

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global trade to grow by 4.7% in 2014

The World Trade Organization revised upward its projection for world trade growth in 2014 to 4.7% in real terms from its September forecast of 4.5%, compared to an annual average growth rate of 2.2% during the 2012-13 period. It noted that, despite the acceleration, growth in world trade remains below the annual average rate of 5.3% reached between 1993 and 2013 and that of 6% posted prior to the financial crisis during the 1990-2008 period. It attributed the acceleration to an expected recovery in the global economy. It said that risks to the outlook have eased in developed economies, such as the sovereign debt crisis in Europe and the debt ceiling crisis in the United States. But it noted that risks have increased in developing countries as the tightening of the U.S. Federal Reserve's quantitative easing program has stimulated financial market volatility. Overall, it noted that risks to trade forecasts are mostly on the downside but there is some upside potential given that trade in developed economies is starting from a low base. On the export side, the WTO anticipated a 3.6% increase in real terms in developed economies' exports and a 6.4% rise in exports from developing countries & the Commonwealth of Independent States (CIS). On the import side, it forecast imports to developed economies to rise by 3.4% in real terms in 2014 and those to developing countries & the CIS to expand by 6.3%.

Source: World Trade Organization

Corporate default rate at 2.3% at end-March 2014

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.3% at the end of March 2014, down from 2.9% at end-2013. It noted that eight rated corporate debt issuers defaulted in the first quarter of 2014, including seven defaults in March, compared to 21 issuers that defaulted in the same quarter last year. It said that the pace of corporate defaults remains slow despite the increase in defaults in March 2014. It expected a moderate corporate default rate of 2.2% at the end of 2014, supported by ample liquidity. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 0.9% at end-March 2014, down from 1.2% at end-2013 and 1.4% at the end of March 2013. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 7.1% at end-March 2014, down from 7.4% at end-2013 and 8.8% a year ago.

Source: Moody's Investors Service

EMERGING MARKETS

Remittance inflows to increase by 8% to \$436bn in 2014

The World Bank revised downward its estimate for remittance inflows to developing economies to \$404bn in 2013 from an October forecast of \$414bn, constituting an increase of 3.3% from \$392bn in 2012. It expected remittance inflows to developing economies to increase by 7.8% to \$436bn in 2014, by 8.6% to \$473bn in 2015 and by 8.9% to \$516bn in 2016. It said that the inflows would account for 75% of global remittance flows in 2014, almost unchanged from 74.5% in 2013. It expected inflows to the East Asia & Pacific region to reach \$123bn in 2014 and to account for 28.2% of remittances to developing economies, followed by South Asia with \$118bn (27.1%), Latin America & the Caribbean with \$66bn (15.1%), the Middle East & North Africa with \$49bn (11.2%), Europe & Central Asia with \$45bn (10.3%), and Sub-Saharan Africa with \$32bn (8%). Also, it forecast the growth rate of remittance inflows to Latin America & the Caribbean at 9.4% in 2014, followed by East Asia & Pacific at 9%, Sub-Saharan Africa at 8.7%, Europe & Central Asia at 6.7%, South Asia at 6.6% and the Middle-East & North Africa at 5.6%. In parallel, the World Bank projected remittance inflows to middle-income countries at \$399bn and to low-income countries at \$37bn in 2014, compared to \$371bn and \$34bn in 2013, respectively. Inflows to middle-income countries would account for 91.5% of remittances to developing economies in 2014.

Source: World Bank, Byblos Research

MENA

Initial public offerings down 21% to \$1.3bn in first quarter of 2014

EY indicated that initial public offerings (IPOs) in the Middle East & North Africa region raised \$1.3bn of new capital in the first quarter of 2014, constituting a decrease of 21% from the same quarter last year. It attributed the drop to the IPO performance in the first quarter of 2013 that was one of the strongest in the past few years. Also, it noted that the number of IPOs remained unchanged at five deals compared to the same quarter last year, and included two IPOs in Tunisia and one transaction from each of Saudi Arabia, Qatar and the UAE. It said that the oil & gas sector led IPO activity with two deals in the first quarter of the year, followed by telecommunications, industrial manufacturing and retail sectors with one IPO each. It noted that the largest IPO was Mesaieed Petrochemical Holding Company in Qatar with \$905m in raised capital, followed by the Gulf Marine Services from the UAE (\$275m), Saudi Marketing Company (\$72m), Sotipapier in Tunisia (\$26m) and Cellcom in Tunisia (\$6m). EY expected IPO activity to improve in the second quarter of the year, driven by the ongoing transformation of family groups into institutional entities. It noted that the region's economic fundamentals and strong liquidity are stimulating new listings. It anticipated sectors with strong demographics, such as retail, consumer products and healthcare to show strong appetite for IPOs.

Source: EY

OUTLOOK

GCC

Growth to be driven mainly by non-hydrocarbon sector in 2014

Barclays Capital projected real GDP growth in the economies of the Gulf Cooperation Council at 4.2% in 2014 compared to a growth rate of 4% in 2013. It forecast hydrocarbon output to post no growth this year relative to growth of 1% last year, and for the non-hydrocarbon sector to grow by 5.6% in 2014, nearly unchanged from 5.5% in 2013. It said that tensions between Qatar on one hand, and the UAE, Saudi Arabia and Bahrain on the other hand, would not have an immediate major economic effect on involved parties. But it considered that such developments would weigh on investment sentiment. It projected real hydrocarbon GDP to contract by 1.2% in Saudi Arabia this year, to post no growth in Kuwait and to grow by 3.1% in the UAE, by 2.8% in Bahrain, by 1.7% in Oman and by 0.2% in Qatar. It projected non-hydrocarbon GDP growth in 2014 at 8.3% in Qatar, 5.4% in the UAE, 5.3% in each of Saudi Arabia and Oman, 4.5% in Kuwait and 4% in Bahrain.

In parallel, Barclays projected the region's fiscal surplus to narrow to 8.1% of GDP this year from 9.8% of GDP in 2013. It said that growth in public spending in GCC countries is slowing down, mainly in Saudi Arabia and Kuwait. It noted that authorities in GCC countries, mainly in Kuwait and Oman, have announced a review of their subsidy systems, which reflects growing concerns about the need to create savings through subsidy reforms. It forecast Kuwait to post a fiscal surplus of 30.6% of GDP in 2014, followed by Qatar with 8.9% of GDP, the UAE with 8.3% of GDP, Saudi Arabia with 5.1% of GDP and Oman with 3.8% of GDP. It expected Bahrain's fiscal deficit to widen to 4.8% of GDP in 2014 from 4.4% of GDP in 2013. Also, it projected the GCC's current account balance to post a surplus of 21.2% of GDP in 2014 relative to 22.4% of GDP in 2013.

Source: Barclays Capital

TUNISIA

Security deterioration and weak Eurozone outlook are main risks to economic recovery

The Institute of International Finance projected Tunisia's real GDP growth to accelerate to 3.7% in 2014 from 2.6% in 2013, driven by rising public and private investments. It noted that the adoption of a new constitution and the formation of a non-partisan government have reduced political uncertainty. It expected non-agricultural output to expand by 3.9% in 2014 compared to a growth rate of 3.3% in 2013, supported by the gradual recovery in the Eurozone and the improvement in the domestic security and political environment. It projected the average inflation rate at 5% in 2014 relative to 6.1% in 2013, reflecting the recent appreciation of the dinar and tighter monetary policy. It cautioned that a deterioration in security conditions ahead of or following the elections that are scheduled in the second half of 2014 would limit the recovery in tourism and private investment. It added that a weaker economic outlook in the Eurozone would delay any improvement in external demand.

In parallel, the IIF expected the fiscal deficit to widen to 8.3% of GDP on a cash basis in 2014 from 4.3% of GDP in 2013,

given that the projected 1.6% of GDP decline in current spending would be more than offset by the 1.1% of GDP increase in capital spending, by the cost of the recapitalization of banks estimated at 1.2% of GDP and by the deferral of 1.7% of GDP in spending from 2013. It said that the decline in current spending reflects the government's plan to reduce the subsidy bill by 1.8% of GDP. It considered that additional fiscal adjustments are needed, mainly to contain the wage bill that amounted to 12.4% of GDP in 2013 and to reform the subsidies that were equivalent to 8.9% of GDP last year. It forecast the public debt level to rise to 48.4% of GDP in 2014 from 45.6% of GDP in 2013, with external debt accounting for about 70% of the total public debt stock. It considered that the size and the composition of the public debt stock provide Tunisia the capacity to manage persistent moderate deficits through 2015. Further, it projected the current account deficit to narrow to 7.2% of GDP this year relative to 8.2% of GDP last year due to stronger exports. As such, it forecast official reserves to increase to \$9.2bn by end-2014, or 3.7 months of import cover.

Source: Institute of International Finance

CÔTE d'IVOIRE

Economy to grow by 8.6% annually between 2014 and 2018, domestic instability is key risk

Business Monitor International projected Côte d'Ivoire's real GDP growth at 8.7% in 2014 compared to an estimated growth rate of 9.1% in 2013, making Côte d'Ivoire one of the fastest growing economies in Sub-Saharan Africa. It expected the strong growth momentum to be maintained over the medium-term with an average annual growth rate of 8.6% during the 2014-18 period. It said that the elevated public spending on development, the rising foreign investment into new industries, the stable inflationary environment and the increasing consumer spending levels would support overall economic activity. It said that the country's positive prospects are contingent on political stability that would stimulate foreign investment and promote the implementation of reforms and development plans. It considered that ethnic and political tensions would increase over the next 18 months and would pose the key risk to the outlook.

BMI expected private consumption to contribute 5.7 percentage points to GDP growth in 2014 and 5.5 percentage points on average between 2014 and 2018. It forecast private consumption to grow by 8% in real terms in 2014 and by an annual average growth rate of 7.8% during the 2014-18 period. Also, it anticipated government spending to expand by 6% this year and by 5.9% annually between 2014 and 2018, driven by the public infrastructure investment program. But it noted that the rapidly expanding economy, improvements in revenue collection, and prudent recurrent spending plans would allow the government to maintain elevated capital spending levels without jeopardizing fiscal stability. It forecast the fiscal deficit to narrow from 3.9% of GDP in 2013 to 3.2% of GDP in 2014 and to 2.6% of GDP in 2015. Further, it expected gross fixed capital formation to grow by 12% in real terms in 2014 and to post an annual average growth rate of 9.5% during the 2014-18 period. It anticipated that gross fixed capital formation would contribute 2.1 percentage points to GDP growth in 2014 and 1.8 percentage points annually during the 2014-18 period.

Source: Business Monitor International



ECONOMY & TRADE

UAE

Abu Dhabi's ratings affirmed, debt of government-related entities at 31% of GDP

Standard & Poor's affirmed Abu Dhabi's long- and short-term sovereign credit ratings at 'AA/A-1+', with a 'stable' outlook on the long-term rating. It said that Abu Dhabi's ratings are supported by its strong fiscal and external positions. It added that the emirate's large financial assets and sizable fiscal surpluses provide fiscal flexibility, as well as a buffer to counter the negative impact of oil price volatility on economic growth, government revenues and external accounts. Further, S&P indicated that the ratings are constrained by weak political institutions, by a lack of transparency and public accountability, and by limited availability of timely financial and economic data, particularly on government assets. It added that contingent liabilities from government-related entities (GREs), limited monetary policy flexibility, and the underdeveloped domestic bond markets constrain the ratings. It anticipated that structural and institutional weaknesses would derail growth. In parallel, the agency expected Abu Dhabi's economy to remain resilient and its fiscal policy to be prudent and flexible. Further, it forecast Abu Dhabi's net asset position to average 218% of GDP annually between 2014 and 2017, supported by an annual average fiscal surplus of 10% of GDP during the same period. It estimated the debt of Abu Dhabi's GREs at around 31% of GDP. It projected the Emirate's gross external financing needs at around 101% of usable reserves and current account receipts at end-2014 and to average 102.5% during the 2015-18 period.

Source: Standard & Poor's

TURKEY

Outlook on sovereign ratings revised to 'negative'

Moody's Investors Service revised the outlook on Turkey's 'Baa3' government bond rating to 'negative' from 'stable' due to increased pressure on the country's external financing needs, heightened political turmoil and weaker medium-term growth prospects. It expected pressure on the balance-of-payments to increase, mainly through the financing of the relatively wide current account deficit and the repayment of about \$163bn in external liabilities of the Turkish corporate, banking and public sectors. It projected the country's financing needs at almost 25% of GDP in 2014, which expose the country to higher financing risk in periods of increased political instability. But it noted that the capacity of Turkey's banks, corporates and public institutions to roll-over maturing debt has historically been high, even during periods of elevated financial distress. It added that the banking sector has significant reserves to meet its maturing external debt and to offset some of the current financing challenges. Further, it anticipated that the uncertain policy environment would constrain the momentum of needed structural reforms to reduce the economy's external vulnerabilities, and would reduce the country's medium-term economic prospects. In parallel, the agency pointed out that the ratings are supported by the government's strong fiscal metrics and by the economy's wealth, size and diversification. It said that a significant reversal of the recent improvements in public finances, increased political instability and intensified pressures on the country's external finances would weigh on the rating.

Source: Moody's Investors Service

ANGOLA

Outlook revised to 'stable' from 'positive'

Fitch Ratings revised the outlook on Angola's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'stable' from 'positive' and affirmed the ratings at 'BB-'. It also maintained the short-term foreign currency IDR at 'B' and Country Ceiling at 'BB-'. It attributed the change in outlook to the emergence of additional challenges facing the development of the hydrocarbon sector, to slower-than-anticipated progress in addressing challenges facing the business environment and to a less positive outlook for public finances. It said that oil production averaged 1.7 million barrels per day (b/d) in 2013 below the average production of 1.9 million b/d in 2008, while the state-owned oil company Sonangol repeatedly delayed its target production of 2 million b/d due to technical problems and high decline rates of 200,000 b/d per year. Further, it noted that the fiscal balance shifted to a deficit of 1.9% of GDP in 2013 from a surplus of 5.1% of GDP in 2012 and oil revenues fell to 29% of GDP in 2013 from 39% of GDP in 2011, reflecting stagnant oil production and falling global oil prices. It expected the fiscal balance to remain in deficit in coming years given that lower global oil prices would weigh on oil revenues, while the authorities' commitment to improve the country's weak infrastructure would maintain public spending at high levels. However, the agency indicated that the deterioration in Angola's sovereign balance sheet would not put at risk the current ratings due to the country's low public debt level of 22.2% of GDP.

Source: Fitch Ratings

RWANDA

Economy to grow by 6% in 2014

The International Monetary Fund indicated that Rwanda's real GDP growth decelerated to 4.6% in 2013, reflecting weak agricultural activity and aid-related delays in the implementation of government financed projects. It projected real GDP growth to accelerate to 6% in 2014, driven by a rebound in the agricultural sector and a pick-up in the services sector. But it noted that the outlook is contingent on the execution of the government's investment program. It forecast the inflation rate at about 5% at the end of 2014. In parallel, the IMF indicated that it has reached a preliminary agreement with authorities on economic policies for the remainder of the year under the new Policy Support Instrument (PSI). It expected the agreed policies to support near-term growth and to strengthen the economy's resilience to shocks. It considered that the budget for fiscal year 2014/15 sustains efforts on revenue mobilization, adjusts current spending to available resources, minimizes domestic financing and preserves priority spending. It noted that the National Bank of Rwanda plans to continue to pursue a prudent monetary policy by maintaining the inflation rate at low levels, by preserving the foreign currency reserves and by allowing foreign exchange flexibility. The PSI is designed for countries that do not need balance-of-payments financial support. It helps countries develop effective economic programs that, once approved by the IMF's Executive Board, would signal to donors, multilateral development banks and markets the Fund's endorsement of a member's policies.

Source: International Monetary Fund



BANKING

SAUDI ARABIA

Lending growth to support banks' profitability

Standard & Poor's indicated that additional contraction in net interest margins from a potential rise in U.S. interest rates in 2015 constitutes the main threat to Saudi banks' strong profitability. It said that the structural mismatch between the short-term nature of Saudi banks' funding and the longer tenors of their lending would further compress margins. It added that rising interest rates would give depositors incentives to move away from the non-remunerated deposits that helped banks buffer the falling yields on deposits since 2008. Further, it anticipated that lending volume and higher fees would constitute the strongest elements of Saudi banks' profitability, mainly as banks have little room left to further improve their operating costs. It noted that prospects for corporate and retail segments are sound given the country's need to address the demands of a young and fast growing population. But it anticipated that lending is not likely to significantly exceed 10% annually during the 2014-15 period. Overall, it expected lending growth to mitigate falling yields in the context of low interest rates and strong competition. In parallel, S&P expected the Saudi banking system's profitability to remain resilient and high by global standards. It anticipated that banks' return on average assets in 2014 would remain around the 2013 levels of 2.11%, supported by broadly stable interest rates this year.

Source: Standard & Poor's

KUWAIT

Private sector lending up 7% year-on-year in February 2014

Figures issued by the Central Bank of Kuwait show that total assets of commercial banks reached KD51.8bn, equivalent to \$184bn at the end of February 2014, constituting a marginal increase of 0.7% from the end of 2013 and a growth of 8% from end-February 2013. Lending to the private sector reached KD29.1bn or \$103.1bn at end-February 2014, up by 0.3% from end-2013 and by 7.4% from a year earlier. Lending to the private sector remained almost flat month-on-month in February compared to a marginal growth of 0.2% in January, reflecting a slowdown in lending to the retail sector over the past few months as the impact of higher wages on retail lending demand started to fade. Retail lending remained the main driver of loan growth in February, rising by 11.5% year-on-year, while corporate lending grew by 7.5% and loans to financial institutions maintained their downward trend as they dropped by 13% from end-February 2013. Further, the sector's aggregate deposits totaled KD36.3bn or \$128.8bn at end-February 2014, constituting a marginal decrease of 0.4% from the end of 2013. Total deposits rose by 5.6% year-on-year in February 2014, supported by a 6.6% increase in private sector deposits that reached KD31.3bn or \$111.1bn, while public sector deposits regressed by 0.4% to KD5bn or \$17.7bn. The loan-to-deposit ratio stood at 80.1% at the end of February 2014 compared to 79.5% at end-2013 and to 78.7% a year earlier.

Source: Central Bank of Kuwait, EFG Hermes

MOROCCO

Lending to resident private sector up 3% in February 2014

Figures issued by Bank Al-Maghrib show that total assets of commercial banks operating in Morocco reached MAD1,079.4bn or \$132.7bn at the end of February 2014, constituting a decrease of 1.7% from the end of 2013 but a rise of 4.1% from end-February 2013. Banks' credit to the resident private sector totaled MAD723.4bn or \$88.9bn, up by 3% from a year earlier. Banks' lending to the resident private sector have posted low single-digit growth rates since the end of 2012. Also, working capital lending fell by 5% annually and loans to real estate developers contracted by 11%, posting the weakest expansion rate among all segments. In contrast, retail loans recovered slightly in February, driven by residential mortgages that rose by 5% year-on-year and by consumer loans that increased by 8.6% annually. Equipment loans, mainly loans related to capital spending, grew marginally by 0.7% from a year earlier. Further, deposits totaled MAD696.3bn, or \$85.6bn at end-February 2014, up by 0.4% month-on-month and by 3% annually, and were mainly driven by demand deposits that accounted for 58% of total deposits at end-February 2014. The loan-to-deposit ratio stood at 104% at the end of February 2014, unchanged from the preceding month.

Source: Bank Al-Maghrib, EFG Hermes

TURKEY

Political and funding risks to weigh on banks in 2014

Standard & Poor's anticipated that domestic political tensions, upcoming elections and the tightening of the U.S. Federal Reserve's quantitative easing program would weigh on Turkish banks in 2014. It indicated that banks' asset quality and profitability would deteriorate due to lower economic growth prospects, subdued growth in lending and high credit risks from foreign-currency denominated commercial loans. It forecast lending growth to decelerate to between 10% and 15% this year, reflecting the recent regulatory measures that aim to slowdown the pace of retail lending, as well as the difficult political and economic conditions. It expected the banking sector's non-performing loan ratio to rise to between 4% and 5% in 2014, but it cautioned that the ratio could exceed 5% in the event of deeper-than-projected economic slowdown or if the Turkish lira further depreciates. But it noted that banks' adequate loan-loss provisioning would offset the increase in NPLs. Further, S&P expected Turkish banks to pay a higher premium for their foreign borrowing in 2014, which would hurt their already contracting margins. It added that interest rate margins would come under additional pressure, mainly in the first half of the year, following the sharp interest rate increase in January 2014. Overall, it said that higher interest rates, higher credit losses and the slowdown in lending would negatively affect banks' earnings in 2014. But it indicated that Turkish banks have sufficient liquidity buffers to allow them to meet their short-term external debt repayments if foreign investor sentiment worsens. It added that the banks' current capital levels and earnings generations capacity would provide a sufficient cushion against expected losses.

Source: Standard & Poor's



ENERGY / COMMODITIES

Natural gas prices to fall by 5% in second quarter

U.S. Henry Hub natural gas prices are forecast to reach \$4.5 per million British thermal units (Btu) on average in the second quarter of 2014, constituting a decrease of 5% from the previous quarter and a rise of 12.2% from the same quarter last year. Overall, U.S. Henry Hub natural gas prices are anticipated to rise by 22.7% to an average of \$4.57 per million Btu in 2014. In parallel, the Dow Jones-UBS Natural gas Sub-Index regressed by 3.9% in March and grew by 12% from end-2013. According to the International Monetary Fund, the probability of the 12-month forward U.S. natural gas prices dropping below \$3 per million Btu increased to 10.5% from 10%, while the probability of prices rising above \$7 per million Btu declined to 5.7% from 8% previously due to milder weather and a decline in seasonal consumption in the U.S. In parallel, the Petroleum spot price, which is the average of the U.K. Brent, Dubai and West Texas Intermediate spot prices, is forecast to reach \$106 a barrel in the second quarter of 2014, constituting increases of 1.5% from the preceding quarter and 6.7% from the same quarter last year. Overall, crude oil prices are projected to remain nearly unchanged at \$104.2 a barrel on average in 2014.

Source: International Monetary Fund, Dow Jones Indices

MENA countries to expand electrical production capacity over the 2015-19 period

The Middle East & North Africa (MENA) region is expected to expand its electrical production capacity by 156 gigawatts (GW) during the 2015-19 period. The decision was mainly due to the fast-growing demand for electricity and to lagging supply, which led to chronic power shortages across many MENA countries. The GCC countries are projected to generate an additional 68.5 GW during the covered period, or 43.9% of the total, followed by Mashreq countries with 42.9 GW (27.5%), Iran with 25.2 GW (16.2%), Maghreb states with 17.7 GW (11.3%), and the rest of the Arab countries with 1.7 GW (1.1%).

Source: Arab Petroleum Investments Corporation

Breakeven oil price in GCC to rise in 2014

The Gulf Cooperation Council (GCC) countries' average budget breakeven oil price is forecast at \$81.7 a barrel in 2014, up from \$79.1 a barrel in 2013 and \$73.2 a barrel in 2012. Bahrain is expected to have the highest budget breakeven oil price this year at \$134.9 a barrel, followed by Saudi Arabia at \$93.4 a barrel, Oman at \$75.7 a barrel, Kuwait at \$71.9 a barrel, Qatar at \$71 a barrel and the UAE at \$70.4 a barrel. Brent oil prices are estimated at \$108.9 a barrel on average in 2013 and are projected to drop by 2.3% to an average of \$106.5 a barrel in 2014.

Source: Deutsche Bank, Byblos Research

Iraq to miss oil production target in 2014

The Iraqi government expected its crude oil production to reach 4 million barrels a day (b/d) in 2014 and to rise by 17.5% to 4.7 million b/d in 2015. Also, it projected its oil production target to grow by a compound annual rate of about 14.5% in the coming six years and to reach 9 million b/d by 2020. However, Iraq is unlikely to meet its output target this year, mainly due to security challenges, to ongoing stalemate between Erbil and Baghdad over oil exports and to slow bureaucratic processes causing delays to major contract approvals. Iraq is currently the second-largest crude oil producer among OPEC countries.

Source: Business Monitor International, Byblos Research

Base Metals: Copper market to shift to a surplus in 2014 after four years of consecutive deficits

Copper prices are forecast to average \$6,976 a ton in the second quarter of 2014, constituting a decrease of 2.5% from the same quarter of 2013. Overall, copper prices are projected to reach \$7,007 a ton on average this year, down by 4.4% from the preceding year. The copper market is expected to shift to a production surplus in 2014, following four consecutive years of deficits. As such, global refined copper production is projected to exceed demand by about 400,000 metric tons, as growth in the metal's supply outweighs demand. Global refined copper production is forecast to increase by 6.5% to 22.4 million tons in 2014, of which mine production is anticipated to grow by about 5% to 18.9 million tons this year, with the majority of the new production coming in the form of concentrate. In parallel, global refined copper demand is forecast to rise by about 3% this year. China's demand is expected to increase by about 5% in 2014, while the metal's consumption in the rest of the world is anticipated to rise by about 2% this year.

Source: International Monetary Fund, International Copper Study Group, Byblos Research

Precious Metals: Auto-catalyst demand to account for 81% of global palladium consumption in 2014

Global palladium production is forecast to average 8.2 million ounces in 2014, constituting a decline of 0.6% from 2013 and relative to a growth rate of 3% in the previous year. Russia is expected to remain the world's largest producer of palladium, and to account for about 34% of the metal's global production. In parallel, global palladium consumption is projected to average 9.3 million ounces in 2014, constituting a decrease of 0.6% from the previous year. Auto-catalyst demand would account for 80.5% of the metal's global consumption, while that of electronics would be equivalent to 6.5% of the total in 2014. The palladium market is expected to remain undersupplied in coming years. Palladium prices are forecast to average \$780 an ounce in the second quarter of 2014, reflecting an increase of 4.7% from the previous quarter. Overall, palladium prices are projected to drop by 0.8% to \$764 an ounce this year. The palladium market is expected to remain sensitive to an escalation in geopolitical risks surrounding Russia and Ukraine. As such, the market has factored in a small probability of a Russian embargo for the metal. But if the embargo does not materialize, the metal's prices are expected to modestly decline.

Source: Deutsche Bank, Byblos Research

Gold Prices vs. S&P 500 Index
(Rebase 100)



Source: Thomson Reuters Datastream, 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- Stable | Ba3 Positive | BB- Stable | - | BB | 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 | -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 Negative | B1 Negative | B Negative | - | 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- 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 | -6.1 | 62.0 | 38.5 | 89.7 | 6.9 | 250.8 | -7.3 | 2.8 |
| Nigeria | BB- Negative | Ba3 Stable | BB- Stable | - | 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 Negative | BB- Negative | - | CCC | -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 | - | - | -5.4 | 24.6 | 24.3 | 253.7 | - | 153.6 | -11.6 | 2.1 |
| Middle East | | | | | | | | | | | | | |
| Bahrain | BBB Stable | Baa2 Negative | BBB Stable | BBB Stable | 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- Negative | B1 Stable | - | BB- Stable | CCC | -6.1 | 83.9 | 63.3 | 52.2 | 10.2 | 260.4 | -10.2 | 4.9 |
| Kuwait | AA Stable | Aa2 Stable | AA Stable | AA- Stable | A | 31.3 | 6.5 | 16.3 | 30.7 | 7.2 | 110.5 | 43.2 | -4.8 |
| Lebanon | B- Stable | B1 Negative | B Negative | B | CCC | -11.1 | 143.9 | 81.8 | 144.6 | 21.0 | 122.0 | -11.3 | 4.7 |
| Oman | A Stable | A1 Stable | - | A | A | 3.3 | 4.0 | 19.4 | 18.1 | 3.6 | 101.1 | 7.3 | 2.4 |
| Qatar | AA Stable | Aa2 Stable | - | AA- Stable | AA | 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 | 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 Stable | - | AA- Stable | 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 | Positive | 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 |
| | Negative | Stable | Stable | - | Stable | | | | | | | | |
| Romania | BB+ | Baa3 | BBB- | - | B | -2.7 | 38.4 | 75.2 | 150.1 | 21.3 | 281.8 | -1.7 | 1.5 |
| | Positive | Negative | Stable | - | Stable | | | | | | | | |
| Russia | BBB | Baa1 | BBB | - | BBB | -0.7 | 14.1 | 29.4 | 85.1 | 25.4 | 139.6 | 2.6 | 0.1 |
| | Negative | Positive | Negative | - | Stable | | | | | | | | |
| Turkey | BB+ | Baa3 | BBB- | BB+ | B | -1.8 | 34.4 | 45.7 | 116.4 | 27.0 | 327.4 | -7.5 | 1.2 |
| | Negative | Negative | Stable | Stable | Stable | | | | | | | | |
| Ukraine | CCC | Caa3 | CCC | - | CC | -4.3 | 43.0 | 79.4 | 141.5 | 28.2 | 759.4 | -7.0 | 4.4 |
| | 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 | 10-Apr-14 | No change | 08-May-14 |
| Japan | O/N Call Rate | 0-0.10 | 08-Apr-14 | No change | 30-Apr-14 |
| Australia | Cash Rate | 2.50 | 01-Apr-14 | No change | 06-May-14 |
| 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 |
| Emerging Markets | | | | | |
| 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 | 10-Apr-14 | No change | 09-May-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 | 01-Apr-14 | No change | 03-Jun-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 | 20-May-14 |
| Ghana | Prime Rate | 18.00 | 07-Apr-14 | No change | 05-Jun-14 |
| Angola | Base rate | 9.25 | Nov-13 | Cut 50bps | N/A |
| Mexico | Target Rate | 3.50 | 21-Mar-14 | No change | 25-Apr-14 |
| Brazil | Selic Rate | 11.00 | 02-Apr-14 | Raise 25bps | 28-May-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 | 9.50 | 15-Apr-14 | Raise 300bps | N/A |
| Russia | Refi Rate | 8.25 | 13-Dec-13 | No change | N/A |



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