error in policy implementation, while policy uncertainties would further weigh on the ratings. As such, it considered that prudent economic policies become crucial to protect sovereign creditworthiness in the context of growing uncertainty about external liquidity provisions.

Source: Standard & Poor's

IRAQ

Economic growth to average 8.4% in 2014-15

The Economist Intelligence Unit projected Iraq's real GDP growth at 8% in 2014 and 8.8% in 2015, driven mainly by rising oil production and increasing exports. It said that the better security situation in the southern parts of the country would support overall economic growth given that high levels of violence, mainly in central areas around Baghdad, would continue to disrupt activity. It noted that oil production averaged about 3 million barrels per day (b/d) in 2013, almost unchanged from the 2012 level due to deteriorating security environment and to an inadequate export infrastructure. However, it expected oil production to rise to about 3.2 million b/d this year and to reach 3.6 million b/d by 2015 but to remain below the government's target. It noted that heightened security issues constitute the main downside risk to the oil production outlook. It forecast economic growth to average 9.6% annually during the 2016-18, supported by increases in oil production and non-hydrocarbon investments. It forecast the average inflation rate at 4% in 2014 and at just under 6% during the 2014-18 period as consumer demand increases.

In parallel, the EIU indicated that an 18% increase in public spending would stimulate economic activity in 2014. It expected a large proportion of the budgeted public spending to be executed this year due to rising pressure on the government to provide services. It forecast the fiscal deficit to average 1.1% of GDP annually between 2014 and 2016 due to lower-than-targeted public revenues. Further, it forecast the current account surplus to narrow to about 5% of GDP in 2014 and 2015 from 8.5% of GDP in 2013, due to narrower trade surpluses. It anticipated that the downward trend in trade surplus resulting from lower global prices would lead to a balanced external position by 2018. It projected foreign currency reserves to rise from $73.4bn in 2013 to $75.5bn in 2014 and $78.5bn in 2015. It anticipated that reserves would cover 13.1 months of imports in 2014 and 11.8 months of imports in 2015 compared to 15.1 months in 2013.

Source: Economist Intelligence Unit

DEM REP CONGO

Economy to become sixth largest in Sub-Saharan Africa by 2018

Business Monitor International projected real GDP growth in the Democratic Republic of Congo (DRC) at 8.5% in 2014 compared to 8% in 2013, constituting the country's fastest growth rate in more than 20 years. It attributed the acceleration in economic activity to rising mining production and to improving security conditions in the Kivu provinces. But it forecast growth to slow down in coming years and to average 7.1% annually during the 2015-18 period given that lower commodity prices would deter investment. However, it expected the DRC's economy to overtake that of Ghana, Ethiopia and Tanzania by 2018, and to become the sixth largest economy in Sub-Saharan Africa.

BMI forecast private consumption to grow by 7.5% in real terms in 2014 driven by rising income levels in urban areas and by the further integration of rural areas into the formal economy. It anticipated consumer spending to account for 57.4% of GDP in 2014 and to contribute to five percentage points to headline growth. Further, it projected public spending to grow by 7% in real terms in 2014, but to account for only 10.9% of GDP this year and to contribute to just 1.8 percentage points to headline growth. It said that public spending in the DRC has a smaller role in the economy compared to regional countries due to the government's weak administrative capacity and limited resources.

In parallel, BMI expected investment spending to grow by 7% in 2014, to account for 23.9% of GDP and to contribute to two percentage points to headline growth. But it anticipated the contribution of investment expenditures to economic activity to decline in coming years, mainly due to a slowdown in project expansions. Further, it forecast net exports to cut 0.3 percentage point of headline growth in 2014 and an additional 0.2 percentage point in 2015 due to a slowdown in export growth and to rising imports.

Source: Business Monitor International

EGYPT

Outlook revised to 'stable' on receding short-term financing risks and improving political situation

Capital Intelligence revised the outlook on Egypt's long-term sovereign ratings to 'stable' from 'negative', affirmed the long-term foreign and local currency ratings at 'B-' and maintained the short-term ratings at 'B'. It attributed the change to the decrease in short-term financing risks, the rise in international liquidity, and to the mild improvement in the political environment. It said that the financial support from GCC countries resulted in a rise in foreign currency reserves that currently fully cover the country's short-term external financing needs. It anticipated that foreign reserves would continue to provide an adequate coverage of short-term external debt and would constitute a reasonable buffer against moderate external economic shocks. Further, the agency indicated that the ratings are supported by a relatively low level of external debt that reached 16.5% of GDP and 64% of current account receipts in 2013. It added that Egypt's debt profile is relatively favorable and that its gross external financing requirements are low at about 4.7% of GDP in fiscal year 2013/14. However, it said that public finances remain a major rating constraint given their structural weaknesses, high rigidity, elevated debt level and reliance on foreign funding to secure financing needs. It expected the fiscal deficit to exceed 14% of GDP in current fiscal year, and for the public debt level to reach 89% of GDP. It noted that the adverse political environment constrains the authorities' ability and willingness to implement serious reforms that would reduce economic and financial vulnerabilities.

Source: Capital Intelligence

SAUDI ARABIA

Optimism of non-hydrocarbon sector deteriorates

The D&B Business Optimism Index for Saudi Arabia indicated that the composite optimism index for the non-hydrocarbon sector reached 47 in the first quarter of 2014, constituting a deterioration of eight points from the same quarter last year and a decrease of seven points from the previous quarter. The quarter-on-quarter deterioration is mainly due to lower business activity, delays in project awards, low demand, shortage of manpower and high market competition. The index for expected new orders deteriorated to 55 in the current quarter from 67 in the previous quarter; the index for expected sales fell to 54 from 63 in the preceding quarter; and the index for expected profits declined to 53 from 60 in the previous quarter. Also, the index for the number of employees fell marginally to 46 in the current quarter from 47 in the fourth quarter of 2013, the index for inventory levels declined to 37 from 44 and that for the level of selling prices dropped to 28 from 32 in the fourth quarter of 2013. Further, the construction index decreased to 57 in the first quarter from 70 in the fourth quarter of last year, but remains the most optimistic non-hydrocarbon sector. Also, the real estate & business services index dropped to 52 from 54 in the previous quarter; the manufacturing index declined marginally to 48 from 49 in the preceding quarter; the trade & hospitality index fell to 40 from 55; and the transportation index dropped to 37 from 44 in the fourth quarter of 2013 and was the sector with the least optimistic outlook.

Source: Dun & Bradstreet

DEM REP CONGO

Short-term economic prospects are positive

The International Monetary Fund indicated that the Democratic Republic of Congo's (DRC) short-term economic outlook is favorable. It forecast real GDP growth at 8.7% this year, slightly up from 8.5% last year, and would continue to be supported by strong mining sector activity. It said that the inflation rate reached a record low of 1.1% at the end of 2013 and was below the authorities' medium-term objectives of close to 4%. It expected the country's current account position to slightly improve this year, driven by strong mining exports. But it called on authorities to maintain the flexible exchange rate, to increase the foreign currency reserves' coverage of nine weeks of non-aid related imports, and to improve the structural competitiveness of the economy, given the risks of a potential drop in global commodity prices and of uncertainty related to the domestic environment. In parallel, the Fund indicated that the main challenges facing the DRC's economy are to sustain macroeconomic stability and to improve the living conditions of the vast majority of the population. It called on authorities to decrease its reliance on the Banque Centrale du Congo to finance the fiscal deficit over the medium-term and to exploit the country's large tax potential in order to mobilize more domestic revenues. It noted that this would increase public spending on priority sectors, mainly education, health and basic infrastructure. It considered that the substantial increase in revenues in the 2014 budget is contingent on improvements in tax collection and on the implementation of corrective measures to the value-added tax.

Source: International Monetary Fund

UKRAINE

Agencies take rating actions on rising uncertainties

Fitch Ratings affirmed Ukraine's long-term foreign currency Issuer Default Ratings (IDR) at 'CCC' and its local currency IDR at 'B-' with a 'negative' outlook. It also maintained the short-term IDR at 'C' and the Country Ceiling at 'CCC'. It said that political risks remain high and that the transition of power has a range of potential outcomes, which raises uncertainty. It considered that Ukraine's ability to obtain external financing will largely depend on how quickly it can form a government that has a broad popular acceptance and implement a coherent economic policy program. It indicated that Russia has suspended the disbursements of a $15bn in financial support that were earmarked to refinance a heavy sovereign debt repayment schedule. In parallel, Standard & Poor's downgraded Ukraine's long-term foreign currency sovereign credit ratings to 'CCC' from 'CCC+', affirmed the short-term foreign currency rating at 'C' and maintained the long- and short-term local currency ratings at 'B-/B'. It said that the long-term ratings have a 'negative' outlook. It attributed the downgrade to the substantial deterioration in the domestic political situation. It cautioned that a significant devaluation of the Ukrainian hryvnia would further undermine the government's debt servicing ability given that half of the public debt stock is denominated in foreign currency. It projected Ukraine's gross external financing needs at 156% of current account receipts and usable reserves this year.

Source: Fitch Ratings, Standard & Poor's

BANKING

EGYPT

Banks' exposure to government debt up 20% year-on-year in November 2013

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,676.9bn, equivalent to $240.9bn, at the end of November 2013, and constituting an increase of 16.4% from end-2012 and a rise of 15.1% from end-November 2012. Lending to the private sector reached EGP509.3bn or $73.2bn, and rose by 6.6% from end-2012 and by 7% year-on-year. Banks' exposure to government securities totaled EGP641.7bn, equivalent to $92.2bn, and rose by 16.6% from end-2012 and by 19.8% from a year earlier. Banks' sovereign exposure in local currency stood at EGP581.9bn and increased by 15.8% from end-2012 and by 18.6% year-on-year; while their exposure in foreign currency reached EGP59.8bn and grew by 24.7% from end-2012 and by 33% from a year earlier. In US dollar terms, banks' sovereign exposure in local currency stood at $83.6bn, while their exposure in foreign currency reached $8.6bn. Further, total deposits reached EGP1,262.2bn, or $181.3bn, constituting an increase of 15.7% from end-2012 and of 18% from a year earlier, with private sector deposits totaling EGP1,115bn or $160.2bn at end-November 2013 and rising by 15% from end-2012 and by 17.1% year-on-year. Private sector deposits in foreign currency rose by 9.2% year-on-year to EGP215.8bn, or $31bn, at the end of November 2013; while private sector deposits in local currency rose by 19.2% from end-November 2012 to EGP899.3bn, or $129.2bn. The dollarization rate of private sector deposits reached 19.4% at the end of November 2013 relative to 20.8% a year earlier. The private sector loan-to-deposit ratio was 45.7% relative to 50% a year earlier.

Source: Central Bank of Egypt, Byblos Research

OMAN

Macroeconomic conditions to support 'stable' outlook on banking sector

Moody's Investors Service maintained its 'stable' outlook on the Omani banking system, reflecting low levels of non-performing loans, healthy levels of capitalization and earnings and sound liquidity buffers. It expected the stable macroeconomic conditions to drive lending growth to between 10% and 12% this year and to create business opportunities for banks. It forecast banks' capital buffers to remain sound over the next 12 to 18 months given that internal capital generation will largely match the growth in assets of between 10% to 12%. It expected the increase in revenues from credit growth and the stable provisioning requirements to offset the pressure on profits from reduced interest rate margins and from rising operating expenses, as banks continue to build their Islamic banking franchises. As such, it anticipated that Omani banks would maintain strong profitability in 2014, and expected their net profits-to-average assets ratio to range between 1.5% and 1.8%. In parallel, it pointed out that structural challenges related to high single-party borrower concentration levels, real-estate exposures and limited transparency of local conglomerates would leave banks susceptible to event risks. But it noted that banks have sizable cushions to protect them against unexpected losses.

Source: Moody's Investors Service

RUSSIA

Banks' exposure to Ukraine poses significant risks

Fitch Ratings anticipated that Russian banks' substantial exposure to Ukraine would significantly affect their solvency if Ukrainian borrowers' ability to honor their obligations deteriorates as a result of the ongoing heightened political and economic stress. It said that Russian banks' total exposure to Ukraine amounts to about $28bn, according to official estimates, and that state-owned banks hold the bulk of the aggregate exposure. It estimated that more than half of the exposure is in loans to Ukrainian corporates and 25% is in loans to Russian and Ukrainian businessmen who have borrowed funds for the acquisition of Ukrainian assets. It noted that institutions and businessmen are exposed to both economic and political risks in Ukraine, including recession, potential challenges to the ownership of pledged assets and the devaluation of the Ukrainian hryvna, since about 60% of lending is extended in foreign currency. It added that Russian banks' exposure to retail loans in Ukraine represent less than 5% of total exposure and that their exposure to the Ukrainian sovereign is limited. Further, it estimated that Vnesheconombank is the most vulnerable Russian banks to Ukraine given that its total exposure is equivalent to 74% of its equity, followed by Gazprombank with about 40% and VTB with at least 14%. It noted that Sberbank and Alfa Bank are the least vulnerable Russian banks with exposures of 8% and 3%, respectively. However, Fitch considered that the ratings of banks that have the highest exposure to Ukraine are not likely to change unless the probability of support from the Russian government declines.

Source: Fitch Ratings

INDIA

Capital adequacy at 14%, NPL ratio at 3%

The risk-weighted capital adequacy ratio (CAR) of banks operating in India reached 13.8% in fiscal year 2012/13 ending in March 2013 relative to 14.2% in both FY2011/12 and FY2010/11. The CAR of public banks reached 12.4% in FY2012/13, that of foreign banks reached 17.9%, that of new private banks reached 17.5% and that of old private banks was 13.7%. The old private sector banks in India are those that have been operating prior to 1991, while all those that started their business after 1991 are referred to as the new private sector banks. Further, the sector's non-performing loans (NPLs) ratio was 3.4% in FY2012/13, up from 3.1% in FY2011/12 and 2.4% in FY2010/11. The old private banks' NPL ratio stood at 1.9% in FY2012/13, that of new private banks reached 2%, that of foreign banks was 2.9% and that of public banks stood at 4.1%. Also, the sector's loan-to-deposit ratio reached 76.5% in FY2012/13 relative to 78.6% in FY2011/12. The sector's investments in government securities were equivalent to 30.3% of total deposits in FY2012/13, up from 27% in FY2011/12. In parallel, the sector posted a return on assets (ROA) of 1% in FY2012/13, almost unchanged from 1.1% in FY2011/12. The old private banks had an ROA of 1.2% in FY2012/13 and new private banks posted a return of 1.6%, both unchanged from the previous fiscal year. Further, the public banks' ROA reached 0.9% and that of foreign banks stood at 1.8% in FY2012/13.

Source: International Monetary Fund

ENERGY / COMMODITIES

Energy prices at high levels as geopolitical risks increase

Energy prices reached higher levels as geopolitical tensions intensified in recent weeks over fears that a potential Russian military attack on Ukraine could have a negative impact on one of Europe's main energy supply routes. But oil prices later stagnated following easing geopolitical risks over the Ukraine crisis and as official U.S. data suggested weaker oil demand. Brent oil prices are forecast to average $103 a barrel during the coming three months and $95 a barrel in the coming 12 months; while WTI oil prices are expected to average $95 a barrel over the next three months and decline to $88 a barrel on average over a one year period. The oil market is coping surprisingly well with the supply-led disruptions that reached multi-year highs, particularly from Libyan and Iranian shortfalls. Also, the market is expected to remain well-supplied as North America’s oil production growth continues to be strong. Further, Chinese oil demand growth remains subdued despite stabilized economic conditions. In parallel, Brent oil prices increased by 1.2% to $109.3 a barrel in February 2014, WTI prices rose by 5.5% to $102.9 a barrel, while prices of U.S. Henry Hub natural gas regressed by 6.2% to $4.7 per million Btu last month.
Source: Julius Baer, Byblos Research

GCC's crude oil output down 1% in February

The Gulf Cooperation Council's (GCC) crude oil production reached 15.96 million barrels per day (b/d) in February 2014, constituting a decrease of 1.1% from a month earlier. Saudi Arabia's oil output production reached 9.6 million b/d in February, equivalent to 60.2% of total GCC oil production. It was followed by Kuwait with 2.9 million b/d (18.2%) and the UAE with 2.7 million b/d (16.9%). In parallel, the Organization of the Petroleum Exporting Countries' oil production reached 30.92 million b/d in February, nearly unchanged from January.
Source: Emirates NBD, Byblos Research

Iraqi oil exports up 26% in February 2014

Iraqi crude oil exports averaged 2.8 million b/d in February 2014, up by 25.7% from 2.23 million b/d in the preceding month. As such, Iraq is currently the world's fastest-growing oil exporter. The rise in exports was mainly attributed to the completion of work on expanding the capacity of the southern Basra port, from which the majority of Iraq's oil is shipped. As such, exports of 2.5 million b/d, or 89.3% of the total, were shipped from the southern oil port of Basra, and the remaining 300,000 b/d were exported from the northern port of Kirkuk. Iraq's oil production averaged 3.5 million b/d in February 2014. Iraq is the second-largest crude oil producer among OPEC countries.
Source: Thomson Reuters, Byblos Research

Armenia's cut diamonds exports up 50% in 2013

Armenia's cut diamonds exports reached 202,700 carats in 2013, constituting an increase of about 50% from 2012. The value of diamond exports reached $88m last year relative to $79m in 2012. In parallel, Armenia imported 116,442 carats of uncut diamonds, equivalent to $406m, compared to imports of 96,806 carats or $268m in 2012. Armenia mainly imports uncut diamonds from Russia and Belgium. In parallel, Armenia’s diamond production reached 94,498 carats in 2013, up 41.2% from 66,926 carats in 2012.
Source: Arminfo, Armenpress

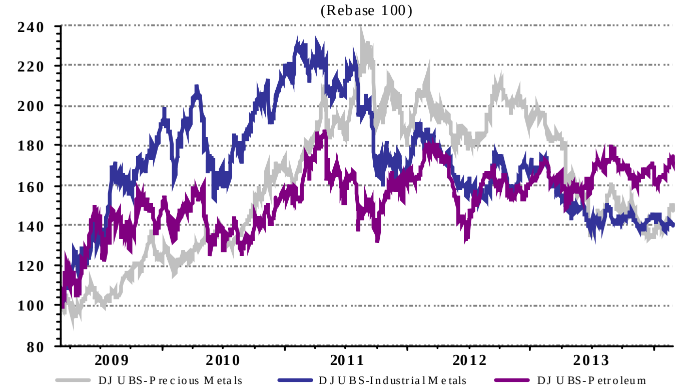
Base Metals: Copper prices to ease in 2014 and to grow by about 12% in 2015

Global copper demand is forecast to reach 22.2 million tons in 2014, constituting an increase of 4.5% from 21.2 million tons in 2013. China's copper consumption is anticipated at 10 million tons in 2014, equivalent to 45.2% of global demand. It would be followed by European countries with 3.6 million tons (16.2%), North America with 2.3 million tons (10.5%) and the Rest of the World (RoW) with 5.2 million tons (23.7%). In parallel, global copper production is projected to reach 22.3 million tons in 2014, constituting an increase of 5.7% from 21.1 million tons in 2013. The copper market is anticipated to remain oversupplied in 2014. The stock-to-consumption ratio is expected to increase from 3.1 weeks in 2013 to 3.2 weeks in 2014. Copper prices are forecast to decrease by 2.7% year-on-year to $7,125 a ton in 2014 and to rise by 12.3% to $8,000 a ton in 2015. In parallel, LME Copper Grade A 3-month future prices declined by 0.8% to $7,010 a metric ton in February 2014, Aluminium High grade 3-month future prices increased by 2.8%, Zinc high grade 3-month futures prices rose by 7.5%, while prices of Nickel futures increased by 5.3% in February 2014.
Source: Barclays Capital, Byblos Research

Precious Metals: Gold prices reached four-month high as investors move to safe-haven assets

Gold prices reached a four-month high of $1,354 a troy ounce on March 3, 2014, constituting an increase of about 12% from end-2013. The rise was mainly due to an increase in investors’ demand for safe-haven assets as their fears grew over a potential Russian military intervention in Ukraine's Crimea peninsula and over lower global economic growth from potential Western-imposed sanctions on Russia. Gold prices are currently trading above $1,300 a troy ounce as the situation in Ukraine remains uncertain. Overall, gold prices are forecast to regress in 2014 as higher interest rates, subdued inflation and reduced tail risks weigh on Western investors' demand for gold. In addition, China's gold consumption is expected to decline this year as it loses its importance among Chinese investors. Gold prices are forecast to average $1,200 a troy ounce over the coming three months and to decline to $1,100 a troy ounce on average in the coming 12 months. In parallel, gold prices rose by 6.7% to $1,326 a troy ounce in February 2014, the price of silver increased by 10.2% to $21.3 a troy ounce, while that of platinum improved by 5.3% to $1,455 an ounce. Also, palladium prices rose by 5.5% to $746 a troy ounce last month.
Source: Julius Baer, Byblos Research

Performance of Metals vs. Petroleum Indices
(Rebase 100)



Source: Thomson Reuters Datastream, Byblos Research

COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	EIU	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 (%)
Africa													
Algeria	-	-	-	-	BB Stable	-2.2	14.3	1.5	7.0	1.4	-	2.9	-
Angola	BB- Stable	Ba3 Stable	BB- Positive	-	BB Stable	1.2	33.2	22.8	-21.1	2.6	76.5	7.1	-1.6
Egypt	B- Stable	Caa1 Negative	B- Stable	B- Stable	CCC Stable	-13.6	97.5	14.6	74.0	4.7	343.8	-2.1	0.9
Ethiopia	-	-	-	-	B Stable	-2.8	22.5	18.9	110.6	-	-	-6.4	2.5
Ghana	B Negative	B1 Negative	B Stable	-	B Stable	-10.2	51.2	27.8	54.1	3.2	247.3	-11.9	7.1
Ivory Coast	-	-	-	-	B Stable	-3.1	41.5	17.3	95.0	-	-	-2.9	3.0
Libya	-	-	B Stable	-	B Stable	-4.5	4.5	7.9	-304.0	3.0	-	6.3	-
Dem Rep Congo	B- Stable	B3 Stable	-	-	-	0.1	35.1	39.7	73.6	1.5	6.0	-2.1	10.2
Morocco	BBB- Negative	Ba1 Negative	BBB- Stable	-	B Stable	-6.1	62.0	38.5	89.7	6.9	250.8	-7.3	2.8
Nigeria	BB- Stable	Ba3 Stable	BB- Stable	-	B Stable	-1.9	20.1	5.6	13.4	0.4	33.0	3.3	2.3
Sudan	-	-	-	-	C Stable	-2.0	100.0	85.8	-	-	-	-11.9	-
Tunisia	-	Ba3 Negative	BB- Negative	-	CCC Stable	-7.1	47.4	54.1	111.0	9.8	333.9	-5.8	2.0
Burkina Faso	B Stable	-	-	-	-	-2.3	31.4	23.8	113.7	2.7	263.7	-5.2	0.4
Middle East													
Bahrain	BBB Stable	Baa2 Negative	BBB Stable	BBB Stable	BB Stable	-5.9	39.9	142.4	44.2	15.3	611.5	5.3	0.3
Iran	-	-	-	B Negative	CCC Stable	-4.5	21.9	1.7	22.3	17.6	22.6	-0.5	-
Iraq	-	-	-	-	CCC Stable	-0.6	41.0	12.5	51.7	-	-	5.5	-
Jordan	BB- Negative	B1 Stable	-	BB- Stable	CCC Stable	-6.1	83.9	63.3	52.2	10.2	260.4	-10.2	4.9
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	A Stable	31.3	6.5	16.3	30.7	7.2	110.5	43.2	-4.8
Lebanon	B- Negative	B1 Negative	B Negative	B Stable	CCC Stable	-11.1	143.9	81.8	144.6	21.0	122.0	-11.3	4.7
Oman	A Negative	A1 Stable	-	A Stable	A Stable	3.3	4.0	19.4	18.1	3.6	101.1	7.3	2.4
Qatar	AA Stable	Aa2 Stable	-	AA- Stable	AA Stable	7.3	32.0	87.8	75.8	12.7	481.9	27.6	-0.2
Saudi Arabia	AA- Positive	Aa3 Stable	AA- Positive	AA- Stable	A Stable	8.7	3.7	12.9	36.0	1.8	12.4	20.1	1.1
Syria	-	-	-	-	C Negative	-14.0	57.4	20.7	-	-	-	-14.1	-
UAE	-	Aa2 -	-	AA- Stable	BB Stable	13.6	32.1	49.2	25.9	3.9	366.8	15.7	1.8
Yemen	-	-	-	-	CC Stable	-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 Stable	BB- Stable	- -	- -	-2.2	45.5	74.8	125.1	18.8	553.5	-9.0	3.4
China	AA- Stable	Aa3 Stable	A+ Stable	- -	BBB Stable	-2.1	27.7	8.4	31.0	1.6	21.5	2.0	2.1
India	BBB- Negative	Baa3 Stable	BBB- Stable	- -	BB Stable	-8.0	67.9	23.5	18.7	5.8	173.3	-3.9	1.9
Kazakhstan	BBB+ Stable	Baa2 -	BBB- Stable	- -	BB Stable	4.8	13.2	59.8	148.2	18.4	728.3	0.9	5.7
Central & Eastern Europe													
Bulgaria	BBB Stable	Baa3 Stable	BBB- Stable	- -	BB Stable	-2.0	18.2	93.2	136.0	20.9	282.3	-0.6	3.1
Romania	BB+ Stable	Baa3 Negative	BBB- Stable	- -	B Stable	-2.7	38.4	75.2	150.1	21.3	281.8	-1.7	1.5
Russia	BBB Stable	Baa1 Positive	BBB Stable	- -	BBB Stable	-0.7	14.1	29.4	85.1	25.4	139.6	2.6	0.1
Turkey	BB+ Negative	Baa3 Stable	BBB- Stable	BB+ Stable	B Stable	-1.8	34.4	45.7	116.4	27.0	327.4	-7.5	1.2
Ukraine	CCC Negative	Caa2 Negative	B Negative	- -	CC Stable	-4.3	43.0	79.4	141.5	28.2	759.4	-7.0	4.4

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-Mar-14	No change	03-Apr-14
UK	Bank Rate	0.50	06-Mar-14	No change	10-Apr-14
Japan	O/N Call Rate	0-0.10	18-Feb-14	No change	11-Mar-14
Australia	Cash Rate	2.50	04-Feb-14	No change	04-Mar-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	13-Feb-14	No change	13-Mar-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	28-Jan-14	Raise 550bps	18-Mar-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	25-Mar-14
Ghana	Prime Rate	18.00	19-Feb-14	No change	Apr-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	10.75	26-Feb-14	Raise 25bps	02-Apr-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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