

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Reinsurers' underwriting results deteriorate in first half of 2014

Fitch Ratings indicated that non-life reinsurers' underwriting results slightly deteriorated but remained profitable in the first half of 2014, as catastrophe-related losses were below the average trend. It attributed the deterioration to a rise in catastrophe-related losses and to a reduction in property catastrophe business written by traditional reinsurers. It considered that increased supply of capital has created excess underwriting capacity in the reinsurance market, leading to price competition and to falling reinsurance rates. Further, Fitch indicated that the combined ratio at major non-life reinsurers rose to 87.4% in the first half of 2014 compared to a ratio of 85.9% in the same period last year. It said that non-life net written premiums by major global non-life reinsurers reached \$47.1bn in the first half of the year, constituting a rise of 4.5% from \$45.1bn in the same period last year. It noted that the shareholders' equity of non-life reinsurers reached \$442.1bn at end-June 2013, up by 14% from \$388bn a year earlier due to solid earnings and higher unrealized gains on fixed income securities. In parallel, Fitch said that net life premiums earned by major global life reinsurers increased by 3.2% to \$27bn in the first half of 2014; and that their pre-tax operating income rose by 27% to \$1.85bn.

Source: Fitch Ratings

MENA

Equity markets up 22% in first eight months of 2014

Arab stock markets increased by 22% and GCC markets rose by 23.6% in the first eight months of 2014 compared to increases of 14.6% and 10%, respectively, in the same period of 2013. Arab stock markets and GCC markets rose by 34.3% and 35.3%, respectively in August 2014 from the same month last year. Activity on the Dubai financial market grew by 50.2% in the first eight months of 2014 and posted the best performance among Arab markets during the period. It was followed by the Egyptian equity market with a 39.3% rise, the Qatar stock exchange with a 31% increase, the Saudi Arabia equity market with a 30.2% expansion, the Abu Dhabi securities exchange with an 18.5% improvement, the Bahrain bourse with a 17.9% growth, the Beirut stock exchange with a 17.2% increase, the Oman equity market with a 7.8% rise, the Tunis stock market with a 6.9% expansion, the Damascus financial market with a 5% improvement, the Casablanca stock market with a 4.7% growth and the Amman bourse with a 3.2% increase. In parallel, activity on the Iraqi stock exchange dropped by 11.5% and posted the weakest performance among Arab equity markets in the first eight months of 2014. It was followed by the Libyan equity market with an 8% decline, the Khartoum bourse with a 7.6% retreat, the Palestine stock exchange with a 3.7% decrease and the Kuwait equity market with a 1.6% drop. In comparison, global and emerging market equities rose by 5.8% and 9.3%, respectively, in the first eight months of 2014.

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

Arab world's competitiveness stagnates

The World Economic Forum's Global Competitiveness Index for 2014-15 indicated that the UAE is the most competitive economy among 15 Arab countries and has the 12th highest competitiveness level among 144 countries worldwide. It was followed by Qatar in 16th place, Saudi Arabia (24th), Kuwait (40th), Bahrain (44th) and Oman (46th), as the six most competitive Arab economies and the only ones to rank among the top 50 globally. In contrast, Libya (126th), Mauritania (141st) and Yemen (142nd) were the least competitive Arab countries. The rankings of nine Arab countries regressed, five improved and one remained unchanged year-on-year. Algeria posted the highest improvement in the global rankings among Arab countries with a rise of 21 spots, while Libya's rank dropped by 18 spots year-on-year, constituting the steepest decline in the region. In parallel, the region's average score decreased marginally to 4.15 points from 4.17 points in last year's index, and came below the global average score of 4.21 points. The GCC countries' average score remained unchanged year-on-year at 4.85 points, while the average score of non-GCC Arab countries dropped to 3.69 points from 3.72 points last year. The scores of five Arab countries rose, nine declined and one remained unchanged, with Algeria posting the highest increase in competitiveness and Libya showing the steepest drop.

Source: World Economic Forum, Byblos Research

MENA job prospects second lowest globally

A survey conducted by opinion polling and consulting firm Gallup on the job situation worldwide shows that 24% of respondents in the Middle East & North Africa (MENA) region believed that 2013 was a "good year" to find a job in their country, relative to 34% of adults worldwide who shared similar views about their economy. In comparison, the share of survey participants who thought that 2013 was a "good year" to find a job reached 41% in the Americas, 35% in Asia & Pacific, 33% in Sub-Saharan Africa (SSA), 31% in the Former Soviet Union (FSU) and 17% in the European Union (EU). Further, the share of respondents who were optimistic about the job market in their economy in the MENA region fell by three percentage points year-on-year, the only decline across regions. In comparison, the percentage of participants who considered that 2013 was a "good year" to find a job rose by three percentage points in the FSU and by one percentage point in the Americas in 2012; while it remained unchanged in the EU, Asia & Pacific and SSA. In parallel, the survey showed that 68% of respondents in the MENA region acknowledged that last year was a "bad year" to find a job in their local community, relative to 55% of adults worldwide who shared similar views about their economy. The share of participants who were pessimistic about their local job market in the region was lower than that in the EU at 76%, but higher than 59% in SSA, 53% in the Americas, 52% in the FSU and 51% in Asia & Pacific. The survey results are based on telephone and face-to-face interviews with approximately 1,000 adults per country that were conducted in 138 countries and territories in 2013.

Source: Gallup

POLITICAL RISK OVERVIEW - August 2014

EGYPT

Violence erupted on August 14 during protests to mark the first anniversary of the deadly raids on two protest camps occupied by supporters of deposed president Mohammed Morsi in Cairo. A court ruling dissolved the Muslim Brotherhood's (MB) Freedom and Justice Party on August 9th. Grand Mufti Shawqi Allam, Egypt's highest religious authority, rejected the June 19 death sentence handed to MB spiritual leader Mohamed Badie and reduced it to life imprisonment. Violence continued in the Sinai Peninsula. The Ansar Beit al-Maqdis rebel group executed four persons over their alleged links with Israeli intelligence.

IRAN

The U.S and Iran held high-level bilateral nuclear talks in Geneva. The International Atomic Energy Agency's (IAEA) director, Yukiya Amano, visited Tehran to discuss the next steps in resolving past and present issues. Iran inaugurated the Uranium conversion facility, which is required to fulfill its obligations set under the November 2013 Joint Plan of Action. President Hassan Rouhani attacked the critics of his nuclear diplomacy with world powers. Supreme Leader Ali Khamenei publicly backed the new Iraqi Prime Minister-designate, Dr. Haider al-Abadi.

IRAQ

U.S. President Barack Obama announced on August 7 renewed U.S. military action in Iraq after Islamic State (IS) militants seized the northern Yazidi town of Sinjar. President Obama indicated that the goal of the U.S. airstrikes is to avert a potential "genocide" of the Yazidi community and to protect U.S. personnel and assets "anywhere in Iraq", while he emphasized the need to stop the IS from advancing closer towards Erbil. Kurdish forces, the Peshmerga, along with Iraqi government forces have recaptured the Mosul dam from the IS group, aided by multiple air strikes from U.S. jets and drones. Prime Minister Nouri al-Maliki resigned on August 14 after most of his domestic and international backers joined to support his nominated replacement, Dr. Haider al-Abadi. Prime Minister-designate al-Abadi was tasked with forming a new government. Sectarian violence continued this month, leading to more than 1,420 deaths and to at least 1,370 injuries.

DEM REP CONGO

UN Special Representative Martin Kobler proposed benchmarks for the October 2014 evaluation of the neutralization and unconditional disarmament of the Forces démocratiques de libération du Rwanda (FDLR). The UN Security Council called for a swift disarmament of the FDLR. It also encouraged the DRC to go ahead with a military solution against FDLR members who do not engage in the demobilization process or who continue to carry out human rights abuses.

LIBYA

Fighting between a Misrata-led Islamist-leaning militia coalition and the Zintan-led coalition escalated in the city of Tripoli. The Misrata side emerged victorious in the battle over Tripoli's international airport and made advances around Benghazi. A newly-formed Parliament, the Council of Representatives (CoR), convened in the eastern city of Tobruk and gained the backing of the Zintan-led anti-Islamists and of the international community. Pro-Misrata factions disputed the Parliament's relocation from Tripoli, and claimed that the transfer of authority to the new Parliament is unconstitutional. The General National Congress reconvened on August 25 in Tripoli and elected Mr. Omar al-Hasi as Prime Minister, challenging the CoR's authority. Acting Prime Minister Abdullah al-Thinni resigned on August 28 to allow the CoR to form a new government. Fighting between former General Khalifa Haftar's forces and Islamist rebels continued.

SOUTH SUDAN

President Salva Kiir and Sudan People's Liberation Movement-in-Opposition (SPLM-IO) leader Riek Machar failed to form a transitional government by the August 10 deadline. The Intergovernmental Authority on Development (IGAD) announced on August 25 a new ceasefire and protocol for the formation of a transitional unity government. It threatened to impose sanctions on warring parties if a new government is not formed in 45 days. The SPLM-IO refused to sign the deal on August 28th. Fighting erupted between the Sudan People's Liberation Army (SPLA) and rebels in the Unity State, which violated the ceasefire agreement.

SUDAN

The political opposition National Umma Party and the rebel alliance of the Sudan Revolutionary Front (SRF) signed the "Paris Declaration" on August 8th, which calls for peace and democratic reforms in Sudan. SRF leader Malik Agar announced a unilateral two-month ceasefire as a gesture of goodwill. The ruling National Congress Party rejected the declaration on August 18th. Sudan announced that it will hold presidential and parliamentary elections in April 2015, despite calls by the country's main opposition parties to delay the polls. The National Dialogue Committee, known as the 7+7, comprised of government and opposition parties, signed a framework agreement for holding the dialogue conference.

SYRIA

Syria's northern armed opposition faced an increasingly dire situation as President Bashar al-Assad's forces continued to advance in the city of Aleppo, while Islamic State (IS) militants gained territory in the north of the city. The IS continued to fight to recapture additional territory in the country's northern countryside and to push further west. Fighting between regime forces and IS militants intensified, as the regime continued its air strikes on IS-held territory near Aleppo and further to the east. The IS has reportedly captured the Taqba air base, the regime's last stronghold in the Raqqah province. Also, the IS has reportedly executed 700 members of the al-Sheitat tribe in the province of Deir al-Zour in retaliation to a local uprising against IS rule.

TUNISIA

The Independent High Electoral Commission indicated that a total of 1,500 electoral lists comprised of 15,652 candidates were submitted by the August 29 deadline for the October 2014 parliamentary elections. The security situation remained under control on the country's eastern border, as refugee influx from Libya stabilized, while the situation on the Algerian border remained tense.

YEMEN

Yemen's Huthis continued to challenge the government's authority. They organized mass anti-government protests in the capital Sanaa over the lifting of fuel subsidies in July 2014, and called for a new government. The government offered to resign within a month and to form an economic committee to evaluate the fuel subsidies. But Huthi leaders rejected the offer and reemphasized their demands, which included a greater inclusion of Huthis in state institutions. President Abd Rabbuh Mansur Hadi supported counter rallies by the Sunni-Islamist Islah party. Protests underscored the growing political polarization between pro- and anti-Huthi factions. Violence continued between Huthis and various adversaries in the country's far north. The leadership of the al-Qaeda in the Arabian Peninsula praised the recent gains of the Islamic State (IS) jihadist group in Iraq, without pledging its allegiance to IS leader Abu Bakr al-Baghdadi.

Source: International Crisis Group, Newswires



OUTLOOK

WORLD

Emerging markets exposed to negative shock from tightening of U.S. monetary policy

Fitch Ratings anticipated that the U.S. Federal Reserve would gradually tighten its monetary policy over the next 12 months. It expected the increase in interest rates and the end of the U.S. Federal Reserve's quantitative easing (QE) program to trigger some increase in financial market volatility. It pointed out that the timing and potentially the sequencing of the normalization process could turn out differently from current expectations. It noted that a tightening cycle after such a long and extreme period of accommodative monetary policy would be unprecedented. It said that global financial markets may not be fully prepared for the normalization of monetary policy, given that the low levels of volatility and high asset prices indicate that markets are only pricing-in limited uncertainty. But it considered that the normalization process would not fundamentally destabilize the global recovery or financial markets. Under its base case scenario, Fitch expected the U.S. Federal Reserve to raise interest rates and unwind its balance sheet gradually in the context of recovering growth and falling unemployment, with inflation staying close to target and bond yields remaining relatively low.

Fitch took into consideration an adverse scenario that assumes a negative supply-side shock. Under this scenario, it considered that emerging markets would be the most exposed, mainly economies with large external financing needs, low foreign reserves, high leverage, vulnerable debt structures, weak policy frameworks and political fragilities. It said that Mongolia, Turkey, Ukraine, El Salvador, Hungary, Lebanon and Jamaica would be the most exposed to a drop in capital inflows; along with China, Indonesia, Poland, Egypt and Ghana. It noted that Kenya, Brazil, Serbia, South Africa, Sri Lanka, Tunisia, Vietnam and Argentina would face lesser potential stress. Further, it indicated that vulnerability to reduced capital inflows rose since July 2013 in El Salvador, Mongolia, Russia, Mexico, Turkey, Argentina, Venezuela, Ukraine and Ghana, while it decreased in Brazil, India, Hungary, Sri Lanka and Lebanon.

Source: Fitch Ratings

GCC

Geopolitical risks and prolonged drop in oil prices are main risks to the outlook

Merrill Lynch projected real GDP growth in the economies of the Gulf Cooperation Council at 4.1% in 2014 and at 4% in 2015 compared to a growth rate of 4.5% in 2013. It expected hydrocarbon revenues, fiscal expansion and rising domestic credit to support activity during the 2014-15 period. It anticipated that Qatar would outperform GCC countries in terms of growth, liquidity and fiscal dynamics. It noted that non-hydrocarbon activity in Qatar would remain solid, supported by rising public spending, while hydrocarbon output would decelerate. It pointed out that Saudi Arabia's short-term outlook was negatively affected by the recent labor market initiatives, but it expected such impact on non-hydrocarbon growth to fade in the second half of 2014. It said that the 2020 Expo provides upside potential for the UAE's economy. But it noted that Dubai's refinancing strategy for its government-related entities (GRES)

remains vulnerable to funding disruptions or to growth shocks. It expected the recovery in Bahrain's economy to remain below potential due to the unstable political environment. It indicated that geopolitical risks and a decline in global oil prices over a prolonged period of time constitute the primary risks to the region's outlook. It cautioned that the realization of external risks and the increase in global risk aversion would cut market access to Dubai's GRES. It forecast the inflation rate in GCC economies to average 3% in 2014 and 3.5% in 2015.

In parallel, Merrill Lynch forecast the region's fiscal surplus to reach 7.7% of GDP in 2014 and 9% of GDP in 2015. It noted that Bahrain has the highest fiscal breakeven oil price among GCC economies at \$120 per barrel in 2014, reflecting the increasingly fragile public finances. Further, it projected the region's current account surplus to narrow from 17.2% of GDP in 2013 to 14.5% of GDP in 2014 and 14% of GDP in 2015. It forecast the region's foreign currency reserves to reach \$972bn in 2014 and \$1.1 trillion in 2015.

Source: Merrill Lynch

ANGOLA

Non-hydrocarbon growth to average 7.7% in coming five years

The International Monetary Fund projected Angola's real GDP growth to decelerate to 3.9% in 2014 from 6.8% in 2013 due to a decline in oil output. It forecast hydrocarbon output to shrink by 3.5% in 2014 following a contraction of 1.1% in 2013, reflecting a decline in oil production from the unscheduled maintenance and repair work in some oil fields. It expected the non-hydrocarbon sector to expand by 7.3% in 2014 compared to a growth rate of 10.8% last year, mainly driven by an 11.5% increase in agricultural production and by strong activity in manufacturing, electricity and services sectors. The IMF indicated that the country's medium-term prospects remain favorable and projected real GDP growth at 5.9% in 2015. It expected hydrocarbon output to recover to 2.6% in 2015 and to grow by 2.2% annually over the next five years as the decline in production in some oil fields would be more than compensated by the commissioning of seven new fields. Also, it projected non-hydrocarbon growth at 7.3% in 2015 and to average 7.7% annually over the next five years. It forecast the average inflation rate at 7.3% annually during the 2014-15 period relative to an average rate of 8.8% in 2013.

In parallel, the Fund anticipated that the fiscal balance would shift from a surplus of 0.3% of GDP in 2013 to a deficit of 4.8% of GDP in 2014, the first deficit since 2009, reflecting a sharp decline in oil revenues. It forecast the fiscal deficit to marginally narrow to 4.1% of GDP in 2015. The IMF welcomed the non-oil tax reforms that would reduce the budget's heavy reliance on oil receipts. It called on authorities to return to fiscal surpluses, mainly by strengthening the non-hydrocarbon revenue administration, by modernizing the public-sector wage policy and by gradually eliminating fuel subsidies. It forecast the current account surplus to narrow from 5.5% of GDP in 2013 to 4.1% of GDP in 2014 and 2% of GDP in 2015. It projected foreign currency reserves at \$33.9bn or 7.5 months of imports, in 2014 and at \$35.1bn or 7.4 months of imports in 2015.

Source: International Monetary Fund

ECONOMY & TRADE

EMERGING MARKETS

Economic activity to strengthen in second half of 2014

The Institute of International Finance's new coincident indicator for emerging markets (EMCI) rose by 3.9% year-on-year in the three months ending in July 2014, slightly higher than the annual 3.7% increase in the second quarter of the year. The IIF indicated that the EMCI tracks GDP growth in emerging economies in real time. It said that the EMCI explains around 93% of the quarterly fluctuations in GDP growth in emerging markets. The IIF indicated that economic activity in emerging economies continued to strengthen following weak levels in the first quarter of 2014. But it noted that the EMCI remains well below the 4.4% quarter-on-quarter expansion reached in the fourth quarter of 2013. It expected growth in emerging economies to accelerate in the second half of 2014. The IIF will publish the EMCI on a monthly basis, which would make it more timely than other hard indicators. It constructed the EMCI by extracting the common trend of 41 macroeconomic indicators that have a high correlation with GDP growth in emerging markets.

Source: Institute of International Finance

TUNISIA

Persistent economic challenges require structural reforms

The International Monetary Fund indicated that the economic situation in Tunisia remains difficult, with limited growth, high unemployment and rising external imbalances that are weighing on the exchange rate and foreign currency reserves. It considered that the fiscal performance was strong in the first half of 2014 and encouraged authorities to further implement fiscal consolidation measures in order to anchor macroeconomic stability. It expected the recent cut in energy subsidies to help reduce vulnerabilities. It noted that reforming the energy subsidy system and controlling the public wage bill would improve the structure of the budget. It added that comprehensive revenue reforms, better public financial management, and reforms of public enterprises would support fiscal consolidation. Further, the Fund indicated that a tighter monetary policy would reduce inflationary and exchange rate pressures. It noted that additional exchange rate flexibility would help rebuild foreign reserve buffers, correct large external imbalances and improve competitiveness. Also, the IMF said that enforcing the competition law and the public-private partnerships framework would promote private sector development. In parallel, the Fund indicated that authorities took important steps to reduce the financial sector's vulnerabilities, mainly through the adoption of public bank restructuring plans. It noted that the establishment of an asset management company, the ratification of the bankruptcy law, the completion of public bank audits and the upgrade of the regulatory framework would further reduce fragilities in the banking sector.

Source: International Monetary Fund

EGYPT

Ratings affirmed on receding short-term financing risks, outlook 'stable'

Capital Intelligence affirmed Egypt's long-term foreign and local currency sovereign ratings at 'B-' with a 'stable' outlook, and maintained the short-term ratings at 'B'. It attributed the affirmation of the ratings to stabilizing short-term external financing risks, the gradual implementation of fiscal consolidation measures and the improvement in security conditions. It said that GCC countries have pledged about \$18.9bn, or 6.6% of GDP, in financial support since July 2013, most of which has been disbursed. It noted that support from Gulf economies reduced short-term financing risks, and expected such aid to continue in the medium-term. It anticipated foreign currency reserves to increase during the 2014-16 period, which would provide an adequate coverage of short-term external debt and would constitute a reasonable buffer against moderate external economic shocks. Further, the agency indicated that the ratings are supported by a relatively low level of external debt that it projected at 16.4% of GDP and 64% of current account receipts in 2014. It added that Egypt's debt profile is relatively favorable and that its gross external financing requirements are low at an estimated 7.7% of GDP in the fiscal year ending in June 2015. But it cautioned from an increase in the country's external financing needs that would offset the rise in foreign reserves and would put pressure on the balance-of-payments. It forecast the public debt level to rise to 93% of GDP in FY2016/17.

Source: Capital Intelligence

DEM REP CONGO

Per capita income to stagnate over near term

Business Monitor International anticipated that per capita income in the Democratic Republic of Congo (DRC) would remain at very low levels in coming years, despite robust economic activity. It said that economic activity is mainly driven by the capital-intensive mining sector and by population growth, which improve overall output without raising living standards. It noted that the mining sector employs relatively few local workers and is dominated by foreign-owned firms. Further, it indicated that the development of the non-mining sector has stagnated in recent years. It noted that weak infrastructure and the shortage of skilled labor have encouraged the import of key staples, which slows economic growth and constrains local industries. It added that the poor performance of the non-mining economy has reduced employment growth. It said that the number of formal salaried jobs rose by 2% between 2010 and 2014 compared to population growth rate of 14.3% during the covered period. BMI considered that improving employment prospects in the DRC would require massive investments in physical and human capital, which are beyond the fiscal or administrative capacity of the government. It noted that a significant portion of the population would not achieve the income level required to increase consumer spending on discretionary goods. It noted that the emergence of a more broad-based middle class is highly unlikely in coming years, and expected consumer spending to be driven by the economic elite.

Source: Business Monitor International



BANKING

EMERGING MARKETS

'Stable' outlook on 79% of bank ratings

Fitch Ratings indicated that there were 59 'negative' outlooks on the ratings of emerging market banks in the second quarter of 2014, compared to 52 in the first quarter of the year, 51 in the fourth quarter of 2013 and 45 in the third quarter of last year. In parallel, the number of 'positive' outlooks totaled 13 in the second quarter of 2014, up from 12 in the first quarter of the year, four in the fourth quarter of 2013 and three in the third quarter of 2013. Also, the number of 'stable' outlooks decreased to 277 in the second quarter of 2014 from 287 in the preceding quarter, 303 in the fourth quarter of 2013 and 302 in the third quarter of last year. Overall, 79% of bank outlooks in emerging markets are 'stable', 16.8% are 'negative' and 3.7% are 'positive'. In parallel, 88.5% of outlooks in Emerging Asia are 'stable', 6.6% are 'negative' and 4.9% are 'positive'; while 86.5% of outlooks in the Middle East & Africa are 'stable' and 12.5% are 'negative'. Also, 75.7% of outlooks in Emerging Americas are 'stable', 16.2% are 'negative' and 8.1% are 'positive'; while 68.8% of outlooks in Emerging Europe are 'stable', 26.8% are 'negative' and 3.6% are 'positive'. Further, Fitch has 0.6% of bank ratings in emerging markets on 'positive watch' and non on 'negative watch'.

Source: Fitch Ratings

JORDAN

Economic and industry risks increase

Standard & Poor's maintained Jordan's Banking Industry Country Risk Assessment (BICRA) at Group '7', and each of its economic and industry risks' scores at '7'. 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 and 'Group 10' the riskiest ones. The agency noted that other countries in 'Group 7' include Morocco and El Salvador. Further, the agency indicated that Jordan's economic risk score reflects "very high risks" in economic resilience and in credit risks, and "intermediate risks" in economic imbalances. It noted that banks' cost of risk approach reflects the vulnerability of the country's growth prospects to global economic performance, to a rise in global oil prices, to donors' willingness to provide financial support and to regional political instability. It considered that these factors would keep the cost of risk elevated over the coming two years. It said that the trend for the country's economic risk is 'negative', adding that it would lower its economic risk assessment if the government fails to maintain adequate governance and political cohesion that is necessary to preserve customers' repayment ability. In parallel, S&P pointed out that Jordan's industry score indicates that the country faces "high risks" in each of its institutional framework, competitive dynamics and system-wide funding. It expected banks to continue to generate sufficient profitability to absorb the elevated cost of risk. It said that the trend for the banking sector's industry risk is 'stable', but it noted that the industry risk increased due to banks' high exposure to the sovereign.

Source: Standard & Poor's

MOROCCO

Agency affirms ratings on major banks

Capital Intelligence affirmed the long- and short-term Foreign Currency Ratings (FCR) at 'BBB-' and 'A3', respectively, on Attijariwafa Bank (AWB), Banque Centrale Populaire (BCP), Banque Marocaine du Commerce Extérieur (BMCE), Société Générale Marocaine de Banques (SGMA), Banque Marocaine pour le Commerce et l'Industrie's (BMCI) and Crédit du Maroc (CM). It also maintained the Financial Strength Rating (FSR) of AWB at 'BBB', that of BCP, BMCE, SGMA and BMCI at 'BBB-', and that of CM at 'BB+'. It noted that all banks' ratings have a 'stable' outlook. The agency said that AWB's FSR is supported by its sound asset quality, improving capitalization level, reasonable profitability and good loan-loss coverage ratio, but is mainly constrained by an increase in classified loans in 2013. It noted that BCP's FSR is supported by good capital adequacy level and adequate overall provisioning, but is constrained by rising non-performing loans (NPLs), falling returns and tightening liquidity. Also, it pointed out that BMCE's FSR reflects the bank's improved profitability, stable capital adequacy and slight growth in liquid assets. But it said that BMCE's FSR is constrained by a rise in NPLs in 2013, tight loan-based liquidity ratios and low returns. It indicated that SGMA's FSR reflects its good operating profitability, strengthened capital adequacy and sound loan-loss reserve coverage. But it noted that the bank's FSR is constrained by very tight liquidity, a low liquid assets ratio and a high NPLs ratio.

Source: Capital Intelligence

INDIA

Ratings on nine banks affirmed, outlook 'stable'

Fitch Ratings affirmed the 'BBB-' long-term Issuer Default Ratings (IDR) of state-owned State Bank of India (SBI), Bank of Baroda (BOB), its subsidiary Bank of Baroda New Zealand (BOB NZ), Punjab National Bank (PNB), Canara Bank (Canara), IDBI Bank (IDBI); as well as the ratings of privately-owned ICICI Bank (ICICI) and Axis Bank (Axis). Also, it maintained the long-term IDR of state-owned Indian Bank at 'BB+'. It noted that all banks' ratings have a 'stable' outlook. Further, the agency affirmed the Viability Ratings (VR) of Axis, ICICI and SBI at 'bbb-', that of BOB, Canara, PNB and Indian Bank at 'bb+', and that of IDBI at 'bb'. Fitch indicated that the Indian banking system is facing a challenging domestic economic environment, given uncertainties and risks about the implementation of key policies necessary to achieve the government's growth and fiscal targets. It said that the asset quality at state-owned banks remains under pressure, adding that non-performing and restructured loans at large banks continued to grow in the previous two quarters, but at slower pace. It considered that early signs of deleveraging in the corporate sector are encouraging. Overall, it expected the pressure on the asset quality of rated banks to continue in coming quarters. It anticipated that banks, mainly state-owned banks, would focus on raising capital in order to meet the capital requirements under the Basel III regulatory framework.

Source: Fitch Ratings



ENERGY / COMMODITIES

Geopolitical tensions to support crude oil prices

Brent oil prices are forecast to average \$111 a barrel in the third quarter of 2014, reflecting a rise of 0.9% from the preceding quarter and a decrease of 0.9% from the same quarter of 2013. Also, WTI crude oil prices are expected to average \$107 a barrel in the third quarter of the year, constituting an increase of 3.9% from the previous quarter and a drop of 0.9% from the same quarter of last year. High geopolitical tensions in Iraq, Ukraine, Libya, Iran and Syria would continue to support oil prices in coming months. Crude oil prices are expected to need strong market signals to rise substantially. In parallel, lower-than-usual global oil consumption and a rise in North American supply have started to outweigh supply-led shortages. Overall, Brent crude oil prices are expected to rise by 0.3% in 2014 to an average of \$109 a barrel, while WTI prices are forecast to rise by 4.1% to \$102 a barrel on average this year. In parallel, Brent oil prices regressed by 8.8% in the first eight months of 2014 and by 3% in August 2014 to \$101.5 a barrel, while WTI prices decreased by 0.7% from end-2013 to \$98 a barrel.

Source: Citigroup, Byblos Research

Kurdish oil shipments reach 10 million barrels

Iraqi Kurdistan has so far shipped 10 million barrels of oil from the Turkish port of Ceyhan to international markets. Turkey noted that the current flow of Kurdish oil to the port of Ceyhan rose to 180,000 barrels per day. The Kurdistan Regional Government sold its first independent crude oil shipment to international markets through the Turkish export hub of Ceyhan in May 2014, despite strong opposition from the central government in Baghdad. In parallel, the Kurdish Natural Resource Committee announced that Kurdish crude oil sales exceeded \$4bn over the past year.

Source: Thomson Reuters, Iraq Business News

Jordan and Israel sign \$15bn gas deal

Israel signed a memorandum of understanding with Jordan to supply it with \$15bn worth of natural gas from its Leviathan energy field over 15 years. Under the deal, Israel would supply Jordan's state-owned National Electric Power Company (NEPCO), starting in late 2017, with 1.6 trillion cubic feet of gas over the course of the agreement. Israel would become Jordan's main supplier of energy following the implementation of the agreement. A letter of intent was signed between NEPCO and US-based Noble Energy, which own 39% of Israel's Leviathan field, while the signing of a formal deal would take place in November 2014. Regulatory approval and other details are expected to be finalized by the end of 2014.

Source: The Jordan Times, Thomson Reuters

Middle East crude oil exports down 3% in 2013

The Middle East region's crude oil exports averaged 17.65 million b/d in 2013, equivalent to 44.3% of the world's oil exports and reflecting a decline of 3.2% from 18.2 million b/d in 2012. Saudi Arabia's oil exports averaged 7.57 million b/d and accounted for 43% of the region's total. It was followed by the UAE with 2.7 million b/d (15.3%) and Iraq with 2.39 million b/d (13.5%). In parallel, the Organization of Petroleum Exporting Countries' crude oil exports were estimated to have averaged 24 million b/d in 2013, constituting a drop of 4% from 2012. About 14.27 million b/d or 59.3% of total OPEC crude oil exports were exported to the Asia-Pacific region in 2013.

Source: OPEC, Byblos Research

Base Metals: Copper prices to ease in 2015

Copper prices are forecast to average \$7,030 a ton in the third quarter of 2014, constituting a rise of 4% from the previous quarter and a drop of 1% from the same quarter last year. The refined copper market is expected to shift to a modest surplus of 131,000 tons in the next 18 months, as concentrate copper output accelerates. But the 2015 market surplus, which is equivalent to only 0.6% of global consumption, would not be enough to place sustained downward pressures on the metal's price. Copper prices are projected to drop by 4.6% year-on-year to average \$7,010 a ton in 2014 and to slightly decrease to \$6,950 a ton on average in 2015. But prices are expected to rebound in 2016, as the copper market becomes once again under-supplied. In parallel, LME Copper Grade A 3-month future prices fell by 5.1% in the first eight months of 2014 and by 1.9% in August 2014 to \$6,982 a ton, while Aluminium 3-month future prices grew by 16.5% from end-2013 and by 5.5% last month. Also, Zinc high grade 3-month futures prices grew by 14.8% in the first eight months of the year and were nearly unchanged in August 2014.

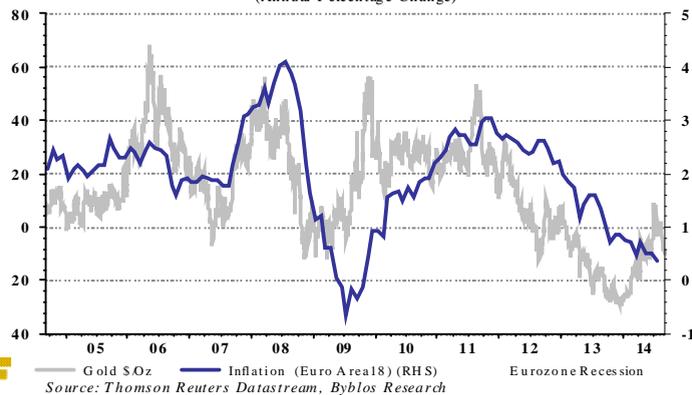
Source: Standard Chartered, Byblos Research

Precious Metals: Gold prices to trend lower as US Federal Reserve seeks to end monetary stimulus

Gold prices are forecast to average \$1,280 a troy ounce in the third quarter of 2014, reflecting a decline of 0.8% from the preceding month and a drop of 3.8% from the same quarter of 2013. Gold prices are projected to ease to an average of \$1,240 an ounce in the fourth quarter of the year as tapering of the U.S. Federal Reserve's quantitative easing program continues, and due to expectations of a stronger US dollar and rising US real interest rates. The Fed is expected to eventually raise rates in the second quarter of 2015. Overall, gold prices are projected to drop by 9.6% year-on-year to an average of \$1,275 an ounce in 2014 and to average \$1,300 a troy ounce in 2015. In addition, a weak gold physical market is expected to place further downward pressure on the metal's price. However, geopolitical risks would continue to support gold prices in 2014, as investors would shift their investments towards safe-haven assets in a period of turmoil. But any price-rally above the \$1,300 an ounce level would be short-lived. In parallel, gold prices improved by 6.6% in the first eight months of 2014 and by a marginal 0.1% to \$1,288 a troy ounce in August. In addition, platinum prices rose by 4.9% from end-2013 and decreased by 3.3% to \$1,424 an ounce in August, while the price of silver increased by 0.1% from end-2013 and declined by 4.9% in August 2014.

Source: Standard Chartered, Byblos Research

Gold Prices vs. Eurozone 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-	Ba2	BB-	-	BB	-2.0	29.2	9.4	-	1.9	79.0	2.2	-1.4
	Stable	Stable	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	-	-								
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	30-July-14	No change	17-Sept-14
Eurozone	Refi Rate	0.05	04-Sept-14	Cut 10bps	N/A
UK	Bank Rate	0.50	07-Aug-14	No change	04-Sept-14
Japan	O/N Call Rate	0-0.10	08-Aug-14	No change	04-Sept-14
Australia	Cash Rate	2.50	05-Aug-14	No change	02-Sept-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	03-Sept-14	No change	22-Oct-14
Emerging Markets					
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	2.25	14-Aug-14	Cut 25bps	12-Sept-14
Malaysia	O/N Policy Rate	3.25	10-July-14	Raise 25bps	18-Sept-14
Thailand	1D Repo	2.00	06-Aug-14	No change	17-Sept-14
India	Reverse repo rate	8.00	05-Aug-14	No change	30-Sept-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	27-Aug-14	No change	18-Sept-14
South Africa	Repo rate	5.75	16-July-14	Raise 25bps	17-Sept-14
Kenya	Central Bank Rate	8.50	03-Sept-14	No change	N/A
Nigeria	Monetary Policy Rate	12.00	22-July-14	No change	22-Sept-14
Ghana	Prime Rate	19.00	07-July-14	Raise 100bps	17-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	03-Sept-14	No change	N/A
Armenia	Refi Rate	6.75	12-Aug-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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