

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### MENA

##### Equity markets up 8% in first half of 2014

Arab stock markets and GCC markets rose by 8.2% each in the first half of 2014 compared to increases of 6.4% and 10.6%, respectively, in the same period of 2013. Arab stock markets and GCC markets grew by 10.6% and 10.5%, respectively, in the first quarter of the year; while they regressed by 2.1% each in the second quarter of 2014. Activity on the Beirut stock exchange increased by 25.3% in the first half of 2014 and posted the best performance among Arab markets during the period. It was followed by the Egyptian equity market with a 20.3% rise, the Dubai financial market with a 17% increase, the Bahrain bourse with a 14.2% expansion, the Saudi Arabia equity market with an 11.5% growth, the Qatar stock exchange with a 10.7% rise, the Abu Dhabi securities exchange with a 6.1% improvement, the Tunis equity market with a 4.9% rise, the Damascus financial market with a 4.7% expansion, the Oman equity market with a 2.5% increase, the Amman bourse with a 2.3% growth and the Casablanca stock market with a 1.2% improvement. In parallel, activity on the Iraqi stock exchange dropped by 15.6% and posted the weakest performance among Arab equity markets in the first half of 2014. It was followed by the Libyan bourse with an 8% decline, the Kuwait equity market with a 7.7% drop, the Palestine stock exchange with a 7.1% decrease and the Khartoum bourse with a 5.9% retreat. In comparison, global and emerging market equities rose by 5.3% and 5.8%, respectively, in the first half of 2014.

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

##### Insurance premiums up 7.5% to \$28bn in 2013

Swiss Re's annual survey of the global insurance market indicated that the premiums generated by 12 Arab markets included in the survey totaled \$27.8bn in 2013, constituting a nominal increase of 7.5% from \$25.5bn in 2012. The region's aggregate premiums accounted for 0.6% of global premiums in 2013 and for 3.5% of premiums in emerging markets. Insurance firms in the UAE accounted for 28.6% of aggregate premiums in Arab markets last year, followed by Saudi Arabia (22.8%), Morocco (11.4%), Egypt (6.6%), Lebanon and Qatar (5.3% each), Algeria (5.2%), Kuwait and Oman (3.4% each), Tunisia (3%), and Bahrain and Jordan (2.5% each). Further, Arab markets generated \$22.6bn in non-life premiums last year, up 7.5% from \$20.7bn in 2012. Non-life premiums produced in the Arab world accounted for 1.1% of global non-life premiums and for 5.9% of non-life premiums in emerging markets. Also, aggregate life premiums generated in Arab markets stood at \$5.3bn in 2013, constituting a rise of 6.1% from \$4.8bn in 2012. In parallel, insurance penetration in Arab markets, or premiums relative to the size of the economy, stood at 1.2% of GDP in 2013 relative to global and emerging markets' rates of 6.3% of GDP and 2.7% of GDP, respectively. Further, insurance density in Arab markets, or premiums per capita, reached \$126.1 in 2013 compared to global and emerging markets' density of \$652 and \$129, respectively.

*Source: Swiss Re, Byblos Research*

##### Real estate transparency lags global trends

Jones Lang LaSalle's Global Real Estate Transparency Index for 2014 ranked Dubai as the most transparent Arab real estate market and the 49th most transparent among 102 countries and markets worldwide. It was followed by Abu Dhabi (53rd), Qatar (58th), Bahrain (60th), Saudi Arabia (67th), Jordan (69th), Egypt (72nd), Kuwait (75th), Morocco (76th), Oman (80th), Lebanon (81st), Algeria (90th), Tunisia (92nd), Iraq (97th) and Libya (102nd). The index measures national real estate transparency across the globe and is used to compare and contrast transparency conditions across markets. It highlights the important differences in transacting, owning and operating in real estate markets. The index scores range from 1.00 to 5.00 points, with a perfect score of 1.00 reflecting full market transparency. The region's average score of 3.8 points in the 2014 survey lagged the global average score of 3.1 points. The Gulf Cooperation Council (GCC) countries' average score was 3.5 points, better than that of non-GCC Arab countries of 4.1 points in the survey. In parallel, the survey classified four Arab countries or markets in the "Semi Transparent" category, seven countries in the "Low-Transparency" category and four countries in the "Opaque" category. None of the Arab markets came in the "Highly Transparent" or "Transparent" categories.

*Source: Jones Lang LaSalle, Byblos Research*

#### UAE

##### Up to 50% of ADIA's portfolio invested in North America, 20-year returns at 7.2%

The Abu Dhabi Investment Authority (ADIA), the emirate's sovereign wealth fund, indicated that its global investment portfolio is diversified across more than 24 asset classes and sub-categories that include indexed funds, listed equities, fixed income, real estate, private equity, alternatives and infrastructure. It said that approximately 75% of its assets are managed by external fund managers whose activities are closely monitored, and that nearly 55% of its assets are invested in index-replicating strategies. ADIA noted that the 20-year and 30-year annualized rates of return in US dollar terms for its portfolio were 7.2% and 8.3%, respectively, at end-2013 compared to 7.6% and 8.2%, respectively at end-2012. It said that North America represents between 35% and 50% of its portfolio, followed by Europe with a 20% to 35% range, emerging markets with a range of 15% to 25%, and Developed Asia with a 10% to 20% range. Further, developed markets' equities account for between 32% to 42% of its portfolio; followed by emerging markets equities and government bonds (10% to 20% each); credit, alternatives and real estate (5% to 10% each); private equity (2% to 8%); and infrastructure and small cap equities (1% to 5% each). In parallel, ADIA stated that it carries out its investments independently and without reference to the government of the Emirate of Abu Dhabi or other entities that also invest on the government's behalf. It added that it is not involved with, nor has any visibility on matters relating to the spending requirements of the Abu Dhabi government and its related entities.

*Source: Abu Dhabi Investment Authority*

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# POLITICAL RISK OVERVIEW - June 2014

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## EGYPT

President Abdel Fattah el-Sissi was inaugurated on June 8 after he won 96.9% of the popular vote. Egypt's new Cabinet, led by Prime Minister Ibrahim Mehleb, was sworn in on June 17 by President el-Sissi. The government's crackdown on dissidents and Muslim Brotherhood (MB) members continued. An Egyptian court confirmed the death sentences of MB Supreme Guide Mohamed Badie and 182 MB supporters. Two protesters were killed in clashes with government forces in Cairo during demonstrations against the MB sentencing. Violent unrest and acts of terrorism continued. Three Al-Jazeera journalists were sentenced to between seven and 10-year prison terms on charges of aiding a "terrorist organization".

## IRAN

Iranian Foreign Minister Mohammad Javad Zarif said that Iran and the UN Security Council's permanent members plus Germany (P5+1) began the drafting of a comprehensive nuclear agreement. But he indicated that "many differences" still exist. The U.S. and Iran held high-level bilateral meetings in Geneva. President Hassan Rouhani's deputy chief of staff for political affairs said that Iran and the U.S. are the only two countries that can bring the crisis in Iraq to a peaceful end. The U.S. indicated that it is "open to any constructive process" that could minimize the violence in Iraq, including cooperation with Iran.

## IRAQ

The Islamic State in Iraq and the Levant (ISIL), an al-Qaeda splinter group, seized various territories in the country's Sunni-dominated west and north, including the cities of Mosul and Tikrit. Hundreds of thousands of civilians, army personnel and security forces fled the fighting; while others celebrated the "liberation" from the central government's rule. Kurdish forces took control of Kirkuk on June 12 after Iraqi security forces fled the fighting. The ISIL announced on June 29 the establishment of an Islamic Caliphate in the territories under its control, naming it the Islamic State. Tens of thousands of volunteers joined the Iraqi Army to fight ISIL militants. The Cabinet granted Prime Minister Nouri al-Maliki "unlimited powers" to combat militants. The U.S. announced plans to send about 300 military advisors to Baghdad to assist the government in its fight against ISIL extremists. Iran sent 2,000 ground troops to support the government's armed forces. Sectarian violence increased this month, leading to 2,417 deaths, the highest monthly death toll since May 2007, and to about 2,287 injuries.

## DEM REP CONGO

The Rwandan army and the Armed Forces of the Democratic Republic of Congo (FARDC) clashed along their shared border. The Rwandan and Congolese governments blamed each other for the outbreak of fighting. The UN Stabilization Mission in the DRC called on all parties to reduce tensions and avoid further violence. The DRC indicated that the disarmament of the Democratic Forces for the Liberation of Rwanda in South and North Kivu continued as part of the government's program to improve security and stability in the country.

## LIBYA

A Supreme Court ruling indicated that Prime Minister Ahmad Maiteeq's election in May was unconstitutional. Interim Prime Minister Abdullah al-Thinni was restored to power despite the opposition of some members of the General National Congress. Former Prime Minister Ali Zeidan, who fled the country in March 2014, returned and reasserted his claim over the premiership. Libyan officials said that about 42% of the 1.5 million registered voters cast their votes in the June 25 parliamentary elections. Clashes between former General Khalifa Haftar's forces and Ansar al-Sharia militants continued in and around Benghazi.

## SOUTH SUDAN

The Intergovernmental Authority on Development (IGAD) announced on June 10 that President Salva Kiir and rebel leader Riek Machar agreed to form a transitional government within 60 days. The government boycotted upcoming talks after IGAD's Executive Secretary Mahboub Maalim allegedly described President Kiir and rebel leader Machar as "stupid" for pursuing military means instead of peace talks in the ongoing conflict. President Kiir sent a letter to the IGAD demanding an apology. The Sudan People's Liberation Movement-in-Opposition (SPLM-IO) boycotted talks in protest over the unfair selection process of civil society organizations and the prevalence of government-affiliated representatives in the mediation. The SPLM-IO said that they prefer direct talks with the government delegation in order to reach a political settlement within the 60-day timeframe.

## SUDAN

The Sudanese Congress Party leader Ibrahim El Sheikh was arrested for accusing the government-affiliated Rapid Support Forces of abuses against civilians. The ongoing arrests, along with the government crackdown on media liberties and the lack of government consultation with the opposition over an amendment of the electoral law, continued to threaten the National Dialogue. The National Umma Party and the Reform Now Party suspended their participation in the dialogue process. President Omar al-Bashir said that his government's adherence to the national dialogue does not stem from weakness.

## SYRIA

President Bashar al-Assad was reelected for a third term after he secured 88.7% of the votes with a voters' turnout of 73%. The voting mainly took place in government-controlled areas. The international community largely condemned the "election" as a fraud. Regime forces recaptured the border town of Kasab near the border crossing with Turkey on June 15th. President Barack Obama requested \$500m from the U.S. Congress to provide training and arms to select members of the Syrian opposition. Nine senior officers from the Free Syrian Army resigned due to the shortages and mismanagement of military aid from donor countries. The Islamic State of Iraq and the Levant established control over most of Deir al-Zour's western countryside, while the regime maintained control over the remaining entrances, which left ISIL's opponents and the remaining civilian population effectively surrounded. Anti-ISIL militants, including the al-Qaeda-linked Jabhat al-Nusra, formed a new local alliance, Majlis Shura al-Mujahidin, setting aside their ideological differences for the sake of cooperation. Deadly regime barrel bombings continued. The regime handed over on June 23 its last stockpile of declared chemical weapons to the Organization for the Prohibition of Chemical Weapons for destruction.

## TUNISIA

Tunisia's election commission indicated that parliamentary and presidential elections would be held in October and November 2014, respectively. The country's security situation remained tense throughout the month. Interior Minister Lotfi Ben Jeddou called for allowing the army to support security forces in cities to eliminate terrorism.

## YEMEN

Several attempts to reach a ceasefire agreement between the Yemeni army and Huthi rebels failed, while fighting in the north led to hundreds of casualties. A military campaign against the Al-Qaeda in the Arabian Peninsula continued but at a slower pace. Tribal sabotage of the electrical grid left Sanaa without fuel or electricity for several days, which prompted mass protests that called for the overthrow of the government.

*Source: International Crisis Group*

# OUTLOOK

## GCC

### Rising dependence on hydrocarbons increases vulnerabilities

Standard & Poor's indicated that the high and increasing dependence of Gulf Cooperation Council (GCC) countries on the hydrocarbon sector could potentially become a significant vulnerability. S&P considered that Bahrain and Oman are the most vulnerable GCC economies to a sharp and sustained decline in hydrocarbon production and global prices. It said that Bahrain has the highest fiscal breakeven oil price among GCC countries at \$126.9 per barrel (p/b) in 2013. It added that Bahrain has the least time to diversify its economy away from the hydrocarbon sector, given that its hydrocarbon reserves would be depleted in 11 years. It pointed out that Oman has the second-highest breakeven oil price among GCC economies at \$89.4 p/b in 2013, while the lifespan of its current hydrocarbon production is estimated at 21 years. It said that Oman's diversification plan is largely linked to the performance of the hydrocarbon sector, given that public spending is dependent on hydrocarbon revenues.

In parallel, it indicated that the UAE and Qatar are the least vulnerable GCC countries to a substantial and sustained decline in hydrocarbon production or prices. It noted that the UAE has the most diversified economy in the GCC, but that it remains dependent on hydrocarbon revenues. It added that Qatar's hydrocarbon reserves need 106 years to be depleted, the longest period among GCC economies, while its fiscal breakeven oil price of \$59.4 p/b is the second-lowest in the region. Further, it said that Kuwait and Saudi Arabia are moderately vulnerable to prolonged shocks to hydrocarbon production or prices.

S&P considered that a proportion of what GCC economies classify as non-oil sectors does not constitute a true diversification away from the hydrocarbon sector and is mainly related to downstream activities. It added that these industries might not be sustainable when hydrocarbon reserves are depleted. It said that public spending, which is financed by oil and gas revenues, can lead to an overestimation of the rate of diversification.

*Source: Standard & Poor's*

## IRAQ

### Limited economic impact of unrest over the near-term, rising risks to hydrocarbon sector

Barclays Capital maintained its projection for Iraq's real GDP growth at 7.6% in 2014 compared to an estimated growth rate of 4.9% in 2013. It considered that the immediate macroeconomic impact of the current unrest remains limited so far. But it said that downside risks are significant and are mainly related to risks to oil supply and energy infrastructure. It pointed out that the effect of turmoil on oil production and exports would be limited in the short-term, but it noted that Iraq's ability to expand its oil production plans would be severely affected. It added that the spread of violence to the southern parts of the country or to the Kurdish territory would lead to production and exports losses, while the loss of government control of the Baiji refinery in the north would increase the imports of refined products, which would narrow the external account surplus.

Further, Barclays expected Iraq's public finances to withstand the unrest in the short-term. It forecast the fiscal balance to post a surplus of 0.1% of GDP in 2014 compared to a surplus of 0.5% of GDP in 2013. But it noted that the rising imports of the public sector and the expected rapid increase in military spending could weigh on public finances. It added that the Kurdish control over the Kirkuk oil fields and the direct management of oil exports by the Kurdistan Regional Government could result in oil revenue losses to the central government in Baghdad. It said that the fiscal surplus would shift to a deficit if global oil prices average \$110 per barrel in 2014 and if the average oil production falls to 3 million b/d from a projected 3.1 million b/d and if exports drop to 2.1 million b/d this year. It noted that higher global oil prices would ease the pressure on public finances, given the country's elevated fiscal breakeven oil price of about \$103 p/b in 2014. It pointed out that the balance at the Development Fund of Iraq fell to \$5.3bn at end-March 2014 from \$23bn a year earlier, mainly due to the unchecked spending during the elections period.

*Source: Barclays Capital*

## TURKEY

### Growth outlook improves

Barclays Capital revised upward its projection for Turkey's real GDP growth to 3.3% in 2014 from a previous forecast of 2.2% and compared to a growth rate of 4% in 2013. It attributed the change to better-than-expected economic activity so far this year. It noted that real GDP grew by 1.7% in the first quarter of 2014 from the preceding quarter, contrary to expectation that political turmoil and the depreciation of the currency would negatively affect activity. It said that reduced domestic political uncertainty, improving external demand and a more supportive global environment for foreign capital inflows have improved Turkey's growth path. But it noted that cuts in domestic interest rates, as well as risks related to the presidential elections scheduled in August 2014 and to the ongoing unrest in Iraq, leave Turkey vulnerable in the coming months. It pointed out that lowering real rates in the context of tightening global liquidity would be risky and would expose the Turkish lira to higher rates in core markets. Further, it said that the inflation rate peaked at 9.7% in May and expected it to gradually fall to 8.3% at end-2014 due to a stronger Turkish lira in the second half of the year.

In parallel, Barclays indicated that the economy is rebalancing away from consumption to export-driven growth. It expected the recovery in the global economy, mainly in the Eurozone, to stimulate Turkish exports. It anticipated that domestic consumption would continue to slow down in coming months due to existing prudential measures. It added that deteriorating security conditions in Iraq and higher market volatility could further weigh on demand. Further, it pointed out that the rebalancing of growth is narrowing the current account deficit. It expected the narrowing of the deficit to accelerate in coming months due to seasonal factors, such as the tourism season and rising gold exports. It forecast the current account deficit to narrow to 5.7% of GDP in 2014 from 7.9% of GDP in 2013. It cautioned that a sustained increase in global oil prices and disruptions to trade with Iraq, the country's second-largest export market, would slow down the improvement of the current account balance.

*Source: Barclays Capital*

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# ECONOMY & TRADE

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## EGYPT

### **Sovereign ratings affirmed, outlook 'stable'**

Fitch Ratings affirmed Egypt's long-term foreign and local currency Issuer Default Rating (IDRs) at 'B-', with a 'stable' outlook on the ratings. It maintained Egypt's short-term foreign currency IDR at 'B' as well as the Country Ceiling and the senior unsecured foreign and local currency bonds at 'B-'. It said that the domestic political environment is currently more stable than in recent years. But it noted that ongoing tensions and periodic violence would prevent a sustained recovery in tourism activity. It added that implementing adequate economic reforms while simultaneously preserving social stability would be challenging. Further, it expected Egypt to continue to receive financial support from Gulf Cooperation Council countries in coming months. It pointed out that the gradual implementation of consolidation measures, such as subsidy reforms and a broadening of the tax base, as well as the government's new spending commitments, would limit the pace of fiscal consolidation. In addition, the agency considered that the outlook for the balance-of-payments is weak. It noted that the modest improvement in tourism revenues and in foreign investment inflows would not be sufficient to end the ongoing foreign exchange rationing, given the high demand for foreign currency.

*Source: Fitch Ratings*

## JORDAN

### **Ratings affirmed, outlook 'stable'**

Capital Intelligence affirmed Jordan's long-term foreign sovereign rating at 'BB-' and its long-term local sovereign rating at 'BB'. It maintained the 'stable' outlook on the long-term ratings and affirmed the short-term foreign and local currency ratings at 'B'. It said that the ratings' affirmation balances the recent improvement in the country's capacity to absorb economic shocks against rising geopolitical risks. It expected balance-of-payments risks to remain high over the medium-term and forecast the country's gross external financing requirement to exceed 34% of GDP in 2014. But it noted that near-term risks are mitigated by the increase in foreign currency reserves and the ongoing regional and international financial support. Also, it said that its ratings action takes into account the authorities' commitment to structural reforms, which aim to address the economy's chronic imbalances. Further, it pointed out that the geopolitical situation is weighing on the country's medium-term prospects. It indicated that the country's public finances constitute the major constraint on the ratings, given the weak budget structure, growing debt burden and high financing requirements. In parallel, the agency said that refinancing risks remain high but that near-term risks are manageable, given that the majority of scheduled debt repayments are in local currency and that local banks are able and willing to subscribe to local currency debt. It estimated this year's maturing public debt at about 25% of GDP. It expected the government to meet a large part of its short-term financing needs through the issuance of a second Eurobond that would be guaranteed by the U.S. government.

*Source: Capital Intelligence*

## GHANA

### **Ratings downgraded on deteriorating public finances and rising vulnerability**

Moody's Investors Service downgraded Ghana's sovereign rating by one notch to 'B2' from 'B1' and maintained the 'negative' outlook on the ratings. Also, it reduced the foreign-currency bond ceiling to 'Ba3' from 'Ba2' and the foreign-currency deposit ceiling to 'B3' from 'B2'. It attributed the downgrades to Ghana's deteriorating fiscal metrics and rising vulnerability to shocks. It anticipated fiscal consolidation efforts to be slow in coming years, given the rising debt servicing cost, the clearance of arrears and the expected spending on the 2016 elections. It noted that debt servicing cost has significantly increased to 23% of revenues in 2013 from 14% in 2012, reflecting the high interest rates on domestic debt. It forecast the public debt level to exceed 65% of GDP by the end of 2015 from 55.7% of GDP in 2013. In parallel, Moody's indicated that liquidity risks have increased, given the government's large debt-financing needs. It said that the double-digit current account deficit leaves Ghana vulnerable to a sudden stop in international capital flows, given that net FDI inflows finance a part of the deficit. It noted that foreign currency reserves fell to 2.7 months of import cover at the end of March 2014, reflecting the strong pressure on the Ghanaian cedi from the weak balance-of-payments position. It said that domestic funding pressures would rise once the Central Bank of Ghana reduces its financing of the fiscal deficit during the remainder of the year.

*Source: Moody's Investors Service*

## ETHIOPIA

### **Positive economic prospects, reforms needed**

The International Monetary Fund projected Ethiopia's annual real GDP growth to range between 8% and 8.5% in each of the fiscal years ending in July 2014 and July 2015. It said that the public sector-led development strategy has delivered robust growth and rising living standards. But it indicated that the domestic banking system continues to finance most of the substantial investment spending by public enterprises, which constrains lending available to the private sector. As such, it called on the government to reduce public sector borrowing by either prioritizing investment projects or by attracting more external financing. It said that authorities need to adapt their policies to promote private sector development and to sustain growth momentum. It called on authorities to improve the efficiency of trade logistics, increase access to financial services, ensure a competitive exchange rate and provide a predictable regulatory environment for businesses. It noted that private enterprises would play an increasingly important role, as the economy shifts from an agricultural-based growth model to an industrial-based model. In parallel, the Fund said that foreign currency reserves have slightly increased due to strong external borrowing and higher FDI inflows. Further, the IMF anticipated that the inflation rate would remain in single-digits and encouraged authorities to maintain their cautious monetary policy. It noted that Ethiopia needs to gradually raise the nominal interest rates in order to activate the Treasury bills market.

*Source: International Monetary Fund*



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# BANKING

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## KUWAIT

### Outlook on banking sector remains 'stable'

Moody's Investors Service maintained its outlook on Kuwait's banking sector at 'stable', given the favorable domestic operating environment that is supported by high oil revenues and by government spending. It noted that the operating environment would support banks' recovering profitability, robust capitalization and abundant liquidity. It forecast credit growth at about 10% in 2014, supported by accelerating activity in non-hydrocarbon sectors from increased domestic consumption and higher capital spending. It expected banks' net profitability to recover, as the provisioning of legacy problem loans continues to ease and as the increase in the cash flow of corporate borrowers would improve asset-quality and loan recoveries. The agency projected the system's return on average assets to improve to between 1.3% and 1.5% over the coming 12 to 18 months, but to remain below pre-crisis levels that exceeded 2%. However, it noted that the strong competition in a relatively low interest rate environment would continue to compress margins and weigh on revenues. It expected the sector's cost-to-income ratio to remain below 40%. Further, it anticipated banks' asset-quality metrics to further improve and forecast the non-performing loans ratio to decline to 3% during the 2014-15 period from 4.6% in 2013 and a peak of 10.2% in 2009. But it noted that high credit concentration and undisclosed levels of restructured loans would pose downside risks for the banking system. In parallel, Moody's expected the banking sector to maintain its substantial loan-loss absorption capacity, supported by robust capitalization levels and by improving provisioning coverage.

Sources: *Moody's Investors Service*

## BAHRAIN

### Agency takes rating actions on six banks

Capital Intelligence affirmed the long-term foreign currency ratings of Arab Banking Corporation (ABC) at 'BBB+', that of United Gulf Bank (UGB), National Bank of Bahrain (NBB) and Investcorp Bank (Investcorp) at 'BBB' and that of AlBaraka Islamic Bank (AIB) at 'BB+'; while it upgraded that of Gulf International Bank (GIB) to 'A+' from 'A'. It said that all banks' long-term foreign currency ratings have a 'stable' outlook. It attributed the upgrade of GIB's rating to its exceptionally strong and supportive shareholder, the Saudi Arabia government-owned Public Investment Fund. Further, the agency affirmed the Financial Strength Rating (FSR) of NBB at 'A', ABC and GIB at 'BBB+', UGB and Investcorp at 'BBB' and AIB at 'BB'. It said that all banks' FSR have a 'stable' outlook. It pointed out that ABC's FSR is supported by its very solid capital adequacy, geographically-diversified asset base, sound asset quality and comfortable liquidity level. But it noted that the rating is constrained by ABC's ongoing reliance on short-term wholesale funding, large customer deposit concentrations, tight net loans-to-customer deposits ratio and challenging operating conditions. Further, it indicated that GIB's FSR reflects its solid capital adequacy, strong liquidity level, growing deposit base and sound asset quality. It noted that the FSR is constrained by ongoing modest profitability, concentration risks and the execution risk associated with the launch of retail banking in Saudi Arabia.

Source: *Capital Intelligence*

## ARMENIA

### Consumer, industry and trade account for 64% of overall lending at end-April 2014

Figures released by the Central Bank of Armenia show that the banking sector's total loans stood at AMD1,867bn, equivalent to \$4.5bn, at the end of April 2014, constituting an increase of 3.8% from end-2013 and a rise of 10.9% from a year earlier. Loans in foreign currency accounted for 62.5% of total loans at end-April 2014, marginally up from 62.2% at end-2013 and relative to 63.9% a year earlier; while loans to non-residents amounted to 3% of total loans at end-April 2014. The distribution of lending by sector shows that consumer loans accounted for 22.8% of overall lending to residents, followed by industry (21.3%), trade (19.8%), mortgages (8.5%), construction and agriculture (6.5% each), services (5.9%) and communications (2.5%), while loans to other sectors represented the remaining 6.3%. Further, deposits excluding accrued interest totaled AMD1,603bn, equivalent to \$3.9bn at end-April 2014. They decreased by 0.6% from end-2013 and rose by 21.8% from a year earlier. Deposits in foreign currency accounted for 69.4% of total deposits at end-April 2014, while non-resident deposits represented 25% of the sector's total deposits. The loan-to-deposit ratio in foreign currency stood at 104.8%, down from 116.8% at end-April 2013, while the same ratio in local currency was 141.5% relative to 153.8% a year earlier. The total loan-to-deposit ratio stood at 116.5% at the end of April 2014 compared to 127.9% a year earlier.

Source: *Central Bank of Armenia, Byblos Research*

## SUDAN

### Khartoum takes steps to improve anti-money laundering regime

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Sudan has taken steps since February 2014 to improve its AML/CFT regime, mainly by enacting a new AML/CFT legislation and by undertaking AML/CFT supervisory visits for financial institutions. It welcomed the authorities' efforts to address the country's strategic AML/CFT deficiencies. But it noted that it has not yet assessed the impact of the new legislations on existing strategic AML/CFT deficiencies. It said that Sudan's strategic AML/CFT deficiencies include the adequate penalization of money laundering and terrorist financing (ML/FT), the implementation of appropriate procedures to identify and freeze terrorist assets, the introduction of a fully operational and effectively functioning Financial Intelligence Unit, and improvements in customer due diligence measures. It added that Sudan needs to guarantee that financial institutions are aware of and comply with their obligations to file suspicious transaction reports in relation to ML/FT, and that appropriate laws and procedures are in place with regard to international cooperation and mutual legal assistance. It called on authorities to continue the process of implementing their action plan.

Source: *Financial Action Task Force*



# ENERGY / COMMODITIES

## Brent oil prices to rise by 3% in 2014

Crude oil future contract prices rose in recent weeks as security threats in Iraq led to an increase in geopolitical risk premiums in the commodities market. But the impact on Iraqi oil output remains limited at this stage, as 74% of the country's oil production is located in the south and the remaining volume in the Kurdistan region. However, a significant decrease in the country's oil output could make it very difficult for the Organization of the Petroleum Exporting Countries (OPEC) to meet the market's oil demand in the third quarter of 2014. As such, the unfolding crisis in Iraq, along with limited OPEC spare capacity and a recovering global economic growth have created upside risks for oil prices. Brent oil prices are forecast to average \$113 a barrel in the third quarter of 2014, constituting a rise of 3% from the preceding quarter; while WTI oil prices are projected to increase by 2.9% to an average of \$106 a barrel. WTI oil prices are expected to remain lower than those of Brent this year. In parallel, Brent oil prices increased by 1.3% in the first half of 2014 and by 2% in June 2014 to \$112.8 a barrel, while WTI oil prices rose by 8.1% from end-2013 and by 2.6% last month to \$106.1 a barrel.

Source: Deutsche Bank, Barclays Capital, Byblos Research

## GCC oil output up by 2% in June 2014

Crude oil production in the Gulf Cooperation Council (GCC) countries, excluding Oman and Bahrain, totaled 16.23 million barrels per day (b/d) on average in June 2014, up by 2.1% from 15.9 million b/d in the previous month and constituting the first rise in output since December 2013. Saudi Arabia's oil production reached 9.9 million b/d in June, equivalent to about 61% of total GCC oil production. It was followed by Kuwait and the UAE with 2.8 million b/d each, or 17.3% of the total each, and Qatar with 725,000 b/d (4.5%). In parallel, the Organization of the Petroleum Exporting Countries' reference oil price averaged \$107.9 a barrel in June, up by 2.3% from May 2014 and by 6.8% from a year earlier.

Source: Emirates NBD, Byblos Research

## Iraqi crude oil exports down 6% in June 2014

Iraqi crude oil exports reached 2.423 million barrels per day (b/d) in June 2014, constituting a drop of 6.2% from 2.582 million b/d in the preceding month. The decrease in exports was mainly due to maintenance activities and expansion at the Basra oil terminal. Fighting in Iraq has still not spread to the south, where about three-quarters of the country's oil output is extracted. Iraq is the second-largest crude oil producer among OPEC countries and currently holds an estimated 150 billion barrels of proven oil reserves.

Source: Thomson Reuters, Byblos Research

## South Sudan's oil production down by 3%

South Sudan's crude oil output is currently estimated at 160,000 barrels per day (b/d), down by 3% from 165,000 b/d on average in May 2014 and by 34.7% from 245,000 b/d reached prior to the civil unrest that began in mid-December 2013. In parallel, South Sudan plans to borrow SDG3bn, or about \$1bn, from oil companies during fiscal year 2014/15 to help the government cover the repayments on domestic loans and previous oil advances. South Sudan is highly dependent on oil-related revenues and on the resulting foreign currency receipts to finance its imports.

Source: Thomson Reuters, Byblos Research

## Base Metals: Zinc market to post deficits until 2018, prices on an upward trend

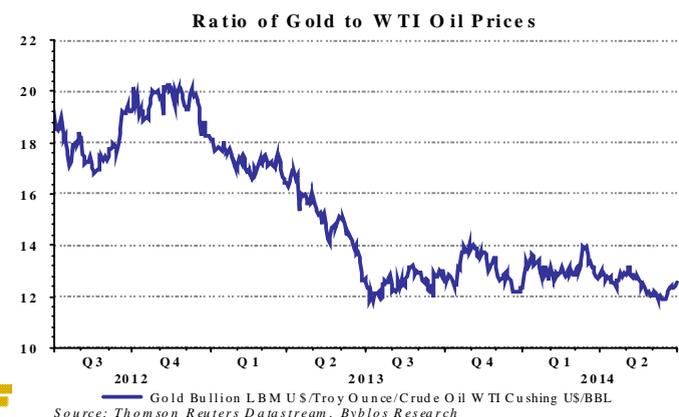
Zinc prices are forecast to rise by 3.2% in 2014 to an average of \$2,000 a ton, an upward revision from a previously forecast price of \$1,950 a ton, as the refined zinc market posted an unexpected production deficit in the first quarter of the year. Zinc prices are expected increase annually in coming years and reach \$2,250 a ton on average by 2018 as deficits rise. As such, the global refined zinc market is projected to post a deficit of 23,000 tons in 2014 or 0.2% of global consumption, and to rise to 246,000 tons or 1.6% of global demand in 2018. The market deficits during the 2014-18 period are expected to be mainly driven by supply-led constraints rather than from a stronger end-user demand. Global refined zinc production is projected to grow by an average of 2.9% per year during the 2014-18 period, lower than the average annual growth rate of 3.3% posted during the 2000-13 period. The anticipated slowdown in refined zinc supplies is mainly attributed to the exhaustion of several large deposits and to a lack of new projects. In parallel, LME Copper Grade A 3-month future prices fell by 4.7% in the first half of 2014 and rose by 2.5% in June 2014 to \$7,015 a ton, while Aluminium 3-month future prices grew by 8.7% from end-2013 and decreased by 0.5% last month. Also, Zinc high grade 3-month futures prices grew by 7.9% in the first half of 2014.

Source: Business Monitor International, Byblos Research

## Precious Metals: Gold price gains to reverse in second half due to tighter U.S. Federal Reserve policy

Gold prices rose by about 10% from end-2013 to \$1,329 a troy ounce on July 2nd, mainly due to a loose U.S. Federal Reserve monetary policy stance, a fall in long-term U.S. real interest rates, and to the ongoing weakness of the US dollar. Also, gold prices increased in recent weeks due to a rise in geopolitical risks, in particular the significant increase in violence in Iraq and the threat to Iraqi oil production targets for the coming years. But the anticipated tightening of the U.S. Federal Reserve's monetary policy is forecast to lead to higher long-term U.S. real interest rates and to a stronger US dollar, which are expected to be the main drivers of gold prices in the second half. As such, gold prices are forecast to reach a low of \$1,200 an ounce by the end of the year. In parallel, gold prices improved by 9% in the first half of 2014 and by 5.8% to \$1,317 a troy ounce in June. In addition, platinum prices rose by 9.1% from end-2013 and by 1.1% to \$1,480 an ounce in June 2014, while the price of silver increased by 7% from end-2013 and by 9.8% in June.

Source: Deutsche Bank, 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	-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	B2	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	30-July-14
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	01-July-14	No change	N/A
New Zealand	Cash Rate	3.25	12-June-14	Raise 25bps	24-July-14
Switzerland	3 month Libor target	0.00-0.25	19-June-14	No change	18-Sept-14
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	30-June-14	No change	N/A
Taiwan	Discount Rate	1.875	26-June-14	No change	N/A
South Korea	Base Rate	2.50	12-June-14	No change	10-July-14
Malaysia	O/N Policy Rate	3.00	09-May-14	No change	10-July-14
Thailand	1D Repo	2.00	18-June-14	No change	06-Aug-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	8.75	24-June-14	Cut 75bps	17-July-14
South Africa	Repo rate	5.50	01-July-14	No change	N/A
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	N/A
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	7.00	24-June-14	Cut 25bps	N/A
Romania	Policy Rate	3.50	04-Feb-14	No change	N/A
Bulgaria	Base Interest	0.03	01-July-14	Cut 2bps	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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