

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Corporate default rate at 2.2% at end-June 2014**

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.2% at the end of June 2014, down from 2.3% at the end of March 2014 and 2.9% at end-2013. It said that 25 corporate issuers have defaulted in the first half of the year that included 17 companies in the second quarter. It forecast the global speculative-grade default rate at 2% at the end of 2014. It expected global default rates to remain low in the short-term, mainly supported by robust liquidity. It added that credit market conditions continue to allow low-rated companies to refinance their debt when needed. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 1.9% at the end of June 2014, unchanged from a year earlier and up from 0.9% at the end of March 2014 and from 1.2% at end-2013. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 6.5% at the end of June 2014, down from 7.1% at end-March, from 7.4% at end-2013 and from 9.1% a year earlier.

Source: *Moody's Investors Service*

#### EMERGING MARKETS

##### **Ratings on highly indebted emerging markets to continue their downward trend this year**

Standard & Poor's indicated that the average rating of the 20 emerging markets (EM) with the highest nominal level of outstanding commercial debt currently stands at 'BB+', and ranged between 'BB+' and 'BBB-' over the past five years. It said that the average sovereign rating becomes closer to 'A+' when the ratings are weighted by nominal GDP, indicating that larger EM economies have higher ratings than the smaller ones. It noted that five out of the 20 emerging markets carry a 'negative' outlook on their sovereign ratings. As such, it expected the downward trend of the past three years on the ratings of the 20 economies to continue over the coming year. Further, S&P pointed out that economic and governance factors constrain most EM sovereign ratings. It said that the impact of sovereign external liquidity and international investment position on ratings varies across EM, as they support the ratings in China, Colombia, India, Malaysia, Mexico, the Philippines, and Thailand and constrain them in Argentina, Egypt, Pakistan and Turkey. It noted that the government's debt burden constitutes a strength for China, Colombia, Indonesia, Russia and Thailand, while it is a weakness for Egypt, India, Lebanon and Pakistan. In parallel, S&P indicated that sovereign creditworthiness among all EM remained broadly stable in the past five years. It noted that about 60% of EM have an investment-grade rating of 'BBB-' or higher, and 75% of EM have a 'stable' outlook on their sovereign ratings.

Source: *Standard & Poor's*

#### MENA

##### **Equity issuance up 6% to \$2.9bn in first half of 2014**

Figures issued by Thomson Reuters show that Equity Capital Markets' (ECM) issuance in the Middle East reached \$2.9bn in the first half of 2014, constituting a rise of 6% from the same period last year. It included \$0.9bn in ECM issuance in the first quarter and \$2bn in the second quarter of the year. Initial public offerings accounted for 53% of ECM activity in the region. The industrial sector had total issuance of \$1.2bn and accounted for 39.9% of ECM activity, followed by the energy & power sector with \$905m (31.2%) as the two most active sectors during the covered period. Also, debt issuance in the region reached \$22bn in the first half of 2014, constituting a decrease of 16% from the same period last year. Islamic debt issuance reached \$14.1bn from 41 issues during the covered period, constituting a drop of 17% from the same period last year, the lowest semi-annual Islamic debt issuance since 2011. Further, the volume of mergers and acquisitions (M&A) reached \$19.7bn in the first half of 2014, down 4% from \$20.6bn in the same period of 2013. In parallel, investment banking and advisory fees in the Middle East stood at \$375.9m year-to-June, constituting a decline of 19% from \$464m in the same period last year. Fees from M&A deals totaled \$110.9m and accounted for 29% of the overall fee pool, followed by syndicated lending fees with \$101.2m (26.9%), fees from equity capital markets with \$99.4m (26.4%), and debt capital markets fees with \$64.5m (17.2%).

Source: *Thomson Reuters*

##### **Cost of living increases in major Arab cities**

Mercer Consulting's 2014 survey on the cost of living in 211 cities around the world showed that the cost of living in 16 out of 19 Arab cities increased in relative terms from the 2013 survey. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. Mercer indicated that it compares the cost of high-end items that are important to expatriates and their employers, such as upscale residential areas and entertainment venues. Beirut ranked in 63rd place globally and came as the most expensive Arab city in the 2014 survey. It was followed by Dubai in 67th place, Abu Dhabi (68th), Djibouti (101st), and Amman (103rd). The least costly Arab cities are Tunis (202nd), Nouakchott (191st), Jeddah (175th) and Damascus (171st). The rankings of Beirut, Dubai, Abu Dhabi, Casablanca, Riyadh, Algiers, Manama, Cairo, Khartoum, Doha, Rabat, Muscat, Damascus, Jeddah, Nouakchott and Tunis rose, reflecting a comparative increase year-on-year in the cost of living in these cities. Dubai's ranking increased by 23 spots, posting the highest cost of living rise in the region; while Djibouti's rank dropped by 59 spots, registering the steepest decline. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

Source: *Mercer Consulting, Byblos Research*

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# OUTLOOK

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## MENA

### **Decline in oil prices to present significant challenges to the region's oil exporters**

Global investment bank Goldman Sachs anticipated that oil exporters in the Middle East and North Africa region would face strong challenges and will have to undergo significant macroeconomic adjustments when global oil prices fall. It expected Brent crude oil prices to gradually decline to between \$80 and \$85 per barrel (p/b) in coming years, which would result in a steady deterioration in the terms of trade of the region's oil exporters and would significantly reduce their ability to generate strong economic growth. As such, it considered that the coming 10 years would be marked by economic consolidation in the region rather than by expansion.

It indicated that Kuwait, the UAE, Qatar, Saudi Arabia and Libya are better positioned than Iraq, Iran and Algeria to absorb potential terms-of-trade pressures and to implement the necessary macroeconomic adjustments, given their lower fiscal breakeven oil prices and exceptionally strong sovereign balance sheets. In contrast, it noted that Iraq, Iran and Algeria have high fiscal breakeven oil price levels of between \$110 and \$115 p/b and have relatively limited fiscal and financial buffers, which would make it difficult for them to implement the required macroeconomic adjustments.

Further, Goldman Sachs considered that the level of institutional strength would affect authorities' ability to cope with a drop in global oil prices. It considered that the UAE, Kuwait, Qatar and Saudi Arabia have a higher level of political stability and more robust institutions than Iraq, Iran, Algeria and Libya. It noted that economic pressures and domestic constraints in the latter economies would make adjustments more problematic than in GCC economies. However, it pointed out that more profound and persistent terms-of-trade shocks would require deeper adjustments even in GCC economies. It added that geopolitical risks in the Middle East and pending succession issues in Saudi Arabia would make macroeconomic transitions more challenging.

*Source: Goldman Sachs*

## ANGOLA

### **Public finances to deteriorate on lower export receipts and higher spending**

The World Bank projected Angola's real GDP growth at 5.4% in 2014 and at 5.5% in 2015 relative to a growth rate of 4.4% in 2013. It forecast activity in the hydrocarbon sector to accelerate from 0.6% last year to 3% in each of 2014 and 2015, driven by a 3% increase in oil production. It expected the non-hydrocarbon sector to grow by 6.6% in 2014 and by 6.7% in 2015 compared to a growth rate of 6.3% in 2013, supported by public investment and by the services sector. It said that downside risks to the outlook include slower economic activity among Angola's major trading partners that would lead to lower demand for commodities. It forecast the inflation rate to average 7.7% in each of 2014 and 2015 relative to an average of 8.8% in 2013. It projected the inflation rate to reach 8% at end-2014 and 7.5% at end-2015 compared to a rate of 7.7% at end-2013.

The Bank projected Angola's fiscal deficit to widen from 0.6% of GDP in 2013 to 1% of GDP in 2014 and to 2.9% of GDP in 2015. It attributed the widening of the deficit to the gradual increase in capital spending, as it expected the growth in current spending to stabilize around the 2013 level. It considered that refocusing public expenditures on capital investment, along with a better execution capacity and improving quality of public investment, would positively affect Angola's economic outlook. It called on authorities to reform the tax system in order to reduce the public finances' exposure to fluctuations in oil-related revenues.

Further, the Bank forecast the current account surplus to narrow from 6.5% of GDP in 2013 to 5.7% of GDP in 2014 and 1.8% of GDP in 2015, reflecting lower oil-related export earnings and higher imports. It noted that the current account remains vulnerable to external shocks. It called on authorities to strengthen the competitiveness of non-oil exports in order to maintain a stable current account surplus and to reduce the economy's exposure to terms-of-trade volatility.

*Source: World Bank*

## TURKEY

### **Economy vulnerable to tighter global liquidity conditions**

Deutsche Bank projected Turkey's real GDP growth at 3% in 2014 compared to a growth rate of 4% in 2013. It estimated that economic activity has decelerated in the second quarter of 2014 following a growth rate of more than 4% in the first quarter, and expected activity to continue to slow down in the third quarter of the year. It forecast private consumption in Turkey to grow by 1% in real terms in 2014 relative to a growth rate of 4.6% last year, while it expected government consumption to increase by 5.4% in real terms in 2014 compared to a rise of 5.9% in 2013. Also, it projected gross fixed investment to expand by 0.5% in 2014 compared to a growth rate of 4.3% in 2013. It said that the inflation rate peaked at 9.7% in May 2014 and expected it to reach 8.4% at end-2014 relative to 7.4% at end-2013 and to average 8.6% in 2014 compared to 7.5% in 2013. It considered that the inflation rate is unlikely to significantly fall below the 6% to 6.5% range without positive shocks to the exchange rate or to food prices.

Deutsche Bank indicated that the market anticipated the Central Bank of Turkey's (CBT) decision to cut its main policy rate by 50 basis points to 8.25% on July 17, 2014. It noted that the timing and magnitude of further cuts are contingent on the moderation of the inflation level, on broader risk sentiment and on lira stabilization. It said that the CBT would be able to reduce its policy rate by another 75bps to 7.5% without triggering a sharp sell-off in the lira, given the easy global liquidity conditions. But it considered that the ongoing monetary easing is premature and leaves the economy vulnerable to tighter global liquidity conditions. It noted that Turkey remains among the countries that are most vulnerable to the normalization of monetary policy in the United States. It expected external conditions to start tightening in the near-term, which would slow down the monetary easing in Turkey and would require a rise in market rates within the CBT's rate corridor.

*Source: Deutsche Bank*



# ECONOMY & TRADE

## GCC

### New projects up 19% to \$90bn in first half

The aggregate value of construction and infrastructure projects awarded in the Gulf Cooperation Council (GCC) countries reached \$89.6bn in the first half of 2014, constituting a rise of 19% from \$75.1bn in the same period last year. The value of projects awarded in the GCC totaled \$54.7bn in the first quarter of the year, the highest level since the first quarter of 2012; while it reached \$34.9bn in the second quarter of 2014, the lowest level since the first quarter of 2013. The UAE accounted for 32% of the total amount of projects awarded in the first half of the year, followed by Saudi Arabia (24%) and Qatar (19%). Further, the construction sector received 34.7% of the total value of projects awarded in the first half of the year, followed by the transportation sector (22.4%) and the oil sector (18.6%). The UAE had the biggest share of awarded projects in the construction sector, Qatar accounted for the largest share of projects awarded in transportation, Kuwait dominated those in the oil sector and Saudi Arabia had the largest share in the power sector. In parallel, the total amount of planned projects is estimated at \$123.7bn in the first half of the year, with the transportation sector receiving the highest share of such projects. Saudi Arabia accounted for 36% of total planned projects, followed by Kuwait (21%) and Qatar (19%).

Source: EFG Hermes

## SAUDI ARABIA

### Non-oil sector to grow by 5.6% in 2014

The International Monetary Fund projected economic growth in Saudi Arabia to accelerate to 4.6% in 2014 from 4% in 2013. It forecast hydrocarbon output to grow by 0.6% in 2014 following a contraction of 1% last year, and expected the non-hydrocarbon sector to expand by 5.6% in 2014 compared to a growth rate of 5.3% in 2013. It anticipated private sector growth to remain strong and expected large-scale infrastructure projects and spending on housing to continue to drive non-hydrocarbon output. It forecast the inflation rate to average 2.9% in 2014 compared to an average rate of 3.5% in 2013. It considered that risks to the growth outlook are balanced and are mainly centered on the global oil market.

The IMF forecast the fiscal surplus to narrow to 2.5% of GDP in 2014 from 5.8% of GDP in 2013. It considered that a rise in domestic energy prices would strengthen the fiscal position and would encourage better efficiency in energy use. It cautioned from the significant increase in the fiscal breakeven oil price in recent years that resulted from the strong growth in public spending. It encouraged authorities to set the budget within a medium-term fiscal framework that is anchored around estimates of structural oil revenues and that fully integrates priorities from the national development plan. It considered that the current monetary and macroprudential policies are appropriate, but it called on authorities to carefully monitor the increase in equity prices and the rapid expansion in mortgages. Further, the Fund forecast the current account surplus at 15.4% of GDP in 2014 relative to 17.9% of GDP in 2013.

Source: International Monetary Fund

## IRAQ

### Construction sector affected by recent security developments

Business Monitor International reduced its growth forecast for the Iraqi construction sector to real growth rates of 4.9% in 2014 and 4.2% in 2015 from previous figures of 9.6% and 8.9%, respectively, and compared to a growth rate of 12.6% in 2013. Also, it projected the Iraqi construction sector to grow by 5.2% annually in real terms between 2014 and 2018, significantly lower than its previous forecast of 7.8% and the annual average real growth rate of 22.4% during the 2008-12 period. It attributed the change in forecasts to the deteriorating political and security environment. It said that the takeover of parts of the country by the Islamic State jihadist group and the failure of the authorities to deal with the situation would limit the government's ability to fund infrastructure projects and would severely damage the attractiveness of Iraq to infrastructure investors. It noted that the recent security developments and the political deadlock would further delay the approval and implementation of government-funded housing and infrastructure projects. It considered that major investments funded by the private sector would be delayed or cancelled due to increased security risks and rising uncertainties. It indicated that budget implementation issues, widespread corruption and the lack of institutional capacity continue to weigh on the sector.

Source: Business Monitor International

## EGYPT

### Fiscal measures to affect economic activity

Regional investment bank EFG Hermes considered that the Egyptian government's recently introduced and planned fiscal measures would improve the country's fiscal position and would put the economy on a more sustainable path. It said that the government raised fuel and electricity prices, increased taxes on tobacco and alcohol, and is expected to introduce a value-added tax and to increase taxes on telecommunications in January 2015. It noted that these measures would provide authorities with about \$6.5bn, or 2% of GDP in savings, which would narrow the fiscal deficit to 10.9% of GDP in the fiscal year ending in June 2015 from an estimated deficit of 12.2% in FY2013/14. However, it anticipated that the fiscal measures would lead to a short-term price shock to the economy as consumers and industries absorb the expected surge in the inflation rate. It forecast the inflation rate to average 12.6% in FY2014/15 compared to an average of 10.1% in FY2013/14. It projected private consumption to grow by 2.5% in real terms in FY2014/15 relative to a growth rate of 3.5% in FY2013/15. As such, it reduced its forecast for Egypt's real GDP growth to 2.9% in FY2014/15 and to 3.5% in FY2015/16. EFG Hermes expected the increase in natural gas and diesel prices to mostly affect the profitability of the ceramic, cement, steel and telecommunication sectors. It considered that higher fuel prices would not lead to major direct cost pressures on consumers, petrochemicals and real estate. However, it noted that the price shock, mainly the rise in fuel prices, would have an indirect impact across the board.

Source: EFG Hermes



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# BANKING

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## SUDAN

### Gap widens between official and parallel market exchange rates

The International Monetary Fund indicated that the widening gap between the official and parallel market exchange rates reflects the inadequate level of foreign currency in the banking system. It noted that the gap, which stands at 35%, is driven by weak economic fundamentals that include a wide current account deficit, a low level of foreign currency reserves and continued monetization of the budget deficit. It said that the existing gap weakens export and import incentives, distorts relative prices, and encourages private transactions, including remittance inflows, to be settled in the parallel market. It estimated that about 10% to 30% of total import transactions are settled in the parallel market, which has weighed on foreign currency reserves. The Fund considered that the steady progress towards the unification of foreign exchange markets is crucial to improve foreign exchange management. It added that exchange rate flexibility is key to rebuilding foreign currency reserves that it projects at \$1.9bn at end-2014, equivalent to two months of import cover. The IMF supported the unification of the official exchange rates at 5.70 Sudanese pounds against the US dollar. It called on authorities to remove the remaining restrictions, to enhance foreign exchange regulations and to strengthen prudential regulations on exchange rate risks. It encouraged authorities to set the official reference rate on a daily basis as a weighted average of the buy and sell exchange rates of the commercial banks and exchange bureaus. It called on authorities to gradually remove the current band of a 4% upward or downward margin in order to allow commercial banks and exchange bureaus to set freely the exchange rate quotes to customers.

*Source: International Monetary Fund*

## ALGERIA

### Anti-money laundering deficiencies remain, insufficient progress in action plan

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 Algeria has taken steps to improve its AML/CFT regime, including by amending its Penal Code to expand the scope of criminal terrorist acts. However, it noted that authorities have not made sufficient progress in implementing their action plan within the established timelines, despite the country's high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its AML/CFT deficiencies. It added that certain strategic AML/CFT deficiencies remain in Algeria. The FATF called on authorities to address the remaining deficiencies by adequately criminalizing terrorist financing, by establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets, and by adopting customer due diligence obligations in compliance with the FATF standards. It encouraged officials to continue implementing their action plan.

*Source: Financial Action Task Force*

## OMAN

### Agency takes rating actions on five banks

Fitch Ratings affirmed the long-term Issuer Default Rating (IDR) of HSBC Bank Oman (HBON) at 'A+', that of Bank Muscat (BM) at 'A-' and that of National Bank of Oman (NBO), Bank Dhofar (BD) and Ahli Bank (ABO) at 'BBB+'. It said that the outlook on all the banks' long-term IDRs is 'stable'. The agency attributed the ratings' affirmation of BM, NBO, BD and ABO to the extremely high probability of support from the Omani authorities in case of need, while its rating action on HBON reflects the extremely high potential support from its parent, HSBC Holdings, given the bank's importance to the group's regional strategy and franchise. Further, Fitch upgraded the Viability Rating (VR) of NBO and ABO to 'bbb-' from 'bb+' and that of BD to 'bb+' from 'bb', while it affirmed BM's VR at 'bbb' and HBON's rating at 'bb+'. It attributed the upgrades to the banks' resilient performance, with generally sound asset quality and capitalization level. It indicated that Omani banks' VRs benefit from a stable operating environment, with the government's capital investment program driving solid GDP growth and creating lending opportunities for domestic banks. It said that the strong banking regulations and oversights partly mitigate concentration risks on the banks' balance sheets. However, it noted that the economy is almost entirely dependent on the hydrocarbon sector, which provides limited diversification.

*Source: Fitch Ratings*

## IRAN

### Outlook on banking sector improves

Business Monitor International indicated that the outlook for the Iranian banks in the second half of 2014 and in 2015 improved due to declining inflation rates and a better macroeconomic environment. It added that a gradual improvement in investor and consumer confidence has led to accommodative conditions for banks. It forecast the banking sector's total assets to grow by 7% in real terms in each of the fiscal years ending in March 2015 and in March 2016 compared to declines in previous years. Also, it projected customer deposits to grow by 7% in real terms in FY2014/15 and by an additional 6% in FY2015/16 relative to contractions in real terms in past years. Further, it expected lending growth to accelerate in coming quarters, but it noted that the pace of credit expansion would be slower than that of deposits. It indicated that the sector's high non-performing loan ratio of between 15% and 25% would offset in part the positive impact of improving macroeconomic conditions on lending activity. As such, it forecast customer loans to grow by 1% in FY2014/15 and by an additional 3% in FY2015/16 compared to contractions in preceding years. In parallel, BMI considered that the better macroeconomic conditions would reduce risks of bank defaults in the second half of the year and in 2015. However, it said that the issue of bad loans and the dominance of highly leveraged state-owned banks in the financial system would remain key constraints on profitability. It noted that technical, political and institutional challenges would slow the pace of reforms in the banking sector. It added that international sanctions on the banking sector would remain in place over the coming quarters, which prohibits banks from raising capital from international bond markets.

*Source: Business Monitor International*



# ENERGY / COMMODITIES

## Global liquid fuel consumption to rise in 2014

Brent crude oil prices are projected at \$111.3 a barrel in the third quarter of 2014, reflecting increases of 1.5% from the preceding quarter and of 1% from the third quarter of 2013. In parallel, WTI crude oil spot prices are forecast to average \$103.5 a barrel in the third quarter, constituting a rise of 0.2% from the preceding quarter and a drop of 2.2% from the same quarter last year. Global liquid fuel consumption, which includes petroleum products and other liquids, is expected to rise by 1.3% in 2014 to 91.62 million barrels per day (b/d). Demand for petroleum products from members of the Organization for Economic Cooperation and Development (OECD) is projected to account for 50.1% of global oil demand this year, while non-OECD economies would account for the remaining balance of 49.9%. China is anticipated to be the main contributor to global consumption growth this year as its demand for petroleum and other liquids would rise by about 400,000 b/d or 3.7% in 2014. In parallel, global liquid fuel production is projected to increase by 1.7% this year to 91.77 million b/d, of which non-OECD countries would produce about 72.5% of total output.

Source: U.S. Energy Information Administration

## Aggregate losses of Syria's oil & gas sector at \$24bn due to ongoing civil war

The Syrian regime estimated the direct losses to the country's petroleum sector from the ongoing conflict at SYP570bn, or \$3.8bn at the current exchange rate. The losses include wasted and stolen petroleum and gas, as well as damages to pipelines, facilities and equipments. In parallel, the regime estimated that indirect losses to the petroleum sector from the ongoing turmoil are at about SYP2,954bn or \$19.7bn. Syria's crude oil production averaged 17,000 b/d in the first half of 2014, down by 39% from 28,000 b/d in the same period of 2013. Oil and natural gas production has declined significantly since March 2011 due to the ongoing hostilities between regime and opposition forces and to Western-imposed sanctions.

Source: Syrian Arab News Agency, Byblos Research

## Algeria to invest \$100bn in energy sector

Algeria's national oil and gas company, Sonatrach, approved a \$100bn investment plan for the 2014-18 period to increase the country's oil and gas production. The country's hydrocarbon production fell by a cumulative rate of 16% between 2005 and 2013, mainly due to aging conventional plants, lack of adequate investments in exploration activities, and because of security concerns. In parallel, Sonatrach plans to start shale gas production in 2020 with an initial output level estimated at about 30 billion cubic meters per year. In addition, it intends to start production at six gas fields in the coming three years, with a cumulative capacity of 74 million cubic meters per day.

Source: Thomson Reuters, Institute of International Finance

## OPEC's petroleum exports down 8% in 2013

The Organization of the Petroleum Exporting Countries' aggregate petroleum exports reached \$1.11 trillion in 2013, down by 7.9% from 2012. Saudi Arabia's petroleum revenues reached \$321.7bn, or 28.9% of OPEC's total exports. It was followed by the UAE with \$126.3bn or 11.4% of the total, Kuwait with \$108.5bn (9.8%), Iraq with \$89.4bn and Nigeria with \$89.3bn (8% each), Venezuela with \$85.8bn (7.7%), Angola with \$67.8bn (6.1%) and Qatar with \$62.5bn (5.6%).

Source: OPEC, Byblos Research

COUNTRY RISK WEEKLY BULLETIN

## Base Metals: Copper market to remain oversupplied in 2014, prices to drop by 8% this year

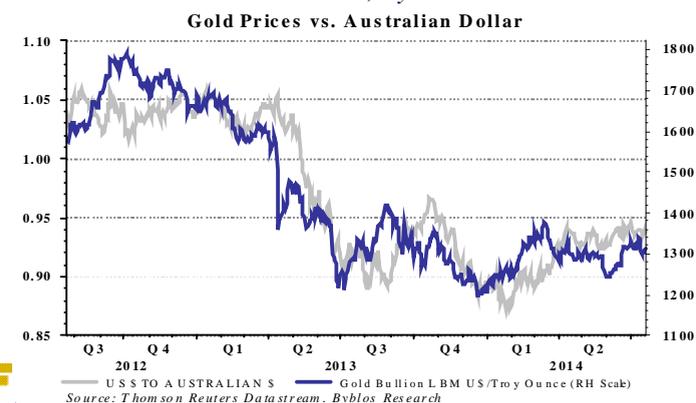
Copper prices are forecast to average \$6,700 a ton during the second half of 2014, reflecting a decrease of 1.7% from an average of \$6,884 a ton in the first half of the year. Copper prices are projected to fluctuate between \$6,100 a ton and \$7,421 a ton in 2014 and to decline by 7.6% year-on-year to an average of \$6,790 a ton for the year. The copper market is expected to be oversupplied at 278,000 tons in 2014, up from a surplus of 4,000 tons in 2013, mainly as growth in global refined output accelerates. Global refined copper production is forecast to increase during the second half of 2014 and to rise by 5.2% in 2014 relative to a growth rate of 3.6% in 2013. In parallel, the metal's global consumption is projected to increase by 3.9% this year, with demand in mature economies growing by 1.8%. In addition, Chinese copper consumption would grow by 5.5% in 2014, down from a growth rate of 8.7% in 2013, due to a weaker activity in the construction sector. But China's transportation and electrical & electronic products sectors are expected to support Chinese demand for the metal in 2014. The stock-to-consumption ratio is projected to increase from 3.4 weeks in 2013 to 3.9 weeks in 2014.

Source: Thomson Reuters GFMS, Byblos Research

## Precious Metals: Silver prices to decrease by 16% in 2014 in case geopolitical risks recede

Silver prices rose by about 4.5% to \$20.9 a troy ounce on July 23, 2014 from an average of \$20 an ounce in the first half of 2014. The increase in the metal's price was mainly driven by stronger Chinese economic data and by a rise in geopolitical risks from the ongoing crises in Ukraine, Iraq and Gaza. But silver prices are expected to trend lower in coming quarters with the decline in geopolitical tensions. In this case, silver prices would average \$20.9 a troy ounce in the third quarter of 2014 and decline to \$19 an ounce on average in the fourth quarter of the year. Overall, silver prices are projected to average \$20 a troy ounce in 2014, reflecting a drop of 15.9% from a year earlier. In parallel, global silver demand is expected to fall by 5.4% in 2014 relative to a rise of 13.3% in 2013 and a decrease of 10.7% in 2012. Silver jewelry demand is forecast to grow by 5.6% this year compared to a rise of 9.6% in 2013, while the metal's global industrial demand would grow by 1.4%. In parallel, global silver output is projected to rise by 5.4% in 2014 relative to decreases of 2% and of 3% in 2013 and 2012, respectively. The metal's mine production would grow by 0.3% this year compared to an increase of 3.5% in 2013.

Source: Thomson Reuters GFMS, Byblos Research



July 24, 2014

# 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	-	B1	B	-	B	-2.8	40.4	15.8	62.7	6.3	-	-2.2	2.9
	-	Positive	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	-	-								
<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	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	10-July-14	No change	07-Aug-14
Japan	O/N Call Rate	0-0.10	15-July-14	No change	08-Aug-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	16-July-14	No change	03-Sept-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	30-July-14
Taiwan	Discount Rate	1.875	26-June-14	No change	01-Sept-14
South Korea	Base Rate	2.50	10-July-14	No change	14-Aug-14
Malaysia	O/N Policy Rate	3.25	10-July-14	Raise 25bps	18-Sept-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	9.25	20-July-14	Raise 100bps	N/A
Turkey	Base Rate	8.25	17-July-14	Cut 50bps	27-Aug-14
South Africa	Repo rate	5.75	16-July-14	Raise 25bps	17-Sept-14
Kenya	Central Bank Rate	8.50	08-July-14	No change	01-Sept-14
Nigeria	Monetary Policy Rate	12.00	22-July-14	No change	N/A
Ghana	Prime Rate	19.00	07-July-14	Raise 100bps	14-Sept-14
Angola	Base rate	9.25	Nov-13	Cut 50bps	N/A
Mexico	Target Rate	3.00	11-July-14	No change	05-Sept-14
Brazil	Selic Rate	11.00	16-July-14	No change	03-Sept-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	12.5	17-July-14	Raise 300bps	N/A
Russia	Refi Rate	8.25	13-Dec-13	No change	N/A



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