

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Restrictive trade measures continue to increase

The World Trade Organization indicated that the Group of 20 economies have continued to introduce trade restrictions between mid-November 2013 and mid-May 2014. It said that G-20 members have put in place 112 new trade-restrictive measures during the covered period, down 3.5% from 116 new restrictive measures introduced between mid-November 2013 and mid-May 2014. The distribution of new trade-restrictive measures shows that trade remedies accounted for 58.9% of total restrictive measures during the six-month period, followed by import-related restrictions (22.3%), export-related restrictions (15.2%) and other restrictions (3.6%). The WTO noted that new import-restrictive measures applied by G-20 members during the covered period affect 0.2% of world merchandise imports, or 0.3% of G-20 merchandise imports. Further, it indicated that G-20 members imposed 1,185 trade-restrictive measures since October 2008, of which 251 measures, or 21.2% of the total, were removed by mid-May 2014. As such, a total of 934 trade-restrictive measures that were introduced since October 2008 remain in place as of May 2014. It estimated that import-restrictive measures cover around 4.1% of world merchandise imports and about 5.2% of G-20 imports. In parallel, the WTO indicated that G-20 members introduced 93 trade liberalizing or facilitating measures between mid-November 2013 and mid-May 2014.

Source: World Trade Organization, Byblos Research

MENA

Wide ratings gap between hydrocarbon exporters and importers

Standard & Poor's indicated that the average sovereign ratings of hydrocarbon exporters and importers in the Middle East & North Africa (MENA) region have diverged since the start of social and political unrest in the region in December 2010. It noted that the region's average sovereign rating is currently at 'BBB', with nine out of the 12 rated sovereigns in the MENA region having a rating in the 'BBB' category or above. It said that the average sovereign rating becomes closer to 'A' when the ratings are weighted by nominal GDP, indicating that larger MENA economies have higher ratings than the smaller ones. Further, it said that the average sovereign rating of the region's hydrocarbon exporters is currently close to 'A+', while that of hydrocarbon importers is below investment-grade and stands closer to 'BB+'. The agency indicated that two thirds of sovereign ratings in the MENA region have a 'stable' outlook, despite the challenging political and economic environment in the region. S&P noted that Abu Dhabi, Bahrain, Egypt, Kuwait, Lebanon, Morocco, Oman, Tunisia and Qatar have a 'stable' outlook; Jordan and Ras Al Khaimah are on 'negative' outlook; while only Saudi Arabia has a 'positive' outlook among the 12 sovereigns that the agency rates in the region. Abu Dhabi, Kuwait and Qatar are the highest rated sovereigns in the region at 'AA', while Egypt and Lebanon are the lowest-rated at 'B-'.
Source: Standard & Poor's

Food security level better than global average

The Economist Intelligence Unit's 2014 Global Food Security Index indicated that Kuwait has the highest level of food security among 11 Arab countries and the 28th highest level among 109 countries globally. It was followed by the UAE in 30th place, Saudi Arabia (32nd), Tunisia (54th), Jordan (59th), Morocco (63rd), Egypt (66th), Algeria (70th), Syria (79th), Yemen (91st) and Sudan (97th). The index is a composite of three categories that cover food affordability, food availability, and nutritional quality and food safety. The rankings are based on scores that range between zero and 100, with zero reflecting economies with the lowest level of food security. The MENA region received an average score of 57.4% on the index, higher than the average score of Sub-Saharan Africa (36.1%), Central & South America (56%) and Asia & Pacific (55.1%); but lower than the average scores of Europe (75.4%) and North America (80%). In comparison, GCC countries received an average score of 70.9%, higher than the global average of 56.1%, while non-GCC Arab countries reached an average score of 45.5%. Also, the scores of seven Arab countries improved with Sudan posting the largest improvement (+4.7%), while the scores of four economies deteriorated as Egypt and Tunisia posted the steepest drop (-2.9% each). The rankings of two Arab countries improved, five declined and four remained unchanged year-on-year. Sudan's rank rose by nine spots, constituting the highest improvement regionally, while Egypt's rank regressed by six spots, posting the steepest decline in the region.

Source: Economist Intelligence Unit, Byblos Research

IRAN

FATF urges Tehran to address its anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that it remains "particularly and exceptionally" concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system, despite Iran's previous engagement with the FATF and its recent submission of information. It reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also repeated its call to its members and other jurisdictions to apply counter measures to protect their financial sectors and the international financial system from the money laundering and terrorist financing (ML/FT) risks originating from Iran. The FATF also urged jurisdictions to protect against correspondent relationships being used to bypass or to evade counter measures and risk mitigation practices, and to take into account ML/FT risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. The FATF warned that, if Iran fails to take concrete steps to improve its AML/CFT regime, it will consider calling on all countries and jurisdictions in October 2014 to strengthen counter measures.
Source: Financial Action Task Force

OUTLOOK

GCC

Non-hydrocarbon growth at 5.6% 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 a growth rate 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 projected real hydrocarbon GDP to contract by 1.2% in Saudi Arabia this year and to grow by 3.1% in the UAE, by 2.8% in Bahrain and by 1.7% in Oman; while it projected real hydrocarbon GDP to stagnate in Qatar and to contract by 0.5% in Kuwait in the fiscal year ending in March 2015. It forecast non-hydrocarbon GDP growth in 2014 at 5.4% in the UAE, at 5.3% in each of Saudi Arabia and Oman, and at 4% in Bahrain; while it projected non-hydrocarbon output at 8.3% in Qatar and at 4.5% in Kuwait in FY2014/15.

In parallel, Barclays projected the region's current account surplus to narrow to 21.2% of GDP this year from 22.4% of GDP in 2013. It forecast Kuwait and Qatar to post surpluses of 40.6% of GDP and 28.7% of GDP, respectively, in FY2014/15. It expected Saudi Arabia to post a surplus of 18.5% of GDP in 2014, followed by the UAE with 15.8% of GDP, Bahrain with 11.5% of GDP and Oman with 8.8% of GDP. It cautioned that political instability in the region would lead to higher public spending in GCC economies and to higher GCC aid to regional countries. It estimated that a \$10 rise in global oil prices over a 12-month period would lead to a \$10.5bn monthly increase in the region's aggregate current account surplus. But it noted that the impact of a rise in global oil prices varies across GCC economies. It indicated that a \$20 rise in global oil prices to \$130 per barrel would improve Kuwait's current account surplus by 9.6 percentage points of GDP, followed by Saudi Arabia (8.7 percentage points), Oman (7.3 percentage points), Qatar (6.6 percentage points), the UAE (4.7 percentage points) and Bahrain (0.1 percentage points).

Source: Barclays Capital

EGYPT

Cuts in subsidies to weigh on economic activity

Merrill Lynch anticipated that the Egyptian government's decision to significantly cut energy subsidies is credit positive. It said that the government increased subsidized gasoline prices by between 40% to 78%, raised diesel prices by 64%, increased fuel oil prices by about 40% to 130%, raised natural gas prices for industrial users by around 12% to 75%, and increased electricity prices for household and commercial sectors by 20%.

However, Merrill Lynch indicated that the increase in energy prices would lead to higher inflation rates and would weigh on private consumption and on economic activity. It revised downwards its forecast for Egypt's real GDP growth to 2.3% in the fiscal year ending in June 2015 from 3.3% previously. It projected the inflation rate to average 13.5% in FY2014/15. It noted that private consumption, which is sensitive to inflation, would be significantly affected by the increase in energy prices, given the low level of nominal and real disposable income.

Further, it said that the rationing of energy products would reduce the import bill. But it noted that external funding pressure would persist in the absence of further aid from Gulf countries, mainly given the amount of external debt that matures in the second half of 2014. It considered that fiscal consolidation measures implemented so far this year are not likely to solely reverse the deterioration in public debt dynamics and put them on a sustainable path. It noted that improving the debt dynamics would require a multi-year consolidation effort. It said that risks are to the downside and are mainly related to a reversal in subsidy cuts as a result of social pressure, and to delays in the disbursement of GCC aid. In parallel, it expected the Central Bank of Egypt to increase its policy rate by 100 basis points in FY2014/15 in order to control inflation expectations. It considered that higher money market rates would not negatively affect the government's fiscal consolidation efforts this year.

Source: Merrill Lynch

ANGOLA

Economy to underperform in 2014

BNP Paribas projected Angola's real GDP to grow by 4.8% in 2014 compared to a growth rate of 4.1% in 2013, which is well below the government's growth target of 8.8%. It forecast the inflation rate to average 7.7% in 2014 relative to an average rate of 8.8% last year. It expected global oil prices to remain above \$110 per barrel in 2014, which would maintain the current account balance in surplus at 2.2% of GDP and the foreign currency reserves stable at 7.8 months of imports cover.

BNP Paribas projected Angola's fiscal deficit to widen to 3.6% of GDP in 2014 from 1.9% of GDP in 2013 and compared to a surplus of 5.1% of GDP in 2012. It expected public spending to rise in line with the 2013-17 National Development Plan that aims to modernize infrastructure and to diversify the economy. It added that the gradual inclusion of state-owned oil company Sonangol's quasi-fiscal operations in the public accounts would put upward pressure on public expenditures. On the revenues side, it said that the government is not likely to reach its target oil production level of 1.8 million barrels per day (b/d) for 2014, given that production averaged 1.6 million b/d in the first four months of the year, which is well below the official target. It projected the public debt level to rise from 26.6% of GDP in 2013 to 29.2% of GDP in 2014 and to 30.9% of GDP in 2015. It noted that the public debt is currently more vulnerable to a drop in global oil prices than during previous oil shocks, given that 65% of the public debt stock is denominated in U.S. dollars compared to 48% in 2008.

In parallel, BNP Paribas indicated that Angola's public finances are highly dependent on oil revenues. It noted that the 3% drop in average global oil prices and the stagnation in oil production last year resulted in a drop of 7.7 percentage points of GDP in oil revenues and shifted the fiscal balance to a deficit. Further, it said that the weak state of public finances and institutions restricts the country's access to international capital markets. It noted that the government is using its future oil revenues as collateral to fund its investment program, and considered this strategy to be risky, given that oil revenues are vulnerable to a drop in global oil prices.

Source: BNP Paribas



ECONOMY & TRADE

GCC

Risky assets continue to dominate insurers' investment mix

Moody's Investors Service indicated that insurance firms in Gulf Cooperation Council countries continue to face investment risks, given the elevated share of high-risk assets, such as equity and real estate, in their investment mix. It attributed insurers' reliance on risky assets to the fact that traditional investment options offer low returns compared with those of equity and real estate, given the prevailing low interest rates in the GCC region. It noted that equities accounted for over 40% of insurers' investments in the GCC in 2013, while real estate represented over 20% of total investments last year. In terms of risks related to equities in the region, it noted that Middle Eastern equities have volatile returns, given the markets' relatively small size and the recent instability in the global markets. It indicated that the region lacks the extensive use of risk mitigation strategies, such as hedging. In terms of risks related to real estate assets in the region, it noted that these assets are often recorded in insurers' financial statements at market value, which exposes the balance sheet to volatility. It added that real estate assets are less liquid than other asset classes, with a surplus of completed properties further limiting the ability to rapidly liquidate real estate assets. In parallel, it indicated that regulatory frameworks are gradually evolving in many countries, including limitations on investment in high-risk assets. It expected GCC insurers' investment strategies to shift towards lower-risk assets over time.

Source: *Moody's Investors Service*

UAE

Dubai's sovereign and GRE debt equivalent to 141% of GDP, Abu Dhabi's at 41% of GDP

The International Monetary Fund estimated the debt of the government of Dubai and its related entities (GREs) at \$141.7bn, equivalent to 141.1% of Dubai's 2013 GDP, of which \$86.4bn is in debt held by GREs, \$29.2bn is held by the government of Dubai and \$26.1bn in related-party lending by the Emirates National Bank of Dubai. It said that \$7.3bn (7.3% of GDP) will mature in 2014, followed by \$9.1bn (9.1% of GDP) in 2015, \$17.9bn (17.9% of GDP) in 2016, \$13.7bn (13.7% of GDP) in 2017, \$40.3bn (40.1% of GDP) in 2018, \$3.8bn (3.8% of GDP) in 2019 and \$23.4bn (23.3% of GDP) beyond 2019. It added that the remaining balance of \$26.1bn, or 26% of GDP, are unallocated. In parallel, it estimated the debt of the government of Abu Dhabi and its GREs at \$105.1bn, equivalent to 40.5% of Abu Dhabi's 2013 GDP, of which \$86.8bn is in debt held by GREs, \$11.2bn is held by the Abu Dhabi Commercial Bank and Union National Bank, and \$7.1bn is held by the government of Abu Dhabi. The IMF called on authorities to gradually execute upcoming real estate and hospitality projects and to prevent GREs from crowding out private sector activity. It considered that it would be important to proactively manage upcoming debt repayment, given that some GREs are still highly indebted. It added that continued improvements in the availability of information on Dubai GRE debt as well as in their risk management, reporting, and governance would further strengthen GRE balance sheets.

Source: *International Monetary Fund*

CÔTE d'IVOIRE

Sovereign ratings assigned, outlook 'positive'

Moody's Investors Service assigned to Côte d'Ivoire local and foreign currency issuer ratings of 'B1/Not Prime' with a 'positive' outlook. The rating is four notches below investment grade. It also assigned a 'Baa3/P-3' ceiling for foreign currency bonds and bank deposits and a 'Baa' ceiling for local currency bonds and bank deposits. The agency said that the ratings reflect Côte d'Ivoire's growing economic diversification and high growth prospects, weak institutions, moderate fiscal fundamentals, and moderate susceptibility to event risks, mainly to political events. It added that the 'positive' outlook reflects accelerating economic activity and structural reforms, supported by political stability and by the international community. Moody's said that Côte d'Ivoire has a resilient and increasingly diversified economic structure, which is supported by export-oriented agriculture, manufacturing and energy sectors. It noted that structural reforms, public investment in infrastructure, and political stability support the economy's high growth prospects. Further, it pointed out that authorities have contained the fiscal deficit at 2.3% of GDP in the past few years, which reflects a strong recovery in tax revenue despite a rise in current and capital spending. It added that the public debt level is lower than peers, with a favorable structure and low debt servicing costs. It projected the fiscal deficit at 2.4% of GDP in 2014 and expected the public debt level to continue to fall in the next few years. The agency indicated that the risk of debt default is low due to the prevailing political stability and to the recently created Financial Stability Fund by the West African Economic and Monetary Union, to which Côte d'Ivoire belongs, that aims to avoid default by any member.

Source: *Moody's Investors Service*

YEMEN

Yemen joins World Trade Organization

The World Trade Organization announced that Yemen officially became the 160th member of the WTO on June 26, 2014, following 13 years of negotiations. The WTO indicated that it would provide Yemen with technical assistance and capacity building to support the implementation of its accession commitments, to negotiate trade rules and to develop the trade-related skills and infrastructure needed to benefit from its WTO membership. It noted that, following Yemen's accession, 97.1% of the global economy falls under the multilateral trading system. Yemen applied for WTO membership in April 2000 and completed its application process on September 26, 2013. The WTO's trade ministers approved Yemen's accession on December 4, 2013, while Yemen deposited its "Instrument of Acceptance" on May 27, 2014. Yemen became the 13th Arab country to join the WTO following Bahrain, Djibouti, Egypt, Kuwait, Mauritania, Morocco and Tunisia that joined in 1995; Qatar and the UAE that became members in 1996; Jordan and Oman that joined in 2000, and Saudi Arabia that became a member in 2005. Algeria, Comoros Islands, Iraq, Lebanon, Libya, Palestine, Somalia, Sudan and Syria are the remaining Arab countries that have not yet joined the WTO.

Source: *World Trade Organization*



BANKING

UAE

Agency takes rating actions on five banks

Capital Intelligence affirmed the long-term foreign currency rating of Union National Bank (UNB) and First Gulf Bank (FGB) at 'A+', that of Commercial Bank of Dubai (CBD) and Mashreqbank (MB) at 'A-', and that of United Arab Bank (UAB) at 'BBB+'. Further, it affirmed the Financial Strength Rating (FSR) of UNB and FGB at 'A+' and that of CBD and MB at 'BBB+'. It upgraded UAB's FSR to 'BBB+' from 'BBB' due to rising loan-loss reserve coverage ratio and continuing strong profitability. It revised the outlook on MB's FSR to 'positive' from 'stable' due to improvements in its asset quality and due to its strong performance in the first quarter of 2014, while it noted that the remaining banks' ratings have a 'stable' outlook. The agency said that UNB's FSR is supported by its solid capital, good liquidity and profitability, and improving asset quality metrics. But it noted that the FSR is constrained by high customer concentration in loans and deposits, and by moderately high credit risks in the country. Further, it indicated that MB's FSR is supported by its solid capital adequacy ratio, good return on average assets, strong liquidity, and improving loan-loss reserve coverage ratio. But it noted that the FSR is mainly constrained by a high level of restructured loans and customer concentration in the deposit base. Also, it pointed out that FGB's FSR reflects its strong profitability, solid capitalization, improving liquidity and rising loan-loss reserve coverage ratio, but it is constrained by a high level of customer deposit concentration, by low retail deposits and by credit risks in the economy.

Source: *Capital Intelligence*

SAUDI ARABIA

Banks' ratings affirmed

Capital Intelligence affirmed the long-term foreign currency rating of Arab National Bank (ANB), Banque Saudi Fransi (BSF) and Saudi British Bank (SAAB) at 'A+', that of Saudi Investment Bank (SIB) at 'A' and that of Bank AlJazira (BAJ) at 'BBB+'. It also maintained the Financial Strength Rating (FSR) of ANB and SAAB at 'A+', that of BSF at 'A', that of SIB at 'A-' and that of BAJ at 'BBB'. It noted that all banks' long-term foreign currency ratings and FSR have a 'stable' outlook, except for SIB that has a 'positive' outlook. It said that BSF's ratings are supported by improvements in its liquidity levels and by its sound cost ratios. It noted that SAAB's ratings reflect its very sound and continually improving liquidity, its excellent cost control, its improving profitability and its very sound asset quality. It added that ANB's ratings are supported by its strong asset quality, continued growth in its customer deposits and ongoing improvements in its liquidity levels. But it pointed out that the three banks' ratings are constrained by a rise in their non-performing loans (NPL) ratio last year and by their relatively low capital ratios. Further, it indicated that SIB's ratings reflect its strong profitability, sound and liquid investment portfolio, continued improvement in the NPL ratio, good NPL coverage and sound capital ratios. But it noted that SIB's ratings are constrained by its tightened liquidity, its continued concentration in the loan book, deposit base and contingent accounts, and by a potential higher cost of risk from the rapid loan growth.

Source: *Capital Intelligence*

IRAQ

Anti-money laundering deficiencies remain

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 Iraq made in October 2013 a high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its AML/CFT deficiencies. But it noted that certain strategic AML/CFT deficiencies remain. The FATF called on Iraqi authorities to continue implementing their action plan in order to address the remaining deficiencies, including by adequately criminalizing money laundering and terrorist financing; by establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets; by introducing effective customer due diligence measures; by establishing a fully operational and effectively functioning Financial Intelligence Unit; by ensuring suspicious transaction reporting requirements; and by establishing and implementing an adequate AML/CFT supervisory and oversight program for all financial sectors. The FATF encouraged authorities to address the country's AML/CFT deficiencies through the implementation of their action plan.

Source: *Financial Action Task Force*

INDIA

Subdued banking sector activity in FY2014/15

Standard & Poor's anticipated banks' lending in India to be subdued in the fiscal year ending in March 2015 due to weak corporate capital spending and banks' risk-averse approach. It expected working capital needs and retail loans to drive credit growth in FY2014/15. Further, it expected higher provisioning for stressed assets to continue to weigh on banks' profitability. It projected the banking sector's return on average assets to range between 0.8% and 0.9% in FY2014/15 relative to 0.8% in FY2013/14. It forecast credit cost, which is the ratio of provisioning for bad loans to total loans, to remain elevated due to under-provisioning for non-performing loans (NPLs) and the formation of new NPLs. It anticipated that the pace of creation of stressed assets would recede in the coming two to four quarters. But it noted that a significant improvement in asset quality would lag economic recovery and corporate deleveraging. It forecast stressed assets at 4.5% of total loans at the end of FY2014/15.

In parallel, the agency indicated that Indian banks have substantial capital needs to support growth and meet Basel III requirements. It considered that rated private sector banks are in a better position than their public sector peers to meet Basel III capital requirements. It noted that privately-owned banks benefit from better capitalization, higher internal capital generation, and greater investor appetite because of their healthier asset quality and stronger profitability. It said that rated public sector banks would have to rely on a combination of government capital injections, additional Tier One hybrid instruments, and equity markets to support their capitalization. But it noted that the government's capacity to keep providing sufficient and timely capital is uncertain, given its own fiscal consolidation needs.

Source: *Standard & Poor's*



ENERGY / COMMODITIES

Brent prices to stay at high levels in third quarter

Oil prices decreased in recent weeks from a high of \$115.5 per barrel on June 19th, as the risk of Iraqi oil disruptions receded and as two major oil terminals in Libya reopened following a year-long blockade. Brent crude oil prices are expected to remain at above \$110 a barrel in the third quarter of 2014, and could exceed \$120 a barrel in case supply-led disruptions materialize. But the significant price increase would be short-lived as emergency measures, such as a release from the U.S. Strategic Petroleum Reserve, would compensate for the supply shortfalls. Also, geopolitical risks, such as the evolving uprising in Iraq led by the Islamic State militants, would keep oil prices at high levels in the near term. In addition, prices would be supported by a rise in global demand, mainly as the driving season across the northern hemisphere reaches a peak during the summer. In parallel, the Bloomberg Energy Total Return Sub-Index grew by 2% in June and by 8.8% in the first half of 2014, while the Petroleum Sub-Index rose by 3.6% last month and by 6.3% from end-2013. Also, the Bloomberg WTI Crude Oil Total Return Sub-Index improved by 3.7% last month and by 11.4% in the first half, while the Brent Crude Oil Sub-Index rose by 3.8% last month and by 3.9% from end-2013.

Source: Saxo Bank, Bloomberg Indexes, Byblos Research

U.S. becomes world's largest crude oil producer

U.S. crude oil output exceeded 11 million barrels a day (b/d) in the first quarter of 2014 and is projected to further rise in the second half of the year. The U.S. is expected to become the world's largest crude oil producer in 2014, after it recently surpassed Saudi Arabia and Russia, due mainly to its ongoing shale oil extraction. U.S. crude oil output is forecast to increase to a peak of 13.1 million b/d in 2019. Also, the U.S. is set to become a net natural gas exporter by 2020.

Source: Bloomberg, Byblos Research

Libya to restart oil exports from major ports

Libya plans to resume exports from the major eastern Ras Lanuf and Es Sider oil ports, as government forces took control of the terminals following a deal with rebels who had occupied them. Libya's oil output is currently at about 325,000 barrels a day (b/d), or about 23.2% of the country's normal supply level, which is down from an average of 1.4 million b/d at the start of 2013. The ports' reopening would restore part of the country's oil output that significantly dropped when protests started. The resumption of exports is expected to take some time, as the connecting fields and pipelines require maintenance work after standing idle for 11 months. Libya estimated its cumulative oil revenue losses at about \$40bn since the start of the protests.

Source: Thomson Reuters, Byblos Research

Middle East accounts for 13% of world's natural gas consumption

The Middle East region's aggregate natural gas consumption was estimated at 428.3 billion cubic meters (bcm) in 2013, up by 3.7% from a year earlier, and equivalent to 12.8% of the world's natural gas demand. Iran's consumption reached 162.2 bcm, or 37.9% of the region's total demand. It was followed by Saudi Arabia with 103 bcm, equivalent to 24% of the region's total, the UAE with 68.3 bcm (16%), Qatar with 25.9 bcm (6%), Kuwait with 17.8 bcm (4.2%) and Israel with 6.9 bcm (1.6%).

Source: BP, Byblos Research

Base Metals: Global aluminium demand to rise by a CAGR of 5.6% between 2013 and 2016

Global aluminium consumption is projected to increase by 5.3% in 2014 relative to growth rates of 6.5% and 5.4% in 2012 and 2013, respectively. Global aluminium demand is forecast to rise at a compound annual growth rate (CAGR) of 5.6% between 2013 and 2016. The metal's consumption in the Middle East is expected to increase at a CAGR of 9.7%, followed by China at 8.1%, and Brazil and India at 4% each. The transportation sector in the world's three largest consumption markets, China, North America and Europe, is projected to be the metal's main demand driver. In parallel, global production is forecast to rise by 4.8% in 2014 compared to a growth rate of 5% in 2013. The market is expected to remain modestly over-supplied until 2015 and to shift to a deficit from 2016 onwards. Aluminium prices are forecast to drop by 4.4% in 2014 to an average of \$1,806 a ton, and to rise to \$1,894 a ton on average in 2015. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index increased by 2.6% in June and by 3.6% in the first half of 2014, while the Aluminium Sub-Index rose by 2.4% in June and by 1.4% from end-2013. The Bloomberg Copper Total Return Sub-Index improved by 2.7% last month and regressed by 5.1% in the first half of 2014, the Nickel Sub-Index declined by 1.3% in June and grew by 36.2% in the covered period, while the Zinc Sub-Index rose by 7.7% last month and by 6.6% from end-2013.

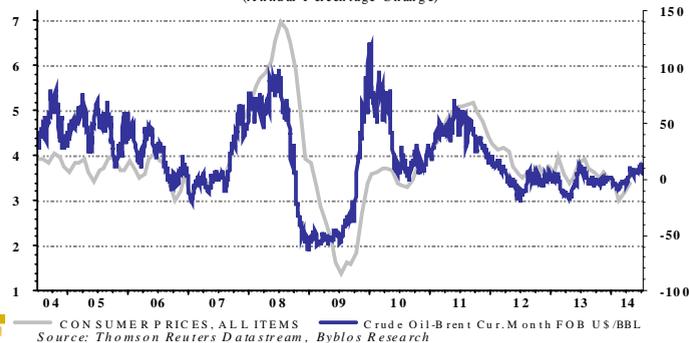
Source: Deutsche Bank, Bloomberg Indexes, Byblos Research

Precious Metals: Gold prices to decline in coming quarters due in part to lower geopolitical risks

Gold prices are expected to decrease in coming quarters as U.S. monetary policy continues to normalize and as geopolitical risks recede. Gold prices are forecast to decrease by 3% in 2014 to \$1,275 a troy ounce on average, above Bloomberg's consensus price of \$1,269 an ounce, and to drop to \$1,200 an ounce on average in 2015. The expected fall in prices is mainly due to higher real U.S. interest rates and a stronger US dollar. Gold prices are projected to trade between at \$1,200 a troy ounce and \$1,375 an ounce in coming months, while they would trade at between \$1,000 an ounce and \$1,200 an ounce during the 2015-16 period. In parallel, the Bloomberg Precious Metals Total Return Sub-Index increased by 7.7% in June and improved by 9.4% in the first half of 2014, while the Gold Sub-Index grew by 6.1% last month and by 9.9% from end-2013. Also, the Bloomberg Silver Total Return Sub-Index rose by 12.5% in June and by 8.1% in the first half, while the Platinum Sub-Index rose by 2% last month and by 7.8% from end-2013.

Source: Business Monitor International, Bloomberg Indexes

Brent Oil Prices vs. OECD Inflation Rate
(Annual Percentage Change)



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	-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	-	B1	-	-	B	-2.8	40.4	15.8	62.7	6.3	-	-2.2	2.9
	-	Positive	-	-	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	-	-								
Middle East													
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								
Asia													
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								
Central & Eastern Europe													
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	Negative	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	03-July-14	No change	07-Aug-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	05-Aug-14
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
Emerging Markets					
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	30-July-14
Taiwan	Discount Rate	1.875	26-June-14	No change	01-Sept-14
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	16-July-14
Kenya	Central Bank Rate	8.50	08-July-14	No change	N/A
Nigeria	Monetary Policy Rate	12.00	20-May-14	No change	21-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	7.00	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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