

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Insurers' losses from natural and man-made disasters at \$45bn in 2013**

Global re-insurer Swiss Re estimated the total economic losses from natural catastrophes and man-made disasters at \$140bn in 2013, constituting a decrease of 28.6% from \$196bn in 2012 and well below the 10-year annual average losses of \$190bn. Total economic losses include insured and uninsured catastrophe losses. Total economic losses in Asia amounted to \$62bn and were equivalent to 0.26% of the region's GDP, followed by Europe with \$33bn (0.15% of GDP), North America with \$32bn (0.17% of GDP) and Latin America & the Caribbean with \$9bn (0.16% of GDP). Further, insurers' overall losses totaled \$45bn in 2013, down 44.4% from \$81bn in 2012, and included \$37bn in losses from natural catastrophes and \$8bn in claims from man-made disasters. Insurers' losses from natural catastrophes and man-made disasters in North America totaled \$19bn and accounted for 42% of the total, followed by Europe with \$15bn (33.8%), Asia with \$6bn (12.5%), Latin America & the Caribbean with \$2bn (5.4%), Oceania & Australia with \$1.3bn (2.9%) and Africa with \$0.6bn (1.4%). Also, insurers' losses from disasters in Seas & Space stood at about \$1bn in 2013 and represented 2.2% of the total. Further, the global insurance industry covered 32.1% of total losses last year, with uninsured losses amounting to \$95bn.

Source: Swiss Re

#### EMERGING MARKETS

##### **Trading in debt instruments at \$5,571bn in 2013**

Trading in emerging markets debt instruments totaled \$5,571bn in 2013, constituting a marginal rise of 0.2% from \$5,559bn in 2012. The subdued annual growth last year reflects investor outflows from emerging markets due to the tightening of the U.S. Federal Reserve's quantitative easing program, rising U.S. Treasury yields and concerns over growth in emerging economies. Further, local instruments turnover fell by 2% to \$3,654bn in 2013, and accounted for 65.6% of total emerging market debt trades last year. In parallel, sovereign and corporate Eurobonds' trading volume stood at \$1,890bn in 2013, rising by 5.3% from \$1,795bn in 2012. Sovereign Eurobond volumes totaled \$1,073bn in the 2013, while the volume of traded corporate Eurobonds reached \$779bn. Sovereign Eurobonds accounted for 19.3% of total debt trading, while corporate debt represented 14% of the total. Eurobond trading volumes rose last year despite the slowdown in inflows to emerging debt markets, reflecting record corporate and sovereign bond issuance in emerging economies of \$437bn. The most frequently traded instruments in 2013 were Brazilian assets with \$902bn or 16.2% of the total, followed by Mexican instruments with \$748bn (13.4%), Russian debt securities with \$499bn (9%), Turkish instruments with \$392bn (7%) and Indian assets with \$353bn (6.3%). The survey covered data on trading volumes in debt instruments for over 90 emerging economies.

Source: Fitch Ratings

#### MENA

##### **Equity markets up 11% in first quarter of 2014**

Arab stock markets increased by 10.6% and GCC markets rose by 10.5% in the first quarter of 2014 compared to increases of 3.2% and 5.1%, respectively, in the same quarter of 2013. Activity on the Dubai financial market increased by 32.1% in the first quarter of 2014 and posted the best performance among Arab markets during the period. It was followed by the Beirut stock exchange with a 16.3% improvement, the Egyptian equity market with a 15% growth, the Abu Dhabi exchange with a 14.1% rise, the Qatar financial market with a 12.1% increase, the Saudi Arabia equity market with a 10.9% expansion, the Bahrain bourse with an 8.7% improvement, the Casablanca stock exchange with a 4.7% rise, the Tunis equity market with a 4.3% increase, the Amman stock market with a 4% growth, the Khartoum bourse with a 2% increase, the Palestine equity market with a 1.3% appreciation, and the Oman and Kuwait stock exchanges with a 0.3% expansion each. In parallel, activity on the Libyan stock market dropped by 6.3% and posted the weakest performance among Arab stock markets in the first quarter of 2014. It was followed by the Iraqi stock exchange with a decline of 5.1% and the Damascus financial market with a decrease of 1.4%. In comparison, global equities increased by 0.8% and emerging market equities declined by 0.7% in the first quarter of 2014.

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

##### **Value of underway construction projects at \$2.5 trillion**

The aggregate value of underway construction projects in the Middle East & North Africa (MENA) region is currently at \$2.5 trillion, and includes \$1.4 trillion in projects that are in the execution phase, \$645bn in projects that are in the pipeline at a relatively advanced stage, and \$422bn in projects that are in the very early stages of development. The value of underway projects in Saudi Arabia reached \$784bn or 31.7% of the total, followed by those in the UAE at \$669bn (27%), those in Qatar at \$273bn (11%), Kuwait at \$249bn (10.1%), Egypt at \$143bn (5.8%) and Oman at \$127bn (5.1%); while the remaining countries in the region had projects worth \$229bn (9.3%). As such, underway projects in GCC countries are worth almost \$2.2 trillion, or 87% of the region's total projects; while Egypt is the only non-GCC country with projects underway in excess of \$100bn. Further, real estate projects dominate total projects underway at \$1,006bn, or 40.5% of the total, followed by infrastructure projects at \$512bn (20.6%), oil & gas at \$376bn (15.1%), power & water at \$298bn (12%), industry at \$150bn (6%), petrochemicals at \$131bn (5.3%) and alternative energy at \$12bn (0.5%). Citigroup indicated that projects underway account for a relatively small share of economic activity in non-oil producing countries in the region, with the exception of Jordan, where such projects represent over 130% of its GDP.

Source: Citigroup

# POLITICAL RISK OVERVIEW - March 2014

## EGYPT

Field Marshal Abdelfattah el-Sissi resigned his post as Defense Minister on March 26 to run in the May 2014 presidential elections. Interim President Adly Mansour issued a decree that protects the Elections Commission from legal challenges, a controversial position that had been opposed by one of Egypt's top courts and criticized by potential candidates. Egypt's new Cabinet led by Prime Minister Ibrahim Mahlab was sworn in on March 1st. An Egyptian court sentenced 529 Muslim Brotherhood (MB) members to death on murder and other offences. The sentencing sparked domestic and international condemnation. The MB responded to the death sentences by calling for the "downfall of military rule". Clashes continued between MB supporters and the police across the country.

## IRAN

The UN Security Council's permanent members plus Germany (P5+1) held a second round of negotiations with Iran over Tehran's nuclear agreement. The escalating animosity between Russia and Western members of the P5+1 over the Ukraine crisis have not had a tangible impact yet on nuclear talks with Iran. EU foreign policy chief Catherine Ashton visited Iran, constituting the first such visit since 2008, and has met with rights activists without the government's approval. The International Atomic Energy Agency said that Iran is fulfilling its obligations of the November Joint Plan of Action.

## IRAQ

The Anbar Provincial Council has accused the Iraqi army of not trying seriously to solve the ongoing crisis in the Anbar province in the midst of an ongoing offensive against insurgents. Chairman of the Iraqiya Alliance Iyad Alawi stated that the government failed to reach its military goals in Anbar. The Independent High Electoral Commission (IHEC) discussed the postponement of the parliamentary poll in the Anbar province due to the ongoing turmoil and to the high numbers of displaced persons ahead of April's elections. The United Nations envoy to Iraq said that about 400,000 people have been displaced this year by the ongoing violence in Western Iraq. IHEC commissioners resigned on March 25th, citing political and judicial interference in the electoral process, but they rescinded their resignations five days later due to appeals by the UN. Sectarian violence continued across the country ahead of elections, leading to at least 592 deaths and over 1,234 injuries.

## DEM REP CONGO

The Armed Forces of the DRC recaptured the eastern town of Lukweti in North Kivu from the Alliance for a Free and Sovereign Congo, which is a rebel group that controlled and used the town as its headquarters for six years. The UN Security Council extended the mandate of the UN Organization Stabilization Mission in the DRC till March 31, 2015.

## LIBYA

The country's crisis over the blockade of oil export terminals by rebel groups continued. Tensions between Tripoli and gunmen loyal to eastern pro-autonomy leader Ibrahim Jedran escalated after Jedran's forces loaded crude oil on a North Korean flagged tanker in defiance to the state's authority. U.S. Navy SEALs took control of the oil tanker near Cyprus and returned it to the Libyan government. The General National Congress (GNC) ordered a special force to be deployed to "liberate" all rebel-held oil terminals but then suspended the military action and gave rebels two weeks to vacate the oil terminals peacefully. The GNC passed a no-confidence motion against Prime Minister Ali Zeidan and designated Defense Minister Abdallah al-Thinni as interim Prime Minister. The UN Security Council renewed the mandate of the United Nations Support Mission in Libya till March 13, 2015, while it banned illicit oil exports from Libya.

## SOUTH SUDAN

Fighting between President Salva Kiir's government and the Sudan People's Liberation Movement/Army-in-Opposition (SPLM/A), led by former Vice President Riek Machar, continued despite a January ceasefire agreement. The Intergovernmental Authority on Development (IGAD) requested on March 31 the suspension of peace talks for one month. Security officials in the Lakes state claimed that they intercepted 11 UN trucks transporting fire-arms and military uniforms. The government accused the UN Mission in the Republic of South Sudan (UNMISS) of plotting to arm the opposition. Vice President James Wani Igga led a protest against the UNMISS in Juba, calling for the resignation of UN Special Representative of the Secretary-General and head of the UNMISS, Hilde Johnson.

## SUDAN

President Omar al-Bashir and the Popular Congress Party leader Hassan al-Turabi agreed to accelerate preparations for the national dialogue. The ruling National Congress Party (NCP) announced that 58 parties agreed to take part in the national dialogue in order to reach a consensual vision among all political forces to resolve the country's crises. The NCP reiterated calls for opposition forces and rebel groups to join national talks. An outbreak of inter-communal violence in North Darfur has led to a mass displacement of civilians and to a number of casualties.

## SYRIA

The Syrian regime intensified operations to control areas bordering Lebanon, part of a long-running offensive. The regime seized the city of Yabroud with the backing of the Lebanese group Hezbollah on March 16th, the largest remaining rebel stronghold in the area. Many rebels have allegedly fled across the border to Lebanon. In parallel, rebel forces, including fighters from the al-Qaeda affiliated Al-Nusra Front, have captured the town of Kasab and the nearby Kasab border-crossing with Turkey, as well as the village of Samra, giving them access to the Mediterranean sea for the first time. Rebels took over a government prison in the Daraa Province, expanding their control near the border with Jordan. Infighting between rebel groups continued as the Islamic State of Iraq and the Levant (ISIL) rejected mediation efforts by the Al-Nusra Front. The regime missed a UN-imposed deadline for destroying its chemical weapons' (CW) production facilities, while a UN mission overseeing the removal of CW said that 53.6% of CW were removed from or destroyed in Syria. The Turkish air force shot down a Syrian military aircraft, claiming that it crossed into its airspace. On March 20th, UN aid trucks entered Syria from Turkey for the first time in three years. The regime continued its siege and starvation tactics around Damascus.

## TUNISIA

The January political truce between the Islamists and secularists continued. Tunisia lifted a state of emergency three years after it was imposed in a largely symbolic move to show that the country's security situation is improving. Tunisia's presidential and parliamentary elections will go ahead as planned later this year despite delays in approving a new election law. Social tensions driven by the country's economic insecurity increased.

## YEMEN

Violence in the northern parts of the country increased as tensions between Huthis and various opponents in the al-Jawf province intensified. Ceasefire negotiations in the Hamdan area near Sanaa continued after fighting spread to the area in early March. Thousands of protestors in Sanaa called for the release of political prisoners and for the trial of former President Ali Abdullah Saleh.

*Source: International Crisis Group*



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# OUTLOOK

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## GCC

### **GCC economies vulnerable to emerging market turbulence**

Standard & Poor's anticipated that the Gulf Cooperation Council (GCC) economies would be vulnerable to a slowdown in emerging markets and to an intensification of capital outflows, mainly through the oil channel. It said that growth in Emerging Asia is becoming increasingly important in determining oil market fluctuations. As such, it forecast that a 1.7 percentage points drop in emerging market's real GDP growth in 2015 and an additional 0.7 percentage points fall in 2016 would reduce global oil prices from a current average of \$102 per barrel to \$90 per barrel by 2016.

S&P estimated that an oil price shock would reduce the GCC's real GDP growth by 0.2 percentage points in 2014, by 0.6 percentage points in 2015 and by 0.5 percentage points in 2016. It anticipated that a fall in global oil prices would be offset by a decrease in oil production in order to stabilize the markets. It noted that Saudi Arabia would reduce its oil output by 5% in 2015 and by 6% in 2016. However, it cautioned that a faster-than-expected increase in U.S. oil production would lead to a sharper and more prolonged drop in global oil prices. It added that production recovery in countries that are currently producing below their potential, such as Iraq, Iran and Libya, would put downward pressure on oil prices. It indicated that all GCC countries, except Bahrain, have large buffers that they would use to implement countercyclical fiscal policy in order to limit a temporary decline in oil revenues. It forecast Saudi Arabia's fiscal balance to shift to a deficit and for the UAE to maintain its fiscal surplus, but at lower levels. It noted that Bahrain is the most vulnerable GCC country as it is already running a fiscal deficit. It forecast the current account balance to fall by 0.6 percentage points of GDP in 2014, by 2.5 percentage points of GDP in 2015 and by 3.6 percentage points of GDP in 2016.

*Source: Standard & Poor's*

## AFRICA

### **WAEMU economies to grow by 7% in 2014, downside risks are moderate**

The International Monetary Fund projected real GDP growth in member countries of the West African Economic and Monetary Union (WAEMU) at 6.5% in 2014, reflecting a substantial increase in investments in Côte d'Ivoire and Niger and a rebound in agricultural production in Mali. It anticipated that growth would remain high in the medium-term provided the full implementation of growth-enhancing policies, the stabilization of political and security conditions and the continuous high-quality public investment in the region. It forecast the annual average inflation rate in WAEMU economies at 2.3% in 2014 and to stabilize at 2.2% in coming years.

In parallel, the Fund projected the region's overall fiscal deficit, including grants, to widen to 4.3% of GDP in 2014 from a deficit of 3% of GDP in 2013. It expected the Union's overall public debt level to remain stable at about 39% of GDP. Further, it forecast the Union's current account deficit, including grants, to widen to 7.6% of GDP in 2014 from 6.7% of GDP

in 2013, but to gradually narrow in the medium-term as gross investment would stabilize at a high level and start generating higher exports. It said that the current account deficit would remain financed through non-debt inflows, such as foreign direct investments and grants. It indicated that the widening of the current account deficit led to a decline in foreign exchange reserves, excluding intra-WAEMU trade, to 4.7 months of import cover at end-2013 from 5 months of imports at end-2012. But it noted that reserves remain adequate. It considered that a tighter monetary policy is more appropriate in the context of solid economic activity, wide current account deficit and declining foreign currency reserves. It encouraged authorities to benefit from the positive economic outlook to strengthen fiscal sustainability while maintaining public investment efforts.

In parallel, the IMF said that the region's outlook faces moderate downside risks that include political instability, security issues and delays in implementing growth-supporting investment and reforms. It considered that the materialization of such risks would negatively affect growth prospects, poverty reduction and fiscal sustainability. It also indicated that a slowdown in economic activity in both emerging and advanced economies would negatively affect trade, remittance inflows, FDI, and official assistance.

*Source: International Monetary Fund*

## TURKEY

### **Challenging environment for banks in 2014**

Business Monitor International anticipated that the slowdown in domestic economic activity, higher funding costs and the depreciation of the Turkish lira would negatively affect the growth and profitability of the Turkish banking sector. It forecast lending growth to decelerate from 33.6% in 2013 to 14% in 2014, reflecting supply- and demand-side constraints. It said that the slowdown in lending would be most pronounced in the retail segment, as it accounted for 31.7% of total loans and for 26.2% of total new lending in 2013. It noted that authorities have targeted the slowdown in consumer credit growth as part of their strategy to narrow the current account deficit, which would hold back household lending. Also, it pointed out that rising corporate debt and slowing domestic demand would increase non-performing loans and reduce borrowing among indebted Turkish corporates. It added that elevated political uncertainties would weigh on corporate credit demand. As such, it expected banks to increasingly target small- and medium-sized enterprises this year in order to grow their loan portfolios.

Further, BMI said that banks' asset quality remains vulnerable to exchange rate volatility due to the banking sector's reliance on foreign borrowing to finance its aggressive domestic loan growth in recent years. It expected banks' asset quality to deteriorate this year as both corporates and consumers face difficulties to repay loans. But it noted that NPLs represented 2.7% of total loans at the end of 2013, which would allow banks to absorb a significant increase in NPLs before the latter pose a serious threat to their balance sheets. However, it considered that rising NPLs would lead to significant income losses and would require an increase in banks' provisioning that would weigh on their profitability.

*Source: Business Monitor International*



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# ECONOMY & TRADE

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## SUDAN

### Debt relief contingent on reforms

The International Monetary Fund indicated that it has approved a 12-month Staff-Monitored Program (SMP) for Sudan to supervise the implementation of the authorities' economic program for 2014. It noted that the SMP is an informal agreement between a country's authorities and the Fund's staff, and that it does not require financial assistance nor endorsement by the IMF Executive Board. The Fund said that Sudan's economy has been facing major challenges since South Sudan's independence in 2011, including subdued economic activity, high inflation rates, a deterioration in external and fiscal accounts, and a persisting gap between the official and market exchange rates. It said that the new SMP for 2014 provides a comprehensive framework that strengthens the policy mix, stimulates an economic recovery and restores macroeconomic stability. In parallel, the Fund indicated that Sudan cannot access most external financing sources, including IMF resources, given its elevated external debt and arrears. It considered that a strong track record of maintaining macroeconomic stability and implementing reforms, along with a comprehensive arrears clearance strategy, would be essential for resolving Sudan's large debt overhang. It added that the successful implementation of the SMP would signal to the international community the authorities' commitment to macroeconomic reforms, which would subsequently help Sudan in the debt relief process.

*Source: International Monetary Fund*

## LIBYA

### Oil disruptions affect public spending

Information provider IHS Global Insight minimized the likelihood of an overall financial crisis in Libya despite the severe drop in public revenues and the ongoing spending needs. It pointed out that Libya faces high risks of continued disruption to its hydrocarbon sector this year. It said that the government's capacity to address the blockade of oil export terminals by rebel groups through economic policy-making or through reforms to the security sector would remain severely limited. It noted that the significant drop in government revenues from the country's weak institutional capacity and widespread insecurity would result in recurrent liquidity shortages. As such, it considered that the government would have to cut spending on infrastructure and on development projects in favor of spending on public-sector salaries and on subsidies. It said that this would delay plans to diversify the economy away from its over-reliance on oil revenues and would significantly delay planned investments in roads, ports and airports. However, it indicated that the country's large foreign currency reserves and easy access to domestic financing allow it to largely offset the drop in oil receipts. It said that the country's significant foreign currency reserves of well over \$100bn provide it with a temporary means of payment; while its sovereign wealth fund, estimated at \$60bn at end-2013, constitutes a medium-term safety net. As such, it considered that payments are likely to be made eventually despite the risk of delays. But it cautioned that the use of reserves and extensive borrowing from domestic banks would become unsustainable if disruptions to the hydrocarbon sector continue at the current pace throughout 2014 and 2015.

*Source: IHS Global Insight*

## GHANA

### Outlook revised to 'negative' on deteriorating public finances

Fitch Ratings revised the outlook to 'negative' from 'stable' on Ghana's 'B' long-term foreign and local currency Issuer Default Ratings (IDRs). It attributed the change to additional deterioration in public finances, limited planned fiscal consolidation for coming years and widening current account deficit. It said that policy credibility has significantly weakened following two years of double-digit and wider-than-expected fiscal deficits. It noted that the fiscal deficit stood at 10.8% of GDP in 2013 compared to a government's target of 9% of GDP due to lower-than-budget public revenues and high spending on public-sector wages and on debt servicing. It added that the public debt level rose to 61.8% of GDP in 2013 from 48.9% of GDP in 2012, reflecting the wide fiscal deficit and the 20% depreciation of the Ghanaian cedi last year. It forecast the fiscal deficit at 9.3% of GDP in 2014 relative to a target deficit of 8.5% of GDP due to the slower-than-projected pace of fiscal consolidation. It noted that the government's capacity to significantly expand its revenue base is uncertain, while containing current spending and limiting arrears will remain a challenge. It noted that the wide fiscal deficit is negatively affecting economic stability, while the weaker growth outlook over the next two years would complicate fiscal consolidation. It pointed out that the current account deficit widened to 13.7% of GDP last year, and the foreign currency reserves stood at \$5.6bn or 2.7 months of current external payments.

*Source: Fitch Ratings*

## NIGERIA

### Outlook revised to 'negative' on rising political, institutional and fiscal risks

Standard & Poor's affirmed Nigeria's long-term foreign and local currency sovereign credit ratings at 'BB-' and revised the outlook on the ratings to 'negative' from 'stable'. It said that the outlook revision reflects heightened political and institutional tensions from infighting within the ruling party; lower-than-expected oil production from oil theft and pipeline shutdowns; falling fiscal buffers, and rising political influence on the Central Bank of Nigeria's (CBN) management that could slow or stop the progress made in banking regulation and supervision. It said that the fall in oil production contributed to a fall of the Excess Crude Account (ECA) reserves to about \$3.4bn in February 2014 from more than \$10bn at end-2012. It added that raising the ECA reserves this year would be challenging given pre-election spending. S&P indicated that the ratings are constrained by Nigeria's low GDP per capita, less developed non-hydrocarbon sectors, very poor infrastructure, internal political tensions and weak public institutions. It considered that Nigeria is vulnerable to potential oil-price and production shocks, and that authorities need to further develop their capacity to adequately respond to such shocks. The agency indicated that it would lower the ratings in the event of additional worsening in the political environment or in public finances, higher-than-expected deterioration in the external balance, or increased political influence on the CBN's management.

*Source: Standard & Poor's*



# BANKING

## SAUDI ARABIA

### Low banking industry risks

Standard & Poor's classified Saudi Arabia's banking sector in 'Group 2' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '3' and an industry risk score of '2'. 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 2' include Australia, Canada, Hong Kong, Norway, Sweden, and Singapore. In parallel, the agency indicated that Saudi Arabia's economic risk score reflects its "intermediate risks" in economic resilience and in credit risks in the economy, and "low risks" in economic imbalances. It said that the economy continues to grow strongly but remains heavily dependent on the hydrocarbon sector. It considered that there are no major economic imbalances that would affect the banking sector. It added that banks mainly deal with large corporate groups involved in government-backed projects. But it noted that single-name exposures are high, given the limited number of large corporate clients and narrow economic diversification. It added that corporate governance for family-owned groups and financial disclosure is improving but at a slow pace. Further, it pointed out that the industry score reflects the country's "low risks" in its institutional framework, its competitive dynamics and its system-wide funding. It said that the Saudi Arabia Monetary Agency monitors the banking system efficiently, prevents banks from entering into high risk strategies, controls capital adequacy and credit growth, and promotes strong capital positions and provision buffers. It indicated that the trend for economic and industry risks is "stable".

Source: Standard & Poor's

## QATAR

### Private sector lending up 19% year-on-year in February 2014

Figures issued by the Central Bank of Qatar show that total assets reached QAR945.3bn, equivalent to \$259.7bn at the end of February 2014, constituting an increase of 3.2% from the end of 2013 and a rise of 14.4% from end-February 2013. Loans totaled QAR597.1bn, equivalent to \$164bn at end-February 2014, constituting an increase of 1% month-on-month, driven by a 1.8% monthly rise in public sector lending and a marginal 0.3% increase in lending to the private sector. Also, total loans grew by 18.1% year-on-year in February 2014, reflecting an 18.8% annual increase in credit to the private sector and an 18.7% rise in public sector lending. In parallel, aggregate deposits totaled QAR575.4bn, equivalent to \$158.1bn at end-February 2014, constituting an increase of 3.9% from the preceding month, driven by a 3.6% rise in private sector deposits and a 4.4% increase in public sector deposits. The sector's total deposits grew by 19.4% year-on-year in February 2014, reflecting a 23% annual rise in public sector deposits and an 18.6% year-on-year increase in private sector deposits. The loan-to-deposit ratio stood at 103.8% at end-February 2014, down from 105.4% at end-2013 and from 104.9% at end-February 2013.

Source: Central Bank of Qatar, Byblos Research

## BAHRAIN

### Banking sector's outlook revised to 'stable'

Moody's Investors Service changed the outlook on Bahrain's banking system from 'negative' to 'stable', reflecting the banks' solid funding base and capital buffers as well as the recovery in domestic economic activity. It anticipated that the rebound in economic growth, which is driven by increased government spending, would support banks' profitability and asset quality. It forecast banks' domestic lending to grow by about 7% to 8% over the next 12 to 18 months, given that most domestic lending is allocated to non-hydrocarbon sectors. Also, the agency expected banks' asset quality to remain stable in coming months as the domestic economy strengthens and as banks diversify their loan portfolio outside Bahrain. It anticipated that the non-performing loan ratio would remain at around 6% over the next 12 to 18 months, given that current NPLs are still concentrated with a few large borrowers that are under stress. Further, it forecast banks' capital metrics to remain broadly stable over the outlook period. It added that the banks' capital is sufficient to absorb losses in periods of severe stress. It said that banks would continue to benefit from sound liquidity profiles and stable deposits, but the banking system remains highly dependent on government deposits. However, Moody's considered that rising public spending, increasing debt level and growing fiscal break-even oil price would affect the government's flexibility to absorb oil-price shocks and would potentially impact the authorities' capacity to provide support to financial institutions.

Source: Moody's Investors Service

## MOROCCO

### Capital adequacy ratio at 13%, NPLs on the rise

The risk-weighted capital adequacy ratio of banks operating in Morocco reached 13.1% at the end of June 2013 relative to 12.3% at the end of 2012 and 11.7% at the end of 2011; while banks' Tier-One capital ratio increased to 10.6% at end-June 2013 from 10.2% at end-2012 and 9.6% at end-2011. Also, the banks' aggregate capital-to-assets ratio was 8.9% at end-June 2013, up from 8.5% at end-2012 and 8.1% at end-2011. The sector's liquid assets were equivalent to 11% of total assets at the end of June 2013 relative to 10.5% at the end of 2012 and 11.7% at the end of 2011; while they represented 14.9% of total short-term liabilities at end-June 2013 compared to 14.7% at end-2012 and 16.1% at end-2011. Further, banks' lending to the private sector accounted for 91% of total loans, unchanged from 2012 but marginally down from 92% in 2011. Foreign currency loans accounted for 2.9% of total loans at end-June 2013, unchanged from 2012, and relative to 3.5% in 2011. The sector's deposit-to-loan ratio was 97.3% at end-June 2013 relative to 96.1% in 2012 and 99% in 2011. Also, the sector's non-performing loans ratio was 5.4% at the end of June 2013, up from 5% in 2012 and 4.8% in 2011, while specific provisions-to-NPLs ratio regressed to 66% at end-June 2013 from 67.8% at end-2012 and 68.7% at end-2011. In parallel, banks' return on assets was 1.2% on an annualized basis in June 2013, relative to 1% in 2012 and 1.1% in 2011; while their annualized return on equity was 12.6% in 2013 compared to 11.8% in 2012 and 13.4% in 2011.

Source: International Monetary Fund



# ENERGY / COMMODITIES

## Brent-WTI price differential to narrow in 2014

Global oil demand is projected to average 92.4 million barrels per day (b/d) in 2014, constituting an increase of 1.3% from 91.2 million b/d on average in 2013. The Organization for Economic Cooperation and Development (OECD) countries' consumption is expected to remain flat at 46 million b/d this year, while non-OECD countries' oil demand is anticipated to rise by 2.7% year-on-year to 46.4 million b/d. Brent oil prices are forecast to average \$107 a barrel in the second quarter of 2014 and to decline to \$106 a barrel on average in the third quarter, while WTI oil prices are projected to average \$98 a barrel in the second quarter and to regress to \$96 a barrel in the third quarter of 2014. Overall, Brent prices are expected to drop by 2% year-on-year to \$106.5 a barrel on average in 2014. The Brent-WTI price differential is anticipated to narrow to \$9.9 in 2014 from average spreads of \$10.7 in 2013 and \$17.5 in 2012. In parallel, Brent oil prices increased by 4.6% in the first quarter and fell by 2.4% in March 2014 to \$106.5 a barrel, WTI prices rose by 3.5% from end-2013 and decreased by 1.3% last month to \$101.5 a barrel, while prices of U.S. Henry Hub natural gas improved by 3% from end-2013 and regressed by 4.9% in March to \$4.5 per million British thermal unit.

Source: Deutsche Bank, Byblos Research

## Iran and Russia negotiating \$20bn oil-for-goods deal

Iran and Russia made progress towards signing an oil-for-goods deal, which would enable Tehran to increase its energy exports in defiance of Western-imposed sanctions. The prospect barter deal would let Moscow purchase up to 500,000 barrels a day of Iranian crude oil for two to three years in exchange for Russian equipment and industrial goods. The deal is expected to be worth between \$15bn and \$20bn and would be done in stages, with an initial tranche of about \$6bn to \$8bn. The United States indicated that the deal would raise "serious concerns" and would be inconsistent with the ongoing nuclear talks with Iran.

Source: Thomson Reuters

## CBI has world's 43rd largest gold reserves

The Central Bank of Iraq (CBI) indicated that it bought 36 tons of gold in March 2014 valued at about \$1.6bn, constituting the largest monthly purchase by any country in three years, to help stabilize the Iraqi dinar against other currencies. The purchase constitutes the first addition to Iraq's gold reserves since it raised its holdings by 23.9 tons in August 2012. The purchase brings Iraq's total gold holdings to 65.8 tons, which makes it the world's 43rd largest gold bullion holder.

Source: Thomson Reuters, Byblos Research

## KRG's oil exports via Iraqi pipeline unsuccessful

The Kurdistan Regional Government's (KRG) plans to export 100,000 b/d of crude oil under Iraqi supervision and through the Baghdad-controlled pipeline to Turkey on April 1, 2014 fell through due to ongoing repairs on the northern pipeline. But an Iraqi oil official said that technical issues were just an excuse for the failure of the initiative and said that the real reason was that Baghdad had rejected it. The move was originally seen as a 'gesture of goodwill' as negotiations with Baghdad over the KRG's wider oil sovereignty and budget freeze are ongoing.

Source: Thomson Reuters

## Base Metals: Aluminium prices to rise modestly in short term and decline thereafter

The London Metal Exchange (LME) has been forced by a High Court ruling to put on hold plans to reform the LME's metal warehousing system. The rule stipulated that LME-registered warehouses with outgoing-delivery delays of over 50 days would be required to ship out more metals, particularly aluminium, than they receive starting in April 2014. Aluminium prices are expected to modestly rise in the short term as the LME reform was previously priced into the market. But, over the medium term, aluminium prices' outlook remains bearish. The aluminium market's global surplus along with China's fixed asset investment slowdown would continue to weigh on industrial metal prices in coming quarters. Overall, aluminium prices are forecast to average \$1,850 a ton in 2014, down significantly from an average price of \$2,421 a ton in 2011. In parallel, LME Copper Grade A 3-month future prices declined by 9.7% in the first quarter and by 5.2% in March 2014 to \$6,645 a metric ton, Aluminium High grade 3-month future prices decreased by 0.8% from end-2013 and rose by 1.8% last month. Also, Zinc high grade 3-month futures prices decreased by 3.5% in the first quarter and by 4.3% in March, while prices of Nickel futures increased by 14.4% from end-2013 and by 8% in March 2014.

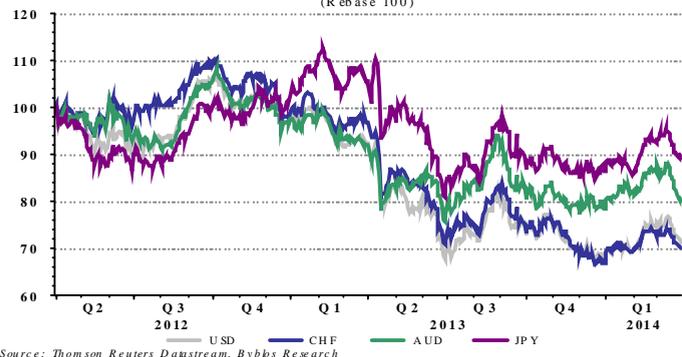
Source: Business Monitor International, Byblos Research

## Precious Metals: Gold prices on downward trend in coming years partly due to a stronger US dollar

Gold prices rose in the first quarter of 2014 due to weaker U.S. real economic data, rising emerging market risk and a general flight of capital into safe-haven assets. Gold prices are currently supported by renewed inflows into Exchange Traded Funds, ongoing purchases of the metal by emerging markets' central banks and increased gold imports into China via Hong Kong. But gold prices are expected to decelerate in coming quarters, driven by an acceleration in U.S. economic growth and a strong US dollar. Also, gold prices are expected to underperform those of silver over the medium term. Overall, gold prices are projected to average \$1,261 a troy ounce in 2014 and to drop to \$1,163 an ounce in 2015 and \$1,150 a troy ounce in 2016. In parallel, gold prices rose by 6.8% from end-2013 but decreased by 2.7% to \$1,289 a troy ounce in March 2014. In addition, silver prices rose by 2.4% in the first quarter and fell by 6.1% last month, while that of platinum improved by 4.5% from end-2013 and dropped by 2.5% to \$1,418 an ounce in March. Also, palladium prices rose by 8.7% in the first quarter of the year and by 4.3% to \$778 a troy ounce last month.

Source: Deutsche Bank, Byblos Research

Dow Jones-UBS Precious Metals' Performance in Different Currencies (Rebase 100)



Source: Thomson Reuters Daustream, 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								
<b>Africa</b>													
Algeria	-	-	-	-	BB	-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 Negative	-	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- Negative	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
Rwanda	B Stable	-	B Positive	-	-	-5.4	24.6	24.3	253.7	-	153.6	-11.6	2.1
<b>Middle East</b>													
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 Stable	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	-	-	-	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								
<b>Asia</b>													
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								
<b>Central &amp; Eastern Europe</b>													
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; Standard & Poor's; 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	19-Mar-14	No change	30-Apr-14
Eurozone	Refi Rate	0.25	03-Apr-14	No change	08-May-14
UK	Bank Rate	0.50	06-Mar-14	No change	10-Apr-14
Japan	O/N Call Rate	0-0.10	11-Mar-14	No change	08-Apr-14
Australia	Cash Rate	2.50	01-Apr-14	No change	N/A
New Zealand	Cash Rate	2.75	13-Mar-14	Raise 25bps	24-Apr-14
Switzerland	3 month Libor target	0.00-0.25	20-Mar-14	No change	19-Jun-14
Canada	Overnight rate	1.00	05-Mar-14	No change	16-Apr-14
<b>Emerging Markets</b>					
China	One-year lending rate	6.00	06-Jul-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	19-Mar-14	No change	30-Apr-14
Taiwan	Discount Rate	1.875	27-Mar-14	No change	Jun-14
South Korea	Base Rate	2.50	13-Mar-14	No change	10-Apr-14
Malaysia	O/N Policy Rate	3.00	06-Mar-14	No change	09-May-14
Thailand	1D Repo	2.00	12-Mar-14	Cut 25bps	23-Apr-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	18-Mar-14	No change	24-Apr-14
South Africa	Repo rate	5.50	27-Mar-14	No change	22-May-14
Kenya	Central Bank Rate	8.50	11-Mar-14	No change	05-May-14
Nigeria	Monetary Policy Rate	12.00	25-Mar-14	No change	N/A
Ghana	Prime Rate	18.00	19-Feb-14	No change	07-Apr-14
Angola	Base rate	9.25	Nov-13	Cut 50bps	N/A
Mexico	Target Rate	3.50	21-Mar-14	No change	N/A
Brazil	Selic Rate	10.75	26-Feb-14	No change	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-Apr-14	No change	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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