

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Corporate downgrades outpace upgrades in first quarter of 2014**

Fitch Ratings downgraded 3% of global corporate issuers in the first quarter of 2014 and upgraded 2% of the issuers it rates in the covered quarter. It upgraded 1.1% of corporate issuers in emerging markets compared to 3.1% in the fourth quarter of 2013, and downgraded 4.1% of the region's issuers relative to 4.3% in the previous quarter. It also upgraded 2.4% of developed markets issuers, up from 1.3% in the fourth quarter of last year, and downgraded 2.4% of the region's issuers in the first quarter of the year, relative to 1.9% in the preceding quarter. The agency downgraded 5.1% of corporate issuers in Europe, 2.8% of issuers in Asia-Pacific, 2.2% of issuers in North America, 1.4% of Latin American issuers and 0.9% of issuers in the Middle East & Africa in the covered quarter. Also, it upgraded 3.6% of corporate issuers in North America, 1.7% of those in Latin America, 1.3% of Asia-Pacific issuers and 0.5% of European issuers; while it did not upgrade any of the corporate issuers in the Middle East & Africa region. In parallel, Fitch downgraded 3.3% of industrial issuers, 2.8% of rated banks & securities firms, 2.4% of non-bank financial institutions and 1.8% of insurance firms. It upgraded 5.3% of non-bank financial institutions, 3% of insurance firms, 2% of industrial issuers and 1% of banks & securities firms.

Source: Fitch Ratings

##### **Bank loans available to corporate sector to reach \$38.2 trillion at end-2018**

Standard & Poor's estimated the stock of bank loans that would be available to the corporate sector worldwide at \$38,246bn at the end of 2018 compared to \$28,286bn at the end of 2013, constituting a compound annual growth rate (CAGR) of 6.2% between 2013 and 2018. It forecast banks' lending available to corporates in Asia-Pacific at \$24.2 trillion by the end of 2018, reflecting a CAGR of 7.8% during the 2013-18 period; followed by banks' available lending to corporates in Europe at \$8.2 trillion (+3.3%); credit available in North America at \$4.6 trillion (+3.7%) and lending available in Latin America at \$1.2 trillion (+8%). As such, bank loans available to corporates in Asia-Pacific would account for 63.4% of global bank lending capacity at the end of 2018 relative to 59% at end-2013, while those in Europe would represent 21.5%, down from 24.7% at the end of 2013. Also, bank loans available to corporates in North America would account for 12.1% of the total, down from 13.7% at the end of 2013; and those in Latin America would represent 3% relative to 2.8% at end-2013. Overall, S&P indicated that banks in Europe would have the lowest lending growth capacity. It added that access to credit would likely remain constrained, especially for small- and medium-sized enterprises in Southern Europe. It noted that European banks may not have the capacity to cope with an acceleration in credit demand.

Source: Standard & Poor's

#### MENA

##### **Net private capital inflows to rise by 17% to \$96bn in 2014**

The Institute of International Finance projected total net private capital inflows to the Middle East & Africa region at \$96bn in 2014, constituting an increase of 17.1% from \$82bn in 2013. It expected inflows to the UAE to increase significantly, driven by the country's safe haven status, by megaprojects related to the energy sector, and by winning the rights to host World Expo 2020. It said that a recovery in private capital inflows to Egypt and Lebanon is contingent on improvements in the political environment and security conditions in the two countries. The IIF anticipated that net private capital flows to the region would account for 9.3% of total net private inflows to emerging markets in 2014 and for 8.7% of such flows in 2015, compared to a share of 7.1% last year. It forecast net direct investment to increase to \$47bn in 2014 and to \$52bn in 2015 from \$38bn in 2013. Also, it estimated net portfolio investment at \$17bn last year and projected inflows at \$15bn in each of 2014 and 2015. Further, it forecast net commercial bank lending to reach \$17bn this year and \$12bn in 2015 relative to \$10bn in 2013. It estimated net non-bank private lending to rise from \$16bn in 2013 to \$17bn in 2014 and to \$18bn in 2015. It also projected net lending by official creditors at \$13bn this year and at \$11bn next year compared to \$12bn last year.

Source: Institute of International Finance, Byblos Research

##### **Private wealth to reach \$7.2 trillion by 2018**

The Boston Consulting Group projected private financial wealth in the Middle East & Africa (ME&A) to reach \$7.2 trillion in 2018 and to expand at a compound annual growth rate (CAGR) of 6.5% between 2013 and 2018. It expected the region's private wealth to account for 3.6% of global private financial wealth in 2018, higher than Latin America's share of 3% and Eastern Europe's share of 2.3%, but lower than that of North America (29.8%), Asia-Pacific excluding Japan (30.8%), Western Europe (22.5%) and Japan (8%). Also, it forecast the region's private wealth to grow faster than the global CAGR of 5.4%, the CAGR in each of Western Europe and North America (+3.3% each) and that in Japan (+1.2%); but to expand at a slower rate than in Eastern Europe (+10.7%), Asia-Pacific excluding Japan (+10.5%), and Latin America (+8.8%). In parallel, it said that the region's private wealth grew by 11.6% to \$5.2 trillion in 2013, driven by a 30.5% rise in wealth held in equities, a 6.4% increase in wealth held in bonds and a 5.7% growth in wealth held in cash and deposits. It noted that the ME&A region was the third largest source of offshore wealth last year with \$1.7 trillion, and accounted for 19.1% of total offshore wealth worldwide. Further, it said that Qatar had the highest density of millionaires last year with 175 millionaires per 1,000 households, Kuwait had the fifth highest density (90), Bahrain had the sixth highest (59), Oman had the 10th highest (37), and the UAE had the 12th highest density (33).

Source: Boston Consulting Group

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# OUTLOOK

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## SYRIA

### **Economic activity to contract by 8.6% in 2014**

The World Bank projected Syria's real GDP to contract by 8.6% in 2014, following contractions of 22.5% in 2013, 21.8% in 2012 and 3.4% in 2011. The expected contraction for 2014 would make it the second-worst performing economy among 13 developing countries in the MENA region, with the Libyan economy posting a steeper contraction of 9.7% this year. Further, the Bank projected private consumption in Syria to contract by 2% in real terms in 2014 relative to a contraction of 20.5% last year, while it expected government consumption to fall by 1% in real terms in 2014 compared to a drop of 8% in 2013. Also, it forecast fixed investment to shrink by 7.5% in 2014 compared to a contraction of 27% in 2013. It anticipated that net exports would negatively affect real GDP growth this year as it forecast net export's contribution to GDP to shift from 6.9 percentage points in 2013 to -2.5 percentage points in 2014. The World Bank forecast Syria's current account deficit at 16.8% of GDP in 2014 compared to deficits of 22% of GDP in 2013 and 18.7% of GDP in 2012. Syria's projected current account deficit for this year would be the third widest in the region relative to the West Bank & Gaza (-30.4% of GDP) and Libya (-28% of GDP).

In parallel, the World Bank expected the gap between Syria's real and potential GDP growth rates to widen to -22.8% in 2014 from -20.6% in 2013, -3.1% in 2012 and 18.8% in 2011. It noted that the country's potential GDP growth has been deteriorating since 2010 as it widened from -0.7% in 2010 to -2.4% in 2011, -4.2% in 2012 and -5.4% in 2013. It forecast Syria's potential GDP growth at -5.9% in 2014, constituting the only economy with a negative potential GDP among developing countries this year.

*Source: World Bank*

## UAE

### **Non-hydrocarbon sector to grow by 5.6% annually in 2015-19, downside risks remain**

The International Monetary Fund projected the UAE's real GDP growth at 4.7% in 2014 relative to a growth rate of 5% in 2013, and expected it to average 4.5% annually during the 2015-19 period. It anticipated that the non-hydrocarbon sector would drive economic activity, supported by an improving global economic environment and by strengthening domestic confidence that reflects the rebound in the real estate market, the recently announced megaprojects and winning the rights to host World Expo 2020. It forecast real non-hydrocarbon GDP to grow by 5.5% this year and to average 5.6% during the 2015-19 period compared to a growth rate of 5.4% in 2013. It projected activity in the hydrocarbon sector to grow by 3% in 2014 and to average about 2% annually during the 2015-19 period relative to a real growth rate of 4% in 2013. It forecast the inflation rate to average 2.5% in 2014 compared to an average rate of 1.1% in 2013, driven by higher rents.

In parallel, the IMF pointed out that domestic and external conditions pose risks to the UAE's favorable medium-term outlook. It considered that the recovery in the real estate sector, mainly

in Dubai's residential market, would attract increased speculative demand, which would lead to unsustainable price dynamics and to a correction in real estate prices. It cautioned that an acceleration in the implementation of megaprojects in Dubai would create additional financial risks to the emirate's indebted government-related entities (GREs). It estimated the debt of the government of Dubai and its GREs at \$142bn, equivalent to 141% of Dubai's GDP, including \$92bn in debt that matures during the 2014-19 period. On the external front, the Fund indicated that renewed global financial market volatility would drive a rise in risk premiums and would tighten liquidity conditions for the Dubai government and its GREs. The IMF forecast the UAE's fiscal surplus at 7.2% of GDP in 2014 relative to 6.5% of GDP in 2013. It also expected the current account surplus to narrow to 12.2% of GDP in 2014 from 16.1% of GDP in 2013, reflecting a moderate decline in hydrocarbon prices and continued import growth.

*Source: International Monetary Fund*

## DEM REP CONGO

### **Economic growth to average 7.5% in 2015-18**

The International Monetary Fund projected the Democratic Republic of Congo's real GDP growth at 8.7% in 2014 compared to a growth rate of 8.5% in 2013, and expected it to average 7.5% during the 2015-18. It anticipated that the mining sector would remain the main driver of growth this year and beyond. It forecast the inflation rate to average 2.4% in 2014 relative to an average rate of 0.8% in 2013 and to reach 3.7% at the end of 2014 compared to 1% at end-2013. It noted that the withdrawal of excessive liquidity from the market by the Banque Centrale du Congo (BCC) and the lack of external price shocks reduce a potential acceleration in the inflation rate. The Fund projected the fiscal deficit to widen to 2.2% of GDP in 2014 from 1.7% of GDP in 2013. Further, it forecast the current account deficit at 9.3% of GDP in 2014 compared to 10.1% of GDP in 2013. It expected the country's gross official reserves to reach 8.4 weeks of non-aid related imports of goods and services at end-2014 relative to 7.7 weeks at end-2013. It cautioned that a drop in global prices of the DRC's main mineral exports represents the main risk to the country's economic outlook.

In parallel, the IMF indicated that the DRC authorities need to create the necessary fiscal space to increase priority spending and to support public investments through improvements in public financial management and by strengthening revenues. It called on authorities to improve the tax administration by addressing known value-added tax shortcomings, by tighter control of the tax base and by raising the contribution of the mining sector to the budget. Further, the Fund encouraged authorities to improve the governance and transparency of state-owned enterprises in the mining sector and to strengthen their supervision. It urged the government to adopt a mining code and petroleum law aligned with international best practices. Further, it called on authorities to strengthen the BCC's operational independence and accountability as well as to improve its capacity to conduct monetary policy, sustain price and preserve stability in the financial sector. As such, it urged authorities to recapitalize the BCC and to ratify the draft law of the statutes of the BCC as well as the Banking Law.

*Source: International Monetary Fund*



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## ECONOMY & TRADE

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### QATAR

#### Optimism of non-hydrocarbon sector deteriorates

The D&B Business Optimism Index for Qatar shows that the level of optimism in the non-hydrocarbon sector reached 47 in the second quarter of 2014 compared to 49 in the previous quarter and to 40 in the same quarter last year. The quarter-on-quarter decline is due to a slight moderation in business sentiment for volumes, selling prices and hiring. The index for expected sales decreased to 58 in the second quarter of the year from 63 in the first quarter, the index for the level of selling prices declined to 16 from 18 in the preceding quarter of 2014 and the number of employees index regressed to 48 from 51 in the previous quarter. Also, the index for expected new orders regressed marginally to 64 in the second quarter from 65 in the previous quarter; while the index for expected profits increased to 50 from 48 in the first quarter of 2014, and that for inventory levels rose to 33 from 31 in the preceding quarter. On a sector basis, the construction index increased to 54 in the second quarter from 51 in the first quarter of 2014, and was the most optimistic non-hydrocarbon sector due to the government's infrastructure plans and projects for the 2022 World Cup. Also, the finance, real estate & business services index rose marginally to 51 from 50 in the previous quarter. In parallel, the manufacturing index declined to 44 in the second quarter from 51 in the preceding quarter, the transport & communications index fell to 44 from 47 in the previous quarter, while the trade & hospitality index regressed to 39 from 43 in the first quarter of 2014.

Source: *Dun & Bradstreet*

### IRAN

#### Privatization plans unlikely to reduce weight of public sector in the economy

Information provider IHS Global Insight indicated that Iran's plans to privatize 186 state-owned enterprises (SOEs) in 2014 and an additional 85 SOEs by March 2015 do not signal a broader restructuring of the Iranian economy or a move towards greater economic liberalization. It noted that the planned privatizations reflect the government's need to increase public revenues and to decrease public spending in order to achieve a sustained economic recovery. It pointed out that the sale of SOE shares on the Iranian Stock Exchange would increase government earnings by up to \$25bn, which would reduce the pressure on the government to cut subsidies, would improve the performance of SOEs and would reduce public spending. It noted that SOEs for sale include the national carrier Iran Air, auto manufactures Iran Khodro and Traktorsazi, Bank Saderat Iran, the National Railway Company and parts of the postal service. However, it pointed out that the assets offered would not affect the interest of key stakeholders in the Iranian economy. It added that in case companies in other sectors such as infrastructure, construction, tourism and real estate are privatized, it would indicate a wider drive to liberalize the economy. In addition, it considered that not all offered shares in SOEs would be sold, given that some assets are unattractive. It said that foreign investors that may want to buy SOE shares would face the risk of partnering with sanctioned entities.

Source: *IHS Global Insight*

### GHANA

#### Financing challenges on the rise

Fitch Ratings indicated that the Bank of Ghana's (BoG) role in financing the country's fiscal deficit in the first quarter of the year reflects the financing challenges that the government is facing in the context of rising bond yields and a deteriorating debt maturity profile. It said that non-bank institutions, which usually are among the largest purchasers of government paper, became net sellers in the first quarter of 2014. It noted that authorities cancelled bond auctions due to the lack of interest from market participants. It added that the BoG stepped in to finance the fiscal deficit that reached 2.1% of GDP in the first quarter, and provided funding equivalent to 10% of public revenues. It pointed out that printing money to finance the deficit would worsen the already high inflation rate that reached 14.7% in April 2014, and would contribute to a further depreciation of the Ghanaian cedi that has lost 21% of its value since the start of the year. Fitch expected the fiscal deficit to exceed 10% of GDP in 2014 and to miss the government's target of 8.5% of GDP due to rising debt servicing costs and to weaker revenue growth. It forecast the public debt level to rise to 61% of GDP by the end of 2014 from 58.2% of GDP at end-2013, and estimated debt servicing cost to almost double from 3.3% of GDP in 2011 to 6% of GDP in 2014. The agency expected external financing conditions to remain extremely tight over the coming months. It estimated Ghana's gross external financing requirements, net of FDI, at about 70% of foreign currency reserves. It said that foreign reserves fell by \$900m in the first quarter to \$4.7bn at end-March 2014, equivalent to 2.3 months of current external payments.

Source: *Fitch Ratings*

### BAHRAIN

#### Ratings affirmed on stable growth prospects

Standard & Poor's affirmed Bahrain's long- and short-term foreign and local currency sovereign credit ratings at 'BBB/A-2', with a 'stable' outlook on the long-term ratings. It said that the ratings are supported by the country's relatively stable growth prospects, sustained financial inflows from GCC countries, and average global oil prices of around \$103 per barrel during the 2014-17 period that would support public finances. But it noted that the ratings are constrained by unresolved domestic political tensions that weigh on the efficiency of economic policies, by the country's fiscal reliance on sustained high global oil prices and by stagnating per capita real GDP growth. Further, it indicated that Bahrain's fiscal vulnerability to global oil prices remains high, as oil and gas receipts account for 88% of government revenues. It said that the continuous spending pressure in coming years would constrain budget flexibility. But it noted that development aid from GCC countries would help reduce capital spending. It estimated that Gulf countries would channel about \$4bn in grants to housing, infrastructure, electricity and water projects during the 2014-17 period. It expected authorities to implement additional fiscal consolidation measures over the coming years, given that the government's substantial liquid assets would provide spending flexibility over the short-term. It forecast the current account surplus to narrow from 7.9% of GDP in 2014 to 5.5% of GDP in 2017.

Source: *Standard & Poor's*



# BANKING

## EGYPT

### **Banks' exposure to government debt up 27% year-on-year in March 2014**

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,775bn, equivalent to \$254.3bn at the end of March 2014, constituting an increase of 5.4% from the end of 2013 and a rise of 15.9% from end-March 2013. Lending to the private sector reached EGP520.8bn, or \$74.6bn, and rose by 3.2% from end-2013 and by 4.6% year-on-year. Banks' exposure to government securities totaled EGP721bn, equivalent to \$103.3bn, and rose by 7.3% from end-2013 and by 27% from a year earlier. Banks' sovereign exposure in local currency stood at EGP639bn and increased by 8.2% from end-2013 and by 24.1% year-on-year; while their exposure in foreign currency reached EGP82bn and rose by 1% from end-2013 and by 55.4% from a year earlier. In US dollar terms, banks' sovereign exposure in local currency stood at \$91.6bn, while their exposure in foreign currency reached \$11.8bn. Further, total deposits reached EGP1,361.1bn or \$195bn, constituting an increase of 3.4% from end-2013 and of 18.6% from a year earlier. Private sector deposits totaled EGP1,191.7bn, or \$170.7bn at end-March 2014, and rose by 4% from end-2013 and by 16.4% year-on-year. Also, private sector deposits in foreign currency grew by 2.3% year-on-year to EGP229.2bn or \$32.8bn, at the end of March 2014; while those in local currency rose by 20.4% from end-March 2013 to EGP962.5bn or \$137.9bn. The dollarization rate of private sector deposits reached 19.2% at the end of March 2014 relative to 21.9% a year earlier. The private sector loans-to-deposits ratio was 43.7% at end-March relative to 48.6% a year earlier.

*Source: Central Bank of Egypt, Byblos Research*

## LIBYA

### **Banking sector's profits down 36% in first quarter of 2014**

Figures issued by the Central Bank of Libya show that the total assets of commercial banks reached LYD95.3bn, or \$76.2bn, at the end of March 2014, constituting a decrease of 3.1% from the end of 2013 and a rise of 11.3% from end-March 2013. Commercial banks' lending reached LYD18.2bn, or \$14.6bn at end-March 2014, nearly unchanged from end-2013 and up by 14.4% from end-March 2013. Total loans accounted for 19.1% of total assets at end-March 2014, up from 18.6% of the total a year earlier. In parallel, commercial banks' aggregate deposits totaled LYD79.1bn, or \$63.2bn at the end of March 2014, constituting a decrease of 5.4% from the end of 2013 and a growth rate of 14.6% from end-March 2013. Demand deposits accounted for 72.4% of total deposits at end-March 2014, followed by time deposits (26.8%) and saving deposits (0.8%). Total deposits accounted for 83% of total liabilities at end-March relative to 85% at end-2013 and 80.6% at end-March 2013. The loans-to-deposits ratio reached 23.1% at end-March 2014 compared to 21.8% at the end of 2013 and was unchanged from a year earlier. In parallel, banks' pre-tax profits reached LYD119.9m, or \$95.8m, in the first quarter of 2014, constituting a drop of 35.5% from LYD185.5m in the same quarter last year, and relative to pre-tax earnings of LYD513.3m in 2013.

*Source: Central Bank of Libya, Byblos Research*

## CÔTE d'IVOIRE

### **NPL ratio at 13%, provisions at 74%**

The risk-weighted capital adequacy ratio (CAR) of banks operating in Côte d'Ivoire reached 9.2% at the end of 2013 relative to 8.6% at the end of 2012 and 9.7% at end-2011. Also, 62.5% of banks operating in Côte d'Ivoire had a CAR of at least 10% at the end of 2013 and 25% of banks have a ratio between 8% and 10%, while 12.5% of banks have a ratio below the minimum requirement of 8%. The sector's liquid assets accounted for 49.6% of total assets at end-2013 compared to 47.7% at end-2012 and 50.3% at end-2011, while they represented 65.5% of total deposits at the end of 2013 relative to 62.5% at end-2012 and 63.2% at end-2011. Also, banks' loans were equivalent to 59.5% of their total assets at the end of 2013 compared to 57.7% at the end of 2012 and 56.7% at the end of 2011. The sector's loans-to-deposits ratio increased to 79.1% at the end of 2013 from 75.6% at the end of 2012 and 71.3% at the end of 2011. The sector's NPLs reached 12.7% of total loans at end-2013, down from 15.9% at end-2012 and 16.3% at end-2011. Also, banks' provisions-to-NPLs ratio stood at 73.9% at end-2013 compared to 78.8% at end-2012 and 67.3% at end-2011. In parallel, the banks' return on assets was 2% in 2013 compared to 1.3% in 2012, while their return on equity reached 34.4% in 2013 relative to 24.2% in 2012.

*Source: International Monetary Fund*

## CHINA

### **Economic rebalancing to put pressure on most banks**

Moody's Investors Service anticipated that China's domestic economic rebalancing would keep the asset quality of Chinese banks under pressure over the coming two years, while it expected the accelerating interest rate liberalization to test banks' profitability. However, it considered that most Chinese banks have the capacity to absorb a significant degree of stress, given their good earnings and their high level of loan-loss reserves and capitalization. It added that the Chinese authorities would remain supportive of key borrowers, which would reduce the likelihood of a sharp deterioration in their asset quality. But Moody's anticipated that banks' performance would vary in the context of rising corporate leverage, accelerating interest rate deregulation, continuing disintermediation, and volatile deposit flows. It expected China's largest five banks that are the Bank of China, China Construction Bank Corporation, Industrial and Commercial Bank of China, Agricultural Bank of China, and Bank of Communications to be more resilient than smaller peers. It attributed the outperformance of the five banks to their relatively greater focus on big borrowers that are more resilient to sector downturns and that are more likely to receive government support. It noted that the five banks have benefited from the government's participation in recurring public equity raisings, which improved their loss-absorbing capacity. It added that the top five banks have well-established franchises that attract lower-cost deposits, and have very strong liquidity positions that enable them to cope with periodic money market tightness in China.

*Source: Moody's Investors Service*



# ENERGY / COMMODITIES

## Potential oil supply disruptions lift price forecasts

The fear over the disruption of oil supply from Iraq as well as the ongoing crisis in Ukraine have helped lift Brent oil prices to over \$114 per barrel (p/b). Brent oil prices could remain above \$114 p/b in the third quarter of 2014 if China and other countries continue to store oil over fears about uncertainties in key suppliers Iraq and Russia. In contrast, a higher-than-expected increase in oil supply from the U.S. would ease buyers' concerns and would make countries less inclined to store oil. In addition, the current turmoil could increase Iraq's oil exports in the near- and medium-term through accelerating exports from the Kurdistan region to an original target of 400,000 b/d by the end of 2014. However, the current turmoil may negatively affect the attractiveness of investing in Iraq for international oil companies, which would potentially impact the country's long-term production that is crucial for long-term global oil balances. In parallel, the Dow Jones-UBS Energy Sub-Index fell by 0.7% in May and increased by 6.6% in the first five months of 2014. Also, the Dow Jones-UBS WTI Crude Oil Sub-Index improved by 3.6% in May and by 7.4% in the first five months, while the Dow Jones-UBS Brent Crude Sub-Index rose by 1.6% last month and was unchanged from end-2013.

Source: Citigroup, Dow Jones Indices, Byblos Research

## Unrest in Iraq unlikely to have immediate impact on oil production

Fitch Ratings indicated that the ongoing unrest in Iraq would not constitute an immediate threat to the country's oil production nor to the ratings of international oil companies operating in the country, given that areas affected by the conflict are not key oil-producing regions. But it cautioned that global oil prices would increase if the conflict spreads and if the market starts to doubt Iraq's ability to increase its output in line with forecasts, given that long-term global output growth assumes a rise in Iraq's oil production. Iraq is the second-largest crude oil producer among OPEC countries.

Source: Fitch Ratings, Byblos Research

## Middle East accounts for 48% of world's proven oil reserves

The Middle East region's proven oil reserves were estimated at 808.5 billion barrels at the end of 2013, equivalent to 47.9% of the world's oil reserves. Saudi Arabia holds the region's largest proven oil reserves with 265.9 billion barrels or 32.9% of the region's total reserves. It is followed by Iran with 157 billion barrels, equivalent to 19.4% of the region's total, Iraq with 150 billion barrels (18.6%), Kuwait with 101.5 billion barrels (12.6%), and the UAE with 97.8 billion barrels (12.1%).

Source: BP, Byblos Research

## Libya's oilfield resumes production after protest

Oil production in El Feel oilfield in the western part of Libya resumed after two months of protests that kept the field offline. The El Feel oilfield would add about 80,000 barrels per day to current production levels that fell to about 200,000 barrels per day in the past few weeks when a wave of protests started at oil installations. Further, the addition of 80,000 b/d would soften the impact of the geopolitical premium that is being priced-in to global crude prices due to unrest in Iraq.

Source: Business Monitor International, Thomson Reuters

## Base Metals: Aluminium prices to recover in 2015

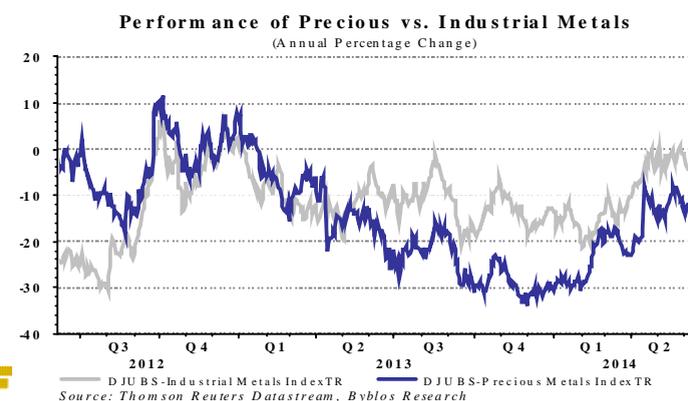
Aluminium prices are forecast to average \$1,750 a ton in the second quarter of 2014, constituting a rise of 2.5% from the previous quarter and a drop of 4.6% from the same quarter last year. Overall, aluminium prices are projected to average \$1,802 a ton in 2014, reflecting a 2.4% drop from last year and compared to decreases of 8.5% in 2013 and 15.8% in 2012. Aluminum prices are expected to rebound in 2015 and 2016 as the metal's global demand recovers, but prices would remain below their levels reached prior to the 2008 financial crisis. Global aluminium consumption is projected to rise by an annual average of 5.4% during the 2014-15 period, while the metal's production is forecast to grow by 5.1% during the covered period. In parallel, the Dow Jones-UBS Industrial Metals Sub-Index increased by 2.7% in May and by 1% in the first five months of 2014, while the Dow Jones-UBS Aluminium Sub-Index rose by 1.9% in May and fell by 1% from end-2013. The Dow Jones-UBS Copper Sub-Index improved by 3.2% in May and regressed by 7.6% in the first five months of the year, while the Nickel Sub-Index grew by 4.9% in May and by 38% in the covered period.

Source: Economist Intelligence Unit, Dow Jones Indices

## Precious Metals: Palladium prices to increase for second consecutive year in 2014

The palladium physical deficit is forecast to reach a 14-year high of 1.5 million ounces in 2014 and to narrow by about 25% in 2015. Palladium mine production is expected to decline this year due to continued labor unrest in South Africa, the world's second-largest producer. Also, palladium supply from autocatalyst scrap is expected to increase significantly during the 2014-15 period, mainly due to strong sales of new cars in the United States and China. In addition, the Chinese government's initiatives to improve air quality is expected to lead to recycling of old cars in the coming years. Further, the metal's autocatalyst demand is forecast to post record-highs in 2014 and 2015, driven by platinum-to-palladium substitution and stricter emission legislation in various countries. Palladium prices are forecast to average \$796.5 an ounce in 2014, reflecting a rise of 9.9% from 2013 and constituting the metal's second consecutive year of price growth. In parallel, the Dow Jones-UBS Precious Metals Sub-Index decreased by 3.6% in May and improved by 1.6% in the first five months of 2014, while the Gold Sub-Index fell by 3.9% last month and increased by 3.6% from end-2013. Also, the Dow Jones-UBS Silver Sub-Index declined by 3.9% in the first five months of the year, while the Platinum Sub-Index rose by 5.6% from end-2013.

Source: Thomson Reuters GFMS, Dow Jones Indices



# 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	-1.9	9.7	1.5	9.4	1.1	-	0.5	-
	-	-	-	-	Stable								
Angola	BB-	Ba3	BB-	-	BB	-2.0	29.2	9.4	-	1.9	79.0	2.2	-1.4
	Stable	Positive	Stable	-	Stable								
Egypt	B-	Caa1	B-	B-	CCC	-11.1	91.3	16.4	127.5	7.5	286.8	-1.3	1.3
	Stable	Negative	Stable	Stable	Stable								
Ethiopia	B	B1	B	-	B	-3.0	23.5	21.1	116.3	-	-	-5.4	2.8
	Stable	Stable	Stable	-	Stable								
Ghana	B	B1	B	-	B	-7.5	66.5	32.3	73.4	3.4	239.1	-10.6	7.5
	Negative	Negative	Negative	-	Stable								
Ivory Coast	-	-	-	-	B	-2.8	40.4	15.8	62.7	6.3	-	-2.2	2.9
	-	-	-	-	Stable								
Libya	-	-	B	-	B	-30.4	1.6	9.5	10.9	3.4	-	-27.7	-
	-	-	Stable	-	Stable								
Dem Rep Congo	B-	B3	-	-	-	-2.1	23.4	12.3	45.1	1.4	5.4	-7.9	6.9
	Stable	Stable	-	-	-								
Morocco	BBB-	Ba1	BBB-	-	B	-4.9	62.7	31.5	115.4	17.2	270.2	-6.6	2.9
	Stable	Negative	Stable	-	Stable								
Nigeria	BB-	Ba3	BB-	-	B	-1.8	2.0	3.2	42.0	0.3	34.3	4.9	2.7
	Negative	Stable	Stable	-	Stable								
Sudan	-	-	-	-	C	-1.3	89.3	74.0	-	-	-	-8.2	-
	-	-	-	-	Stable								
Tunisia	-	Ba3	BB-	-	CCC	-6.8	50.9	59.1	127.6	10.9	360.6	-6.7	3.0
	-	Negative	Negative	-	Stable								
Burkina Faso	B	-	-	-	-	-3.9	32.1	25.9	143.5	-	-	-7.3	0.4
	Stable	-	-	-	-								
Rwanda	B	-	B	-	-	-3.1	28.8	21.5	253.7	-	153.6	-11.5	3.5
	Stable	-	Positive	-	-								
<b>Middle East</b>													
Bahrain	BBB	Baa2	BBB	BBB	BB	-4.3	45.8	134.4	423.5	16.6	506.6	10.4	0.2
	Stable	Negative	Stable	Stable	Stable								
Iran	-	-	-	B	CCC	-2.5	10.8	1.8	13.9	1.3	15.4	5.2	-
	-	-	-	Stable	Stable								
Iraq	-	-	-	-	CCC	-2.0	16.3	10.7	69.5	-	-	1.0	-
	-	-	-	-	Stable								
Jordan	BB-	B1	-	BB-	CCC	-8.3	91.3	26.0	154.2	14.9	225.4	-12.9	6.3
	Negative	Stable	-	Stable	Stable								
Kuwait	AA	Aa2	AA	AA-	A	25.2	2.4	20.4	25.5	7.0	108.4	37.4	-4.7
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B1	B	B	CCC	-11.5	147.6	179.6	162.8	16.4	126.8	-15.8	6.0
	Stable	Negative	Negative	Stable	Stable								
Oman	A	A1	-	A	A	0.6	8.0	12.0	25.0	3.8	105.3	7.8	0.6
	Stable	Stable	-	Stable	Stable								
Qatar	AA	Aa2	-	AA-	AA	7.7	25.7	75.6	123.9	14.3	477.0	25.4	-0.4
	Stable	Stable	-	Stable	Stable								
Saudi Arabia	AA-	Aa3	AA	AA-	A	7.1	2.6	11.8	24.3	1.9	11.4	15.8	0.6
	Positive	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-12.0	65.0	27.4	-	-	-	-3.7	-
	-	-	-	-	Negative								
UAE	-	Aa2	-	AA-	BB	7.9	12.3	38.0	38.0	4.0	330.2	13.3	2.1
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-6.7	51.4	15.0	51.8	-	-	-1.5	-
	-	-	-	-	Stable								



# 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-	-	-	-2.3	42.1	77.0	109.2	17.9	543.0	-7.2	4.0
	-	Stable	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-2.1	27.2	7.9	29.8	1.5	21.1	2.2	1.0
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-4.5	67.8	21.3	83.6	5.2	188.9	-2.1	1.2
	Negative	Stable	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BB	4.2	13.3	70.7	131.2	13.7	544.2	1.9	5.6
	Stable	Positive	Stable	-	Stable								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BB	-2.6	17.6	89.0	131.2	23.2	272.4	-0.4	3.0
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	B	-2.9	39.7	66.5	153.9	20.0	257.6	-1.7	1.4
	Stable	Negative	Stable	-	Stable								
Russia	BBB-	Baa1	BBB	-	BBB	-0.5	11.6	36.7	109.4	15.0	134.9	3.0	-0.9
	Negative	Positive	Negative	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-2.0	35.9	47.2	107.5	25.1	343.0	-6.3	1.3
	Negative	Negative	Stable	Stable	Stable								
Ukraine	CCC	Caa3	CCC	-	CC	-5.2	48.3	85.4	138.4	20.5	957.4	-6.7	2.2
	Negative	Negative	-	-	Stable								

Sources: International Monetary Fund; Economist Intelligence Unit; Institute of International Finance; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2014



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	18-June-14	No change	N/A
Eurozone	Refi Rate	0.15	05-June-14	Cut 10bps	03-July-14
UK	Bank Rate	0.50	05-June-14	No change	10-July-14
Japan	O/N Call Rate	0-0.10	13-June-14	No change	15-July-14
Australia	Cash Rate	2.50	03-June-14	No change	01-July-14
New Zealand	Cash Rate	3.25	12-June-14	Raise 25bps	23-July-14
Switzerland	3 month Libor target	0.00-0.25	19-June-14	No change	N/A
Canada	Overnight rate	1.00	04-June-14	No change	16-July-14
<b>Emerging Markets</b>					
China	One-year lending rate	6.00	06-July-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	18-June-14	No change	N/A
Taiwan	Discount Rate	1.875	27-Mar-14	No change	26-June-14
South Korea	Base Rate	2.50	12-June-14	No change	09-July-14
Malaysia	O/N Policy Rate	3.00	09-May-14	No change	10-July-14
Thailand	1D Repo	2.00	23-Apr-14	No change	18-June-14
India	Reverse repo rate	8.00	03-June-14	No change	05-Aug-14
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	N/A
Saudi Arabia	Repo rate	0.25	16-June-09	Cut 25bps	N/A
Egypt	Overnight Deposit	8.25	08-Dec-13	Cut 50bps	N/A
Turkey	Base Rate	9.50	22-May-14	Cut 50bps	24-June-14
South Africa	Repo rate	5.50	22-Mar-14	No change	01-July-14
Kenya	Central Bank Rate	8.50	05-May-14	No change	04-July-14
Nigeria	Monetary Policy Rate	12.00	20-May-14	No change	01-July-14
Ghana	Prime Rate	18.00	05-June-14	No change	07-July-14
Angola	Base rate	9.25	Nov-13	Cut 50bps	N/A
Mexico	Target Rate	3.00	06-June-14	Cut 50bps	11-July-14
Brazil	Selic Rate	11.00	28-May-14	Raise 25bps	16-July-14
Armenia	Refi Rate	7.25	13-May-14	Cut 25bps	N/A
Romania	Policy Rate	3.50	04-Feb-14	No change	N/A
Bulgaria	Base Interest	0.05	01-June-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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