

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### **Bond and equity outflows at \$9bn in first seven months of 2014, AUM at \$1,441bn**

Capital flows to emerging market equity and bond funds posted net outflows of \$9bn in the first seven months of 2014, with net equity outflows of \$14.6bn and bond inflows of \$5.6bn. The Emerging Europe, the Middle East & Africa region (EMEA) attracted \$5bn of inflows to bond funds in the first seven months of 2014 and Latin America received inflows of \$1.1bn, while Emerging Asia posted outflows of \$467m in the covered period. Brazil was the largest source of bond outflows at \$2.1bn, followed by China with \$1.3bn and Thailand with \$98m. Also, Mexico was the biggest recipient of bond inflows with \$1.3bn, followed by Poland with \$947m and Hungary with \$523m in the covered period. Further, Emerging Asia posted outflows of \$9.7bn from equity funds, followed by Latin America with outflows of \$4.1bn and the EMEA region with outflows of \$841m in the first seven months of 2014. China was the largest source of equity outflows at \$4bn, followed by South Korea with \$3bn and Mexico with \$2.7bn in the first seven months of 2014. In parallel, assets under management (AUM) in emerging markets totaled \$1,441bn in the first seven months of 2014, with bonds reaching \$380.7bn and equities totaling \$1,060bn. The EMEA region had \$153.5bn in bond-related AUM, followed by Latin America with \$137.2bn and Emerging Asia with \$90.1bn. Further, Emerging Asia had \$723bn in equity-related AUM, followed by the EMEA region with \$187.1bn and Latin America with \$149.8bn.

Source: Barclays Capital

#### MENA

##### **Arab economies trail most of the world in innovation**

The Global Innovation Index for 2014 shows that the average score for the 14 Arab countries included in the survey reached 32.3 points in 2013, down from 32.5 points in 2012 and compared to a global average of 36.9 points. The index covers the innovation input that consists of an economy's institutions, human capital & research, infrastructure, market and business sophistication; as well as innovation output that includes scientific and creative outputs. The index rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The index is co-published by Cornell University, the INSEAD Business School and the World Intellectual Property Organization. The Arab region's average score was lower than that of North America (58.1 points), Europe (47.2 points), South East Asia & Oceania (41.7 points), North Africa & West Asia (35.7 points) and Latin America & the Caribbean (32.9 points); but was above that of Central & South Asia and Sub-Saharan Africa (27.5 points each). Also, the average score of GCC countries was 38.4 points, while that of non-GCC Arab countries stood at 27.7 points. The UAE was the Arab world's top-ranked country on the index and came in 36th place globally, followed by Saudi Arabia in 38th place and Qatar in 47th place. In contrast, Algeria (133rd), Yemen (141st) and Sudan (143rd) were the lowest ranked Arab economies. The rankings of eight Arab countries improved and six declined from the previous survey.

Source: INSEAD, Byblos Research

##### **Equity markets up 17% in first seven months of 2014**

Arab stock markets increased by 16.5% and GCC markets rose by 17.2% in the first seven months of 2014 compared to increases of 12% and 16.5%, respectively, in the same period of 2013. Activity on the Dubai financial market grew by 43.4% in the first seven months of 2014 and posted the best performance among Arab markets during the period. It was followed by the Egyptian equity market with a 30.1% rise, the Qatar stock exchange with a 24.1% increase, the Saudi Arabia equity market with a 19.7% expansion, the Bahrain bourse and the Abu Dhabi securities exchange with a 17.8% improvement each, the Beirut stock exchange with a 13.6% growth, the Tunis equity market with a 6.7% increase, the Damascus financial market with a 5.8% rise, the Oman equity market with a 5.4% expansion, the Amman bourse with a 3.4% improvement and the Casablanca stock market with a 2.4% growth. In parallel, activity on the Iraqi stock exchange dropped by 17.2% and posted the weakest performance among Arab equity markets in the first seven months of 2014. It was followed by the Khartoum bourse with a 10% decline, the Libyan equity market with an 8.2% retreat, the Palestine stock exchange with a 6.7% decrease and the Kuwait equity market with a 5.5% drop. In comparison, global and emerging market equities rose by 3.6% and 7.1%, respectively, in the first seven months of 2014.

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

##### **Initial public offerings up 14% to \$2.4bn in first half of 2014**

EY indicated that new capital raised through initial public offerings (IPOs) in the Middle East & North Africa region grew by 14% year-on-year to \$2.4bn in the first half of 2014, constituting the highest amount of capital raised since the first half of 2008. It noted that the number of IPOs rose by 14% to 16 deals in the first half of the year, with Saudi Arabia and Tunisia having four deals each. IPOs in the MENA region raised \$1.3bn of new capital through five deals in the first quarter of 2014 and \$1.1bn through 11 transactions in the second quarter of the year. EY attributed the rise in value and in volume in the first half of 2014 to strong IPO activity in the Gulf Cooperation Council countries. It noted that IPOs in GCC countries raised \$2.26bn in the first half of 2014, equivalent to 90% of total capital raised in the region, and constituted a 14% increase from the same period last year. It noted that the number of IPOs in GCC economies rose by 67% to 10 deals in the first half of 2014 and included four deals in Saudi Arabia, three transactions in the UAE, two IPOs in Oman and one deal in Qatar. It added that the largest IPO in the covered period was Mesaieed Petrochemical Holding Company in Qatar with \$905m in raised capital. Further, it indicated that all IPOs executed in the second quarter of 2014 took place in the region, which reflects a shift from the trend of international listings in the last few quarters. It expected improved liquidity and reasonable valuations to continue to drive IPO activity in the region in coming months.

Source: EY

# POLITICAL RISK OVERVIEW - July 2014

## EGYPT

The government implemented deep fuel subsidy cuts in early July as part of a campaign to narrow the country's budget deficit, which led to few scattered protests across the country. The full impact of the subsidy cuts has yet to be felt by consumers, which could lead to a further rise in social tensions. The crackdown on members of the Muslim Brotherhood continued and was extended to include other parties, such as the Alliance for Support of Legitimacy, senior leaders of the Building and Development Party and the Al-Wasat Party. Former Prime Minister Hisham Kandil was released from jail, constituting the first discharge of a senior official from the administration of ousted President Mohammed Morsi.

## IRAN

Nuclear negotiations between Iran and the UN Security Council's permanent members plus Germany (P5+1) were extended until November 24, 2014 after the two sides failed to reach a comprehensive agreement prior to the July 20 deadline. The two parties were unsuccessful in bridging their differences, mainly on the extent of Tehran's uranium enrichment. The extension of the deal stipulates that all parties would uphold the obligations set under the November 2013 Joint Plan of Action.

## IRAQ

The government was not able to effectively counter the June 2014 gains made by the Islamic State (IS) jihadi group in the northwest. The army failed to recapture the city of Tikrit. IS militants moved forward to eliminate their Sunni rivals in areas under their control, with reports of executions, house bombings, shelling, detentions and forced displacements. Also, the IS was allegedly responsible for the destruction of shrines, mosques and other religious sites. IS leader Abu Bakr al-Baghdadi made his first public appearance in early July as he delivered a sermon in the city of Mosul. Prime Minister Nouri al-Maliki continued to refuse calls to step down following the April 2014 parliamentary elections. Parliament elected Mr. Fouad Masoum, a Kurdish senior politician, as the country's President on July 24th. Tensions increased between the central government and the Kurdistan Regional Government (KRG), following the capture of the northern city of Kirkuk by the Kurds in the middle of June. KRG President Massoud Barzani announced his intentions to hold an independence referendum within the coming months. Sectarian violence continued this month, leading to more than 1,737 deaths and to at least 2,104 injuries.

## DEM REP CONGO

The UN appointed Mr. Saïd Djinnit of Algeria as the new UN Special Envoy for the Great Lakes Region of Africa. Defense, security and foreign affairs experts from the Southern Africa Development Community and from the International Conference on the Great Lakes Region agreed to a six-month timeframe for the demobilization of the Democratic Forces for the Liberation of Rwanda (FDLR) fighters. The government decided to temporarily transfer former FDLR rebels to the city of Kisangani ahead of the formal relocation process.

## LIBYA

The security situation deteriorated as fighting between various rival militia groups intensified in Tripoli over the control of the city's international airport. The fragmentation of the newly-elected Parliament raised concerns about the government's ability to tackle current security challenges. Rival militias agreed on a temporary ceasefire on July 30 to allow firefighters to control a blaze at a fuel depot in Tripoli that was hit by a rocket. Former General Khalifa Haftar denied claims that Islamist militants have complete control over Benghazi, while Ansar al-Sharia rebels declared the city an "Islamic Emirate".

## SOUTH SUDAN

Heavy fighting between government and rebel forces resumed in the northern town of Nasir in the Upper Unity State. The government recaptured the town on July 25th. The Intergovernmental Authority on Development (IGAD), the UN, the AU and the U.S. condemned the Nasir attack that was led by rebel forces loyal to former Vice President Riek Machar. The Equatorians reiterated calls to break the perceived "Dinka-dominated" central government's power monopoly. The Sudan People's Liberation Movement/Army-In Opposition introduced a proposal for a 21-state scheme based on the 1956 boundaries to replace the existing ten-state structure. The fifth session of the IGAD-led Mediation Process that was initially scheduled to start on July 30 has been rescheduled for August 4, 2014.

## SUDAN

The National Dialogue Committee, which is comprised of government and opposition parties, agreed in part on a roadmap to realize peace and democratic reforms. The National Umma Party and the Sudanese Congress Party continued to boycott the dialogue sessions. Popular Congress Party leader Hassan al-Turabi demanded the government to delay the April 2015 general elections. State Minister for Information Yasir Youssef indicated that press censorship is necessary for political stability. The EU expressed concerns over the government's detention of opposition party members, youth activists and journalists.

## SYRIA

The Islamic State (IS) jihadi group defeated other opposition forces and gained territory, oil and manpower in the eastern province of Deir al-Zour. Regime forces made progress in the city of Aleppo due to rebels being poorly armed and funded. Observers expressed concerns that the moderate opposition factions' setbacks in Aleppo could provide an opportunity for the IS to recapture territory in the city's northern countryside and to extend further to the west. Regime and IS forces have been increasingly drawn into direct confrontation. The IS allegedly seized control of a gas field in the city of Homs and captured the regime's military bases in Raqqa and Hassakeh provinces. Al-Qaeda linked rebel group, Jabhat al-Nusra, indicated its intention to establish an "Islamic Emirate" of its own. The Syrian National Coalition (SNC) elected Mr. Hadi al-Bahra as President on July 9th. The SNC voted to dissolve the "interim" government on July 22nd and planned to form a new one within a month. UN Secretary General Ban Ki-moon appointed veteran diplomat Staffan de Mistura as the new special envoy in Syria, who is tasked with seeking a peaceful resolution to the conflict.

## TUNISIA

Government forces stepped up their operations against Islamist militants in the west. The government created a new anti-terrorism agency and announced the arrest of 63 suspected terrorists in the El Kef, Sidi Bouzid and Kasserine provinces. Tunisia launched a crackdown on mosques and radio stations associated with hardline Islamists.

## YEMEN

Clashes between Houthi rebels and tribesmen allied with the government intensified in early July. Houthi fighters, who have repeatedly fought government forces since 2004, captured the city of Amran to the north of Sanaa. President Abd-Rabbu Mansour Hadi indicated that the Houthis agreed to surrender the city back to the government. But tensions remained high and skirmishes continued in surrounding areas. Tribal militants continued to attack the energy infrastructure, disrupting oil exports and causing lengthy electricity blackouts in Sanaa. Protests erupted following a government decision to lift fuel subsidies.

*Source: International Crisis Group, Newswires*

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# OUTLOOK

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## EMERGING MARKETS

### Economic growth at 4.6% in 2014, downside risks on the rise

The International Monetary Fund reduced its projection for growth in emerging markets and developing economies to 4.6% in 2014 from an April forecast of 4.8%, and compared to a growth rate of 4.7% in 2013. It attributed the revision to a less optimistic outlook for several emerging markets, especially for Russia, Brazil, Mexico, South Africa and to a lesser extent China. It said that the deceleration in China's domestic demand was higher-than-expected in the first half of the year, reflecting the authorities' efforts to control credit growth and to prevent a correction in the real estate sector. Further, it anticipated that economic activity in India would gradually increase as the post-election recovery in business sentiment would offset in part the impact of an unfavorable rain season on the agricultural sector.

The Fund maintained its growth projections for Sub-Saharan Africa at 5.4%, while it revised upward its forecast to 2.8% from 2.4% for Emerging & Developing Europe. Also, it reduced its projection to 6.4% from 6.6% for Emerging & Developing Asia; revised downwards its forecast to 3.1% from 3.3% for the MENA region; lowered its projection to 2% from 2.5% for Latin America & the Caribbean, and reduced its forecast to 0.9% from 1.9% for the Commonwealth of Independent States.

In parallel, the IMF indicated that downside risks to emerging economies remain a concern. It said that risks of a rise in global oil prices increased due to the recent developments in the Middle East and to persistent threats related to the Ukrainian crisis. It cautioned from a renewed rise in long-term global interest rates, from a reversal in risk sentiment and from an increase in risk premium. It pointed out that emerging economies, especially those with domestic weaknesses and external vulnerabilities, may face a sudden worsening of global financial conditions and a reversal in capital flows in the event of a shift in financial market sentiment.

*Source: International Monetary Fund*

## ALGERIA

### Public investments to continue driving output

Business Monitor International projected Algeria's real GDP growth rates at 3.2% in 2014 and 3.4% in 2015 compared to an average annual growth rate of 2.9% during the 2009-13 period. It forecast robust domestic demand and public investments to drive economic activity in 2014. It expected hydrocarbon output to be flat in 2014 following eight consecutive years of contraction, and to grow by 1.2% in 2015. It said that maturing oil fields and a lack of investment in the energy industry would continue to weigh on hydrocarbon output prospects over the coming decade. It added that the challenging operating conditions and an uncertain regulatory outlook would deter shale gas exploration in the country.

BMI indicated that high global oil prices would allow the government to maintain an expansionary fiscal policy throughout the coming quarters, with public spending supporting private consumption and the construction sector. It forecast public spending to grow by 5.5% in real terms in 2014 and by 4.5% in

2015 relative to an average growth rate of 8.6% during the 2009-12 period. It expected private consumption to expand by 5% in each of 2014 and 2015, marginally below the annual average growth rate of 5.8% during the 2009-12 period. It noted that the government plans to revoke next year a ban on consumer lending that it imposed in 2009 to reduce imports, which would help support domestic manufacturing and improve retail purchases. Also, it projected the average inflation rate at 2.5% in 2014 and at 4% in 2015.

Further, BMI expected gross fixed capital formation to grow by 4.9% annually during the 2014-18 period, supported by public investments. It noted that the government unveiled its development plan for the 2015-19 period, which includes a public housing program for the construction of one million housing units and the allocation of \$55bn for roads and motorways. But it pointed out that regulatory restrictions and a weak domestic business climate would continue to deter foreign investments.

*Source: Business Monitor International*

## MOROCCO

### Higher growth rates dependent on deep reforms

The Institute of International Finance projected Morocco's real GDP growth rate to decelerate to 2.5% in 2014 from 4.3% in 2013, reflecting a contraction in the agricultural sector. It forecast agricultural output to shrink by 4% this year following an 18% growth in 2013. But it expected growth in the non-agricultural sector to accelerate to 3.5% in 2014 from 2.3% in 2013, supported by the modest economic recovery in Europe and by higher public investment. It forecast real GDP growth to accelerate to 4.1% in 2015, with agricultural output expanding by 4% and non-agricultural sector activity rising by 4.1%. It pointed out that the economy remains susceptible to slower-than-expected growth in Europe as it would negatively affect export receipts, tourism activity and remittance inflows. It added that economic activity is vulnerable to volatile weather conditions that would impact agricultural output.

It projected the fiscal deficit to narrow for the second consecutive year from 6.2% of GDP in 2013 to 5.5% of GDP in 2014, supported by improving tax revenues and by lower subsidies. It noted that the adjustment in fuel prices would reduce the subsidy bill by one percentage point to 3.8% of GDP in 2014. But it considered that further fiscal consolidation is needed in order to reduce the public debt level that it forecast to rise from 63.5% of GDP in 2013 to 66.4% of GDP in 2014. Further, it projected the current account deficit to narrow from 7.8% of GDP in 2013 to 6.8% of GDP in 2014 due to strong growth in exports. It forecast foreign currency reserves to rise from \$18.4bn or 4.4 months of imports cover at end-2013 to \$20.6bn or 4.8 months at end-2014.

In parallel, the IIF considered that Morocco needs to achieve a real GDP growth rate of between 5% and 6% annually to significantly reduce its high unemployment rate of 10% and its high poverty level. It noted that improving medium-term growth prospects is contingent on the implementation of deeper reforms, such as improving the business environment and the competitiveness of key exports.

*Source: Institute of International Finance*



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## ECONOMY & TRADE

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### MENA

#### Favorable outlook for insurance market in Maghreb countries

Standard & Poor's considered that the insurance markets in Algeria, Morocco and Tunisia have good long-term growth prospects despite short-term economic uncertainties. It expected low insurance penetration rates and increasing demand for life and health insurance to support insurers' premium growth in these countries over the next three years. It added that growing insurance needs from the middle class, investment in infrastructure, and regulatory changes would constitute the main drivers of premium growth. But it said that market characteristics and competitive dynamics differ across the three countries. It noted that Morocco has the highest insurance penetration rate among the three markets at 3.1% in 2012, followed by Tunisia (1.8%) and Algeria (0.6%). It indicated that state ownership in insurance companies is dropping in Morocco, while it remains relatively high in Algeria. It anticipated that the motor sector would remain the largest business line in the three insurance markets in the foreseeable future due to its compulsory nature and the increase in the number of registered vehicles. It expected demand for industrial lines in Algeria to significantly rise due to infrastructure projects, while it forecast personal lines to grow faster in Morocco, supported by a developed bancassurance market and by regulatory changes. It noted that economic uncertainties in Tunisia would keep premium growth subdued in coming years, but it expected personal lines to rise once the economy recovers.

Source: Standard & Poor's

### ARMENIA

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

Fitch Ratings affirmed Armenia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BB-', its short-term foreign currency IDR at 'B' and the Country Ceiling at 'BB'. It maintained the 'stable' outlook on the long-term IDRs. The agency attributed its decision to a lower-than-anticipated fiscal deficit, stable public debt level, an expected improvement in economic activity and a slight narrowing of the current account deficit. It said that Armenia's fiscal deficit of 1.7% of GDP in 2013 was below the target deficit of 2.8% of GDP due to under-execution and delays in the implementation of public investments. It expected the public debt level to remain stable at between 43% of GDP and 44% of GDP during the 2014-15 period. But it noted that Armenia's debt profile is vulnerable to exchange rate shocks given that 85% of the public debt stock is denominated in foreign currency. It anticipated a gradual rise in domestic issuance due to the government's willingness to prioritize domestic financing. Further, the agency noted that real GDP growth decelerated in the first half of 2014 in part due to the slowdown of the Russian economy. But it forecast economic activity to pick up in the second half of the year supported by a rise in investment, with real GDP growth reaching 4.5% in 2014. It expected the current account deficit to remain high at about 10% of GDP in 2014. It noted that foreign currency reserves fell in the first half of the year due to pressure on the exchange rate and to the wide current account deficit.

Source: Fitch Ratings

### GHANA

#### Uncertainty about currency outlook persists

Citigroup anticipated that the outlook for the Ghanaian cedi would remain uncertain over the short-term even if Ghana's government initiates talks with the International Monetary Fund over a program that would reduce the fiscal deficit and stabilize the currency. It considered that the announcement may temporarily stop the ongoing depreciation of the cedi, but it noted that demand for foreign currency in the local market continues to substantially exceed supply. It expected negotiations over a program to be fast if Ghanaian authorities accept a relatively aggressive path of fiscal consolidation that would narrow the fiscal deficit to between 4% and 5% of GDP in about two to three years. It added that, under this scenario, the increase in donor support and the issuance of a new Eurobond would stabilize the cedi in late 2014 or early 2015. However, it noted that the government may struggle to agree on an aggressive program of fiscal consolidation, given the elections scheduled in December 2016. It considered that the outcome of the talks is uncertain and that negotiations could take more time and be more complex than initially anticipated. In parallel, Fitch Ratings indicated that an IMF program that supports fiscal consolidation and addresses macroeconomic imbalances in Ghana could stabilize the 'negative' outlook on the country's sovereign ratings. It considered that a permanent easing of pressure on the exchange rate and on financing is contingent on reaching an agreement with the IMF and on the implementation of a credible strategy that would reduce the fiscal deficit. However, it noted that reaching an agreement between the IMF and Ghana is not guaranteed.

Source: Citigroup, Fitch Ratings

### ETHIOPIA

#### Sovereign ratings reduced on rising public debt

The Economist Intelligence Unit downgraded Ethiopia's sovereign risk rating from 'B' to 'CCC' due to the significant rise in the country's public debt. It said that the public debt stock fell to below \$2.3bn following a series of write-offs during the 2004-06 period, but has rapidly increase since then. It pointed out that the public debt level rose from 11.3% of GDP in 2008 to an estimated 33.9% of GDP in 2013, reflecting the government's substantial spending on infrastructure projects in the context of its Growth and Transformation Plan. It expected borrowing to continue to rapidly increase in nominal terms. It anticipated that most of the new borrowing would be from multilateral lenders, mainly from China, on highly concessional terms. It noted that Ethiopia may seek to issue its first Eurobond soon in order to finance infrastructure projects. It expected the public debt level to reach 52.3% of GDP in 2014 due to a slowdown in economic activity and a wide fiscal deficit. Further, the EIU anticipated that Ethiopia would continue to honor its obligations. It said that debt servicing costs do not constitute a heavy burden on public finances, as negative real interest rates on Treasury bills limit domestic debt servicing costs. But it noted that successive devaluation of the Ethiopian currency in recent years have increased the cost of servicing the external debt.

Source: Economist Intelligence Unit



# BANKING

## MENA

### Bank lending conditions improve in second quarter of 2014

The Emerging Markets Lending Conditions Index for the Middle East & North Africa (MENA) region rose to 55.1 in the second quarter of 2014 from 53.3 in the preceding quarter, reaching its highest level since the first quarter of 2012. The index remained above the 50 mark in the second quarter, reflecting ongoing improvement in overall bank lending conditions. The MENA region continues to have the most favorable lending conditions compared to other emerging markets. The region's Demand for Loans Index reached a record high of 58.5 in the second quarter of 2014 compared to 55.4 in the previous quarter, with demand for consumer and business loans posting substantial growth. Also, the Trade Finance Index increased to 56.5 from 55.9 in the preceding quarter, reflecting a rise in the demand and supply of trade finance. Further, the Funding Conditions Index improved to 56.4 in the second quarter of the year from 54.2 in the previous quarter, as international funding conditions eased substantially and domestic funding conditions continued to improve. The Credit Standards Index rose to 51.9 in the second quarter of 2014 from 50 in the preceding quarter, reflecting an easing in credit standards for the second consecutive quarter. Banks in the MENA region eased their credit standards for housing loans, while they continued to tighten those for commercial real estate loans but at a significantly slower pace. The Non-Performing Loans Index declined to 51.8 in the second quarter of 2014 from 51.9 in the first quarter, reflecting an improvement in banks' loan quality.

Source: *Institute of International Finance*

## UAE

### Non-interest income drives earnings growth

The net profits of eight of the UAE's listed banks totaled AED13.6bn, equivalent to \$3.7bn in the first half of 2014, constituting a rise of 21.3% from AED11.2bn in the same period last year. Net profits of Abu Dhabi's five covered banks totaled AED9.4bn in the first half of 2014, while the net income of Dubai's three covered banks reached AED4.2bn in the covered period. Aggregate net profits rose by 19.4% annually to AED6.5bn or \$1.9bn in the first quarter of the year, and grew by 23% to AED7.1bn or \$1.8bn in the second quarter of the year. The increase in earnings in the first half of 2014 reflects an 18.3% rise in non-interest income and a sustained decline in provisioning. In parallel, total assets reached AED1,457bn, equivalent to \$397bn at the end of June 2014, constituting a rise of 8.7% from end-June 2013. Loans totaled AED1,799bn, or \$248bn at the end of June 2014 and rose by 2.5% from end-2013 and by 6.5% from a year earlier. But lending growth decelerated in the second quarter of the year due to lower demand for credit from the corporate sector. Further, aggregate deposits reached AED1,020bn or \$278bn at end-June 2014 and increased by 6.8% from end-2013 and by 10.7% from a year earlier. The loans-to-deposits ratio was 89.2% at end-June 2014 relative to 92.8% at the end of June 2013, which reflects improved liquidity in the banking system. Total investments by banks reached AED173.3bn at the end of June 2014 and posted a 43.6% growth year-on-year.

Source: *EFG Hermes*

## EGYPT

### Banking sector risk assessment maintained at the highest risk level

Standard & Poor's maintained Egypt's Banking Industry Country Risk Assessment (BICRA) in 'Group 10', and its industry and economic risk scores at '8' and '10', respectively. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors. The agency noted that other countries in BICRA's 'Group 10' include Belarus, Greece, Jamaica and Ukraine. S&P attributed its decision to maintain the Egyptian banking sector in the most risky group to the banks' very large exposure to the weak sovereign creditworthiness. It noted that banks' exposure to the sovereign currently represents more than half of their total credit exposure, adding that most banks carry large exposure to sovereign debt compared with their equity bases. It said that most Egyptian banks are unlikely to withstand a sovereign default. It expected credit risks to remain elevated during the next 18 to 24 months, reflecting increased political tensions. Overall, the agency indicated that the economic risk score reflects "extremely high risks" in economic resilience and in credit risks, and "high risks" in economic imbalances. It said that the trend for the economic risk is 'stable' at the highest risk level. In parallel, S&P pointed out that the industry score indicates that the country faces "very high risks" in its institutional framework and its systemwide funding, and "high risks" in its competitive dynamics. It said that the trend for the banking sector's industry risk is 'negative', given that additional pressure on the deteriorating sovereign creditworthiness would expose the industry to a shift in business confidence and, in turn, to elevated refinancing risks.

Source: *Standard & Poor's*

## ANGOLA

### Anti-money laundering deficiencies remain

The Financial Action Task Force (FATF) indicated that Angola made a high-level political commitment to work with the FATF to address its strategic anti-money laundering and combating the financing of terrorism (AML/CFT) deficiencies, mainly through the revision of its action plan in June 2010 and in February 2013. It said that Angola has taken steps since February 2014, towards improving its AML/CFT regime, including by bringing into force the required legislation to freeze and seize assets related to money laundering. However, it said that certain strategic AML/CFT deficiencies remain. The FATF called on authorities to address the remaining deficiencies, including by addressing the remaining issues regarding the criminalization of money laundering; by establishing and implementing an adequate legal framework to seize funds related to money laundering; by implementing an effectively functioning supervisory framework; and by ensuring that appropriate laws and procedures are in place to provide mutual legal assistance.

Source: *Financial Action Task Force*



# ENERGY / COMMODITIES

## Non-OPEC oil supply to cover 61% of global consumption in 2014

Global oil consumption is forecast to rise by 1.3% in 2014 to 91.1 million barrels per day (b/d). Oil produced by non-members of Organization of the Petroleum Exporting Countries (OPEC) would cover 61.1% of global demand. Non-OPEC oil production is expected to rise by 2.7% annually to an average of 55.65 million b/d in 2014. Non-OPEC output would rise by an average of 1.47 million b/d this year, higher than the average increase of about 0.5 million b/d posted during the past five to 10 years. The Organization for Economic Co-operation and Development (OECD) countries in the Americas are expected to drive supply growth this year and to more than offset the supply declines in other regions worldwide. Brent oil prices are forecast to rise by 1.4% in 2014 to \$109 a barrel on average; while those of WTI are anticipated to increase by 7.1% to average \$100.9 a barrel this year. In parallel, Brent crude oil prices regressed by 6.2% in the first seven months of 2014 and by 7.2% in July 2014 to \$104.6 a barrel, while WTI crude oil prices decreased by 07% from end-2013 and by 7.4% last month to \$98.2 a barrel.

Source: OPEC, Byblos Research

## Middle East accounts for 40% of world's proven natural gas reserves

The Middle East region's aggregate proven natural gas reserves was estimated at 80,065 billion cubic meters (bcm) at end-2013, nearly unchanged from a year earlier, and equivalent to 40% of the world's natural gas reserves. Iran's proven gas reserves reached 34,020 bcm, or 42.5% of the region's total. It was followed by Qatar with 24,681 bcm (30.8%), Saudi Arabia with 8,317 bcm (10.4%), the UAE with 6,091 bcm (7.6%), Iraq with 3,158 bcm (4%) and Kuwait with 1,784 bcm (2.2%).

Source: OPEC, Byblos Research

## GCC oil output up 3% in first seven months

Crude oil production in the Gulf Cooperation Council (GCC) countries, excluding Oman and Bahrain, averaged 16 million barrels per day (b/d) in the first seven months of 2014, up by 2.5% from the same period last year. Saudi Arabia's oil production reached 9.8 million b/d in July 2014, equivalent to about 60.5% of total GCC oil production. It was followed by Kuwait and the UAE with 2.8 million b/d each (17.3% each) and Qatar with 725,000 b/d (4.5%). In parallel, OPEC's oil output dropped by 2.3% year-on-year to an average of 30.2 million b/d in July.

Source: Emirates NBD, Byblos Research

## Middle East accounts for 33% of world's crude oil production

The Middle East region's aggregate crude oil production was estimated at 28.36 million barrels per day (b/d) in 2013, down by 0.4% from a year earlier, and equivalent to 32.7% of the world's oil output. Saudi Arabia's oil production reached 11.5 million b/d, or 40.7% of the region's total output. It was followed by the UAE with 3.6 million b/d, equivalent to 12.9% of the region's total, Iran with 3.5 million b/d (12.6%), Iraq and Kuwait with 3.1 million b/d each (11.1% each), Qatar with 2 million b/d (7%), Oman with 942,000 b/d (3.3%), Yemen with 161,000 b/d (0.6%) and Syria with 56,000 b/d (0.2%).

Source: BP, Byblos Research

## Base Metals: Aluminium prices to rise by 1% in third quarter of 2014

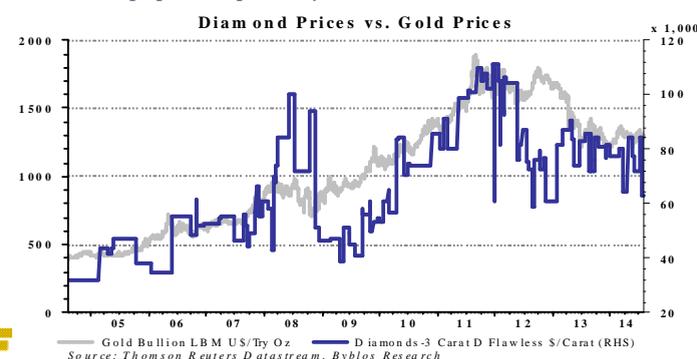
Global aluminium consumption is expected to reach 12.7 million tons in the third quarter of 2014, constituting an increase of 5.7% from the same quarter of the year. Mature economies' demand for aluminium is projected to rise by 5% in 2014 and would offset the metal's slower consumption growth in several key emerging economies. In parallel, global aluminium production is forecast to reach 13.1 million tons in the third quarter of 2014, reflecting a rise of 4% from the same quarter last year. The metal's LME 3-month prices are projected to trade between \$1,700 a ton and \$2,000 a ton in the coming three months. Aluminium prices are forecast to average \$1,850 a ton in the third quarter of the year, reflecting a rise of 0.8% from the preceding quarter and of 1.3% from the same quarter of 2013. In parallel, LME Copper Grade A 3-month future prices fell by 3.5% in the first seven months of 2014 and rose by 1.4% in July 2014 to \$7,115 a ton, while Aluminium 3-month future prices increased by 9.1% from end-2013 and by 5.1% last month. Also, Zinc high grade 3-month futures prices grew by 13.1% in the first seven months of 2014 and by 6.5% in July 2014.

Source: Thomson Reuters GFMS, Byblos Research

## Precious Stones: Global rough diamond production up 11% in 2013 as production prices rise

Global rough diamond production reached 130.5 million carats in 2013, constituting a rise of 2% from 2012. Rough diamond supply was equivalent to \$14.1bn last year, reflecting an increase of 11% from the preceding year. The rise in value was mainly due to a 9% increase in the average price of rough diamond production to \$108 per carat. Russia was the world's largest rough diamond producer by volume in 2013, with a total production of 37.9 million carats or 29% of global output. It was followed by Botswana with 23.2 million carats (18%) and Australia with 11.7 million carats (9%). In value terms, Botswana was the world's largest producer of rough diamonds at \$3.6bn or 25.7% share of total production. It was followed by Russia with \$3.1bn (22%) and Canada with \$1.9bn (13.5%). In parallel, India was the world's largest rough diamond consumer, with a demand of 110.6 million carats, followed by China with 4.2 million carats and the EU with 3.2 million carats. In value terms, India consumed \$14.1bn worth of rough diamonds last year, followed by Israel (\$1.1bn) and Namibia (\$507.4m). India was the largest consumer of rough diamonds, in both volume and value terms, due to its dominance in polished diamond manufacturing. The price of polished diamonds is evaluated based on the number of carats, as well as cut, clarity and color.

Source: Rapaport Report, 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	-	CCC	-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	30-July-14	No change	17-Sept-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	3.50	24-July-14	Raise 25bps	11-Sept-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-July-14	No change	17-Sept-14
Taiwan	Discount Rate	1.875	26-June-14	No change	25-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	22-Sept-14
Ghana	Prime Rate	19.00	07-July-14	Raise 100bps	14-Sept-14
Angola	Base rate	8.75	28-July-14	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	3.25	05-Aug-14	Cut 25bps	N/A
Bulgaria	Base Interest	0.04	01-Aug-14	Raise 1bps	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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