

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Geopolitical turmoil is main risk to financial markets in coming 12 months

Barclays Capital's Global Macro Survey for September 2014 revealed that investors remain optimistic about equities, as more than half of respondents expect equities to be the best performing asset class in the next three months. However, 31% of respondents consider geopolitical turmoil to be the biggest downside risk to financial markets over the next 12 months. Also, 20% of participants cited the reduction in the U.S. Federal Reserve's quantitative easing program as their main concern during the covered period, up from 15% in the June survey, but well below the reported 40% at the end of 2013. The survey indicated that about 40% of respondents expect the U.S. Federal Reserve to start increasing interest rates in the second quarter of 2015. It added that deflation concerns increased after several quarters of decline. Further, it pointed out that the majority of respondents expect a "downside shock" to global growth in the next 12 months, while the majority of participants anticipated an "upside shock" in the previous survey. In parallel, the survey revealed that investors in emerging markets consider equities to be the most attractive asset class, while commodity investors are most optimistic about energy products following the large correction in oil prices in the previous quarter.

Source: Barclays Capital

Tourist arrivals up 5% to 517 million in first half of 2014

The World Tourism Organization (WTO) indicated that international tourist arrivals reached 517 million in the first half of 2014, constituting an increase of 4.6% from 495 million in the same period last year. It noted that the rise in the number of tourist arrivals worldwide is in line with the projected tourism growth of between 4% and 4.5% for 2014 and exceeded the WTO's long-term annual average increase of 3.8% between 2010 and 2020. It said that tourist arrivals to developed economies rose by 5.5% annually in the first half of 2014, while arrivals to emerging economies grew by 3.6% year-on-year during the covered period. Tourist arrivals to the Americas increased by 6.2% year-on-year, followed by Asia & the Pacific with a 5.4% rise, Europe with a 4.8% growth and Africa with a 3.3% expansion, while tourist arrivals to the Middle East fell by 4.4% annually. Tourist arrivals to Europe accounted for 52% of total arrivals in 2013, followed by Asia & the Pacific (22.9%), the Americas (15.5%), Africa (5.1%) and the Middle East (4.5%). In parallel, the WTO projected tourist arrivals to Asia & the Pacific to grow by 5% to 6% this year; those to Africa to rise by 4% to 6%; arrivals to Europe and the Americas to increase by 3% to 4% each, and those to the Middle East to range from no growth to an expansion of up to 5%.

Source: World Tourism Organization

MENA

Region's creditworthiness slightly decreases

Institutional Investor magazine's semi-annual survey on global creditworthiness shows that creditworthiness in the Arab region decreased in the past six months as well as from a year earlier. The average rating score of 19 Arab countries reached 43.5 points in September 2014, regressing from 43.9 points in the March 2014 survey and from 44.3 points in the September 2013 survey. The Arab region's creditworthiness was better than only Sub-Saharan Africa, which received a score of 26.2 points. Further, the Arab average score came below the global average of 44.8 points. The GCC countries' average credit score increased slightly to 72.8 points in September from 72.4 points in March 2014, while the average score of non-GCC Arab countries decreased to 29.9 points from 30.8 points six months earlier. The rankings of five Arab countries improved, 11 regressed and three remained unchanged; while the scores of eight countries improved and 11 declined from March 2014. Qatar remained the country with the best creditworthiness in the region and ranked in 23rd place worldwide, followed by Kuwait (25th), Saudi Arabia (27th) and the UAE (30th); while Mauritania (140th), Yemen (149th), Syria (171st) and Sudan (175th) had the highest probability of default regionally. Yemen posted the steepest decline in the region's ratings and rankings.

Source: Institutional Investor, Byblos Research

AFRICA

CEOs more positive about their companies' growth prospects

PwC's 2014 survey of chief executive officers (CEOs) in Africa show that the region's CEOs feel more positive about their ability to generate revenue growth and about the prospects for their local economies. The survey indicated that 51% of respondents in the region are "very confident" about their company's growth prospects over the next three years. But CEOs are slightly more anxious about short-term prospects for their organizations, as only 40% of participants are "very confident" about their company's growth prospects over the next 12 months. Further, 31% of CEOs identified product and service innovation as the main opportunity for business growth in the next 12 months, followed by increased share in existing markets (27%), new geographic markets (20%), new joint ventures and/or strategic alliances (14%), and mergers & acquisitions (5%). In parallel, 80% of CEOs in the region considered that over-regulation constitutes the main potential economic and policy threat to their business growth prospects, followed by exchange rate volatility (79%), inadequate basic infrastructure and the government's response to the fiscal deficit and debt burdens (78% each), rising tax burden (75%), slowdown in high-growth markets (72%), continued slow or negative growth in developed economies (70%), lack of stability in capital markets (65%) and protectionist policies (58%). Respondents indicated that improving infrastructure, creating a skilled labor force and ensuring financial sector stability and access to affordable capital should be on top of governments' agenda.

Source: PwC

OUTLOOK

WORLD

Global economy facing six main risks

The Institute of International Finance indicated that the six main risks to the global economy consist of a rapid reduction in the U.S. Federal Reserve's quantitative easing (QE) program, rising contagion in emerging markets, stagnation and prolonged disinflation in the Eurozone, a slowdown in China's growth, an escalation of the Ukrainian crisis and a surge in global energy prices.

The IIF assigned a 35% probability that an acceleration in the pace of the reduction in the Federal Reserve's QE program would occur in the next 12 to 18 months, which would lead to a sharp market correction. It said that the materialization of this risk would reduce portfolio inflows to emerging economies, which would tighten external financing conditions, especially in emerging economies with large current account deficits and with high reliance on portfolio financing. Further, it assigned a 35% probability that country-specific problems in emerging markets would intensify in the next 12 to 18 months, which would deepen contagion across emerging economies. It said that higher financing costs would weigh on growth in emerging markets as foreign investors pull out funds and Central Banks raise interest rates to stabilize exchange rates. It pointed out that the spread of these risks to a broader group of emerging markets would reduce external demand and slow global growth.

In parallel, the IIF assigned a 25% probability that China's growth would slow in the next 12 to 18 months, which would mainly affect emerging markets that produce commodities used in China. Also, it assigned a 10% probability that the crisis in Ukraine would escalate in the coming 12 to 18 months, which would negatively affect Russia through disruptions of gas exports and through capital outflows. It noted that other European countries would be affected, depending on the extent and duration of gas supply disruptions. Finally, it assigned a 10% probability that global oil prices would increase in the coming 12 to 18 months, which would increase inflation rates and slow global growth.

Source: *Institute of International Finance*

EGYPT

Economic activity dependent on investor sentiment

Regional investment bank EFG Hermes projected Egypt's real GDP growth rate at 2.9% in the fiscal year ending in June 2015 from an estimated growth rate of 2.2% in FY2013/14. It said that the economy quickly absorbed the fiscal measures announced in early July 2014, with consumption and production on an improving trend since August. It noted that confidence has been restored among the upper- and upper-middle income classes, while tourist arrivals from Arab countries increased. But it noted that sentiment remains fragile and is contingent on progress in economic fundamentals. Further, it pointed out that the government is implementing its fiscal stimulus, which is critical to supporting economic activity. It noted that the execution of the announced and planned projects would further accelerate growth and would crowd-in private sector investment, especially FDI inflows. In addition, it considered that the eco-

nomie recovery and balance-of-payments adjustments are contingent on the level of FDI the country is able to attract over the coming few years. It added that foreign capital inflows would lower the cost of capital and would supply needed liquidity. It forecast the inflation rate to average 13% in FY2014/15, up from 10.1% in FY2013/14, reflecting the cut in fuel subsidies and the increase in tax rates.

In parallel, it indicated that the government would finance its megaprojects through borrowing rather than through equity, which would weigh on public finances. It projected the fiscal deficit to remain wide at 11.3% of GDP in FY2014/15 relative to 12.2% of GDP in FY2013/14, as higher debt servicing would offset the savings from the cut in fuel subsidies. EFG Hermes indicated that easing energy and foreign currency shortages are main barriers to the recovery in economic activity. It expected energy shortages to continue for at least the coming two to three years, which would lead to a gradual and uneven economic recovery. It said that spillovers from Libya constitute another risk, given the unpredictability of the ongoing turmoil and the possibility for Egypt to be pulled into the conflict.

Source: *EFG Hermes*

IRAQ

Outlook clouded by significant downside and upside risks

The Economist Intelligence Unit projected Iraq's real GDP growth at 4.8% in 2014 and 6.8% in 2015 compared to a growth rate of 11.3% in 2013. It said that the conflict with the Islamic State would weigh on non-hydrocarbon activity and that oil production from the Kirkuk fields would continue to be severely constrained. It noted that economic policymaking would be a lower priority in the face of the current instability and would be constrained by weak government control, vested interests and corruption. It pointed out that the better security situation in the southern parts of the country and in the Kurdistan region would support overall economic growth, given that high levels of violence, mainly in central areas around Baghdad, would continue to disrupt activity. It expected oil production to rise to about 3.2 million b/d this year and to reach 3.4 million b/d by 2015 but to remain below the government's target. But it noted that risks on both the downside and the upside are significant and are mainly dependent on the political and security situation.

In parallel, the EIU forecast the fiscal surplus to widen from 1.2% of GDP in 2013 to 3.9% of GDP in 2014 due to under-spending. But it expected the fiscal surplus to shift to a deficit of 1% of GDP by 2018 as spending growth gains momentum and as global oil prices fall to about \$90 per barrel. Further, it forecast the current account surplus to narrow from 8.5% of GDP in 2013 to 7% of GDP in 2014 and 4.6% of GDP in 2015 due to narrower trade surpluses. It anticipated that the downward trend in trade surplus resulting from lower global oil prices would lead to a current account surplus of 2% of GDP by 2018. It projected foreign currency reserves to rise from \$76.1bn in 2013 to \$82.1bn in 2014 and \$89.1bn in 2015. It anticipated that reserves would cover 15.8 months of imports in 2014 and 15.5 months of imports in 2015, compared to 16.1 months in 2013.

Source: *Economist Intelligence Unit*



ECONOMY & TRADE

GCC

Weak corporate governance is rating hurdle for privately-held firms

Fitch Ratings indicated that the ratings of privately-owned firms in the Gulf Cooperation Council economies are constrained by relatively weaker corporate governance compared to developed market peers. It attributed the weak corporate governance to the lack of effective independent boards, weak transparency and limited disclosure practices. It noted that corporate governance practices are steadily improving in the GCC, but largely for publicly-listed companies. It added that a move in company culture towards more independence, transparency and disclosure for privately-owned institutions would take time. It considered "key man" risks to be high among GCC corporates. It indicated that other risks include influence of family shareholders on corporate strategy and operations, related-party transactions, management succession, and dividend policies that may favor family interests over the interests of other stakeholders. However, Fitch pointed out that family ownership can bring benefits, such as commitment to long-term strategic goals and tapping family wealth to aid business growth. But it noted that the availability of new equity, the actual wealth of an individual owner, succession plans and the willingness for ownership to be diluted or to commit funds are difficult to evaluate for private companies. In parallel, the agency considered that poor governance standards can discourage international investors from looking for opportunities in the GCC as they face closely controlled companies and a general lack of transparency.

Source: Fitch Ratings

ARMENIA

Spillovers from Russia weigh on activity

Moody's Investors Service revised downward its forecast for Armenia's real GDP growth from 3.2% in 2014 and 3.6% in 2015 to 2.1% and 2.3%, respectively, due to the steeper-than-expected decline in net exports and to slowing remittance inflows from Russia in the first half of 2014. It anticipated that the slowdown in Russia's economic activity would continue to negatively affect the Armenian economy, given the economic linkages between the two countries. It pointed out that Russia accounts for nearly a quarter of Armenia's total imports and exports, while it was the source of about 45% of total foreign direct investment inflows to Armenia during the 2008-12 period and of 90% of total remittance received. It cautioned from additional spillover risks from tighter international sanctions against Russia. It considered that a sharp slowdown in remittance inflows to Armenia and lower FDI inflows could lead to negative rating pressure if they take place along with a sustained deterioration in fiscal and external buffers. However, it indicated that the government's commitment to fiscal prudence and macroeconomic stability mitigates risks related to Armenia's significant exposure to external shocks, and reduces its vulnerability to changes in global oil, food and commodity prices. It pointed out that the country's new Extended Fund Facility agreement with the International Monetary Fund aims to further strengthen revenue-generating capacity and put the debt level on a downward path starting in 2017.

Source: Moody's Investors Service

NIGERIA

Sovereign ratings affirmed, outlook 'negative'

Standard & Poor's affirmed Nigeria's long- and short-term foreign and local currency sovereign credit ratings at 'BB-/B' and maintained the 'negative' outlook on the long-term ratings. It indicated that the ratings are constrained by low GDP per capita, very poor infrastructure, heightened internal political tensions and weak public institutions. It noted that the general elections scheduled for February 2015 would test the country's institutions and fiscal resilience. However, it noted that the ratings are supported by low public and external debt levels, substantial oil reserves and robust non-hydrocarbon GDP growth. It anticipated that global oil prices would broadly remain high, which would support exports and public revenues. It expected real GDP to average around 6.3% annually during the 2014-17 period, mainly supported by agricultural reforms, the privatization of the electricity sector as well as by the strong growth of the telecommunications and financial services sectors. Further, it pointed out that oil theft and pipeline shutdowns have resulted in lower-than-targeted production levels so far this year, and have led to the drawdown of the Excess Crude Account reserves to about \$4.1bn in August 2014 from \$10bn at the end of 2012. It said that public finances are vulnerable to fluctuations in global oil prices and in domestic production, and cautioned from a rise in elections-related spending. It expected the current account surplus to average 3.3% of GDP annually during the 2014-17 period and forecast foreign currency reserves to cover over four months of current account payments.

Source: Standard & Poor's

ANGOLA

Challenges persist despite five years of economic progress

The International Monetary Fund indicated that Angola made significant progress over the last five years towards implementing sound economic policies to reach historically-low inflation rates, adequate level of foreign currency reserves and robust economic activity. It welcomed the authorities' strong commitment to address the country's macroeconomic challenges, to implement economic reforms and to transform Angola into a more inclusive economy. It noted that authorities recently accelerated their efforts to improve the business environment, which strengthens the country's outlook. However, the Fund considered that Angola continues to face challenges, such as persistent fiscal deficits, dependence on oil exports, poor infrastructure, weak oversight of public investments and high poverty levels. It encouraged the authorities to continue their reforms plan, particularly to address the emerging fiscal deficits in order to protect the economy against fluctuations in global oil prices and to maintain fiscal space for their infrastructure projects. As such, it called on authorities to control the increase in current spending by adopting a modern wage policy for civil servants and by reducing the costly and regressive fuel subsidies. It added that authorities need to improve public investment efficiency through better project selection and monitoring, and to further strengthen bank supervision.

Source: International Monetary Fund



BANKING

SAUDI ARABIA

Private sector lending up 12% year-on-year in August 2014

Figures issued by the Saudi Arabian Monetary Agency (SAMA) show that total assets of commercial banks reached SAR2,051.4bn, equivalent to \$547bn at the end of August 2014, constituting a growth of 9.4% from end-2013 and a rise of 13% from August 2013. Loans to the private sector totaled SAR1,232.9bn, equivalent to \$328.8bn at the end of August 2014 and increased by 9.7% from end-2013 and by 12.2% year-on-year. Total loans rose by 0.8% month-on-month in August 2014, mainly driven by a 0.9% monthly increase in private sector lending that was partly offset by a 0.9% contraction in public sector credit. In parallel, aggregate deposits reached SAR1,524.3bn or \$406.5bn at the end of August 2014, constituting a rise of 8.7% from end-2013 and a growth of 15% from August 2013. Foreign currency deposits accounted for 10.5% of total deposits in August 2014 relative to 12.2% in December 2013 and 11.5% in August 2013. Demand deposits accounted for 62% of total deposits in August 2014 compared to 61.2% in December 2013 and to 63% in August 2013. The loan-to-deposit ratio stood at 81% in August 2014 compared to 83% in August 2013. The sector's aggregate profits totaled SAR28.2bn or \$7.5bn in the first eight months of 2014 and rose by 12.2% from the same period of 2013.

Source: Saudi Arabia Monetary Agency

UAE

Agency takes rating actions on nine banks

Capital Intelligence affirmed the long-term foreign currency rating of National Bank of Abu Dhabi (NBAD) at 'AA-', that of Mashreqbank (MB), National Bank of Ras Al- Khaimah (Rakbank), Bank of Sharjah (BOS), Sharjah Islamic Bank (SIB) and National Bank of Fujairah (NBF) at 'A-', that of Al Masraf and Invest Bank (IB) at 'BBB', and that of National Bank of Umm Al Qaiwain (NBQ) at 'BBB+'. It said that all banks' long-term foreign currency ratings are 'stable', except for Al Masraf which has a 'positive' outlook. Further, it maintained the Financial Strength Rating (FSR) of NBAD at 'A+', that of MB, Rakbank, BOS and SIB at 'BBB+', that of Al Masraf at 'BBB-', and that of NBQ and IB at 'BBB'; while it upgraded the FSR of NBF to 'BBB+' from 'BBB'. It attributed the upgrade of NBF's FSR to the increase in its Tier-one Capital, strong asset quality ratios and continuing good liquidity and profitability. The agency revised the outlook on Rakbank's FSR to 'positive' from 'stable' due to improvements in its liquidity ratios and rising loan-loss reserve coverage ratio. Also, it revised the outlook on NBF's FSR to 'stable' from 'positive' due to high deposits concentration, ongoing rise in credit risks and a high level of restructured loans. It assigned a 'positive' outlook to MB's FSR which reflects the bank's improving asset quality and strong performance in the first quarter of 2014. It noted that the remaining banks' FSRs have a 'stable' outlook. Further, it indicated that NBAD's FSR is supported by its solid capital adequacy ratio (CAR), strong profitability, good underwriting standards and sound risk profile of its borrowers.

Source: Capital Intelligence

RUSSIA

Sanctions to negatively affect banks

Standard & Poor's indicated that the immediate impact of Western sanctions on Russian banks is manageable, given the banks' limited reliance on funding from international capital markets. It said that sanctions imposed by the United States and the European Union directly affect more than half of the sector's total assets and aim at restricting state-owned banks' access to external capital markets. It noted that Russian banks will be able to refinance about \$57bn of external debt maturing during the 2014-15 period through their liquidity reserves and through the Central Bank of Russia (CBR) when needed. However, it anticipated that maintaining the sanctions over an extended period of time, along with the slowdown in domestic economic activity and capital inflows, would negatively affect the funding and liquidity profiles of all Russian banks. It said that the stability of corporate deposits is becoming critical to banks' funding profiles, given that retail deposits, which have been key in building banks' funding base in recent years, are currently stagnating. It considered that banks would accept an erosion of their net interest margins in order to retain their deposit base and overall liquidity positions. Further, it pointed out that the banking sector could suffer from the indirect impact of sanctions over the longer-term, such as a deterioration in investor sentiment that would increase capital outflows and weaken economic growth. It expected banks to increase their reliance on CBR funding, which would ease immediate refinancing challenges but would weaken their funding and liquidity profiles at later stages.

Source: Standard & Poor's

INDIA

State-owned banks need up to \$37bn to meet Basel III requirements

Moody's Investors Service estimated that rated state-owned Indian banks would need up to \$37bn in external capital in order to fully meet Basel III capital requirements by the fiscal year ending in March 2019. It assumes that India's real GDP growth would gradually recover and that the non-performing loans ratio would steadily decline. It pointed out that state-owned banks barely meet the current minimum capital requirements, and anticipated that they will face difficulties in raising capital in the current environment. It indicated that Basel III requirements raise the minimum required capital levels to 7% for total Tier One capital and to 5.5% for Common Equity Tier One capital, adding that banks would need to meet a Capital Conservation Buffer in order to pay dividends. It noted that such requirements would weigh on state-owned banks, given that low capital levels remain a key credit weakness. It pointed out that weak asset quality has depressed profitability and internal capital generation, leaving public-sector banks reliant on periodic capital injections from authorities. It noted that such injections are not likely to grow, given the new administration's plan to reduce the fiscal deficit. Further, the agency noted that banks could struggle to raise the required amount of capital on the equity markets. It estimated that about \$13bn to \$15bn could be in the form of Additional Tier One capital. Moody's rates 11 state-owned banks that represent 62% of the sector's net loans.

Source: Moody's Investors Service



ENERGY / COMMODITIES

Natural gas prices to rise by 2% in fourth quarter, petroleum prices to drop by 2% in covered period

U.S. Henry Hub natural gas prices are forecast to rise by 20% in 2014 to an average of \$4.5 per million British thermal units (Btu). U.S. natural gas prices are projected to average \$4 per million Btu in the fourth quarter of 2014, reflecting increases of 2.1% from the previous quarter and of 5.4% from the same quarter last year. In parallel, the Bloomberg Natural Gas Total Return Sub-Index improved by 4.8% in August 2014 and grew by 2.5% in the first eight months of 2014. According to the International Monetary Fund, the probability of the 12-month forward U.S. natural gas prices dropping below \$3 per million Btu rose to 17% from 15%, while the probability of prices rising above \$7 per million Btu increased to 1.2% from 0.5%. In parallel, the petroleum spot price, which is the average of the U.K. Brent, Dubai and West Texas Intermediate spot prices, is expected to reach \$99.3 a barrel in the fourth quarter of 2014, constituting decreases of 2.3% from the third quarter and of 5% from the same quarter last year. Overall, crude oil spot prices are forecast to decrease by 1.3% in 2014 to an average of \$102.8 a barrel and to decline to an average of \$99.4 a barrel in 2015. U.S. natural gas prices are expected to increase in the longer term due to a rise in demand from new petrochemical plants and from the start-up of facilities to liquefy natural gas for export.

Source: IMF, Moody's Investors Service

Libya's oil output rebounds to 64% of normal capacity in third week of September 2014

Libya's crude oil production was estimated at 900,000 barrels per day in the third week of September, or at about 64% of the country's normal supply level, which reflects an increase of 1.7 times from the average output level reached in August 2014. The recent rise in oil production was due to the implementation of a deal between the government and a group of federalist rebels to reopen major eastern ports. The government indicated earlier this month that it expects the country's crude oil output to reach its full capacity by the end of 2014.

Source: Thomson Reuters, Byblos Research

Iraqi oil receipts down 9% in August 2014

Iraqi crude oil export receipts reached \$7.1bn in August 2014, down 9% from \$7.8bn generated in July of this year. Iraq's crude oil exports averaged 2.38 million b/d in August 2014, constituting a decrease of 2.8% from an average output of 2.44 in the preceding month. The selling price for Iraq's crude oil declined by 5.3% to \$97.4 per barrel last month from \$102.8 per barrel in July 2014. In parallel, Iraq's crude oil production averaged 3 million b/d in August, down 2.1% from July 2014.

Source: OPEC, Thomson Reuters, Byblos Research

OPEC's basket price down 5% in August 2014

The Organization of the Petroleum Exporting Countries' oil reference basket price reached \$100.75 a barrel in August 2014, constituting a decrease of 4.9% from \$105.61 a barrel in the preceding month. Abu Dhabi's Murban crude oil posted the highest price among the basket's components as it reached \$104.33 per barrel (p/b) in August, followed by Nigeria's Bonny Light at \$102.26 p/b, and Saudi Arabia's Arab Light at \$102.24 p/b. All prices included in the basket posted decreases of between 2.8% and 7% in August 2014.

Source: Organization of the Petroleum Exporting Countries

COUNTRY RISK WEEKLY BULLETIN

Base Metals: Asian steel prices remain world's lowest due to region's excess supply

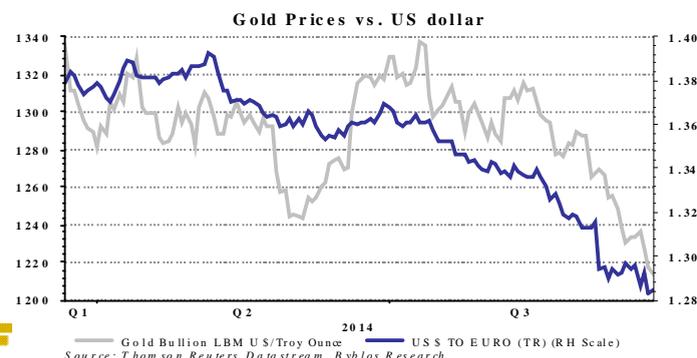
Global steel consumption is forecast to grow by 3% in 2014 relative to 3.9% in 2013, as uncertainty in the Chinese construction sector weighs on the metal's demand. But steel demand would improve by 3.6% in 2015 due to stronger global economic expansion, as mature economies stabilize and emerging markets accelerate. In parallel, global steel production is projected to grow by 3.4% this year, unchanged from last year, as China's steel supply would drop in the fourth quarter of 2014. Asian steel prices remain the world's lowest due to the region's excess supply. Chinese steel prices fell to about \$500 a ton in late 2013 and are expected to trade at \$475 a ton to \$525 a ton for the rest of 2014 and through early 2015. In parallel, EU hot rolled coil steel prices, the metal's benchmark price, are forecast to average \$567 a ton in the fourth quarter of 2014, reflecting an increase of 0.4% from the preceding quarter and a decline of 1.7% from the same quarter of 2013. Overall, EU hot rolled coil steel prices are expected to decrease by 5.6% in 2014 to \$580 a ton but to rise by 4.9% in 2015.

Source: Economist Intelligence Unit, Byblos Research

Precious Metals: Gold prices to remain subdued in long run as US dollar appreciates

Gold prices have declined to under \$1,250 a troy ounce as tensions in Ukraine eased, as the US dollar strengthens and as fears return of an earlier-than-expected rise in interest rates. The ongoing U.S. economic recovery, the prospect for higher interest rates and a muted inflation outlook are expected to weigh on Western investors' demand for safe-haven assets and to reduce their willingness to purchase gold as insurance. The metal's demand in China is anticipated to remain subdued as gold's weak performance discourages local investors to purchase the metal. Further, the Chinese government's crackdown on metal financing deals could cap future gold imports. In parallel, Indian imports of the metal would gradually ease following the end of the country's festive season in November 2014. The gold market is expected to remain oversupplied in the next 12 months. Gold prices are forecast to average \$1,200 a troy ounce over the coming three months and to decline to \$1,100 a troy ounce on average in the coming 12 months. Gold prices require major shocks to re-enter a longer-term uptrend, such as the crises experienced between 2007 and 2011. According to the International Monetary Fund, the probability of the 12-month forward gold prices dropping below \$1,200 a troy ounce is 47% in September, while the probability of gold prices rising above \$1,400 a troy ounce reached 17.1% in the same month.

Source: Julius Baer, International Monetary fund



September 25, 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								
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	Stable	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
	Positive	-	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	17-Sept-14	No change	29-Oct-14
Eurozone	Refi Rate	0.05	04-Sept-14	Cut 10bps	02-Oct-14
UK	Bank Rate	0.50	04-Sept-14	No change	09-Oct-14
Japan	O/N Call Rate	0-0.10	04-Sept-14	No change	07-Oct-14
Australia	Cash Rate	2.50	02-Sept-14	No change	07-Oct-14
New Zealand	Cash Rate	3.50	11-Sept-14	No change	30-Oct-14
Switzerland	3 month Libor target	0.00-0.25	18-Sept-14	No change	11-Dec-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	17-Sept-14	No change	29-Oct-14
Taiwan	Discount Rate	1.875	26-June-14	No change	25-Sept-14
South Korea	Base Rate	2.25	12-Sept-14	No change	15-Oct-14
Malaysia	O/N Policy Rate	3.25	18-Sept-14	No change	06-Nov-14
Thailand	1D Repo	2.00	17-Sept-14	No change	05-Nov-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	25-Sept-14
South Africa	Repo rate	5.75	17-Sept-14	No change	19-Nov-14
Kenya	Central Bank Rate	8.50	03-Sept-14	No change	05-Nov-14
Nigeria	Monetary Policy Rate	12.00	19-Sept-14	No change	N/A
Ghana	Prime Rate	19.00	17-Sept-14	No change	03-Nov-14
Angola	Base rate	8.75	28-July-14	Cut 50bps	N/A
Mexico	Target Rate	3.00	05-Sept-14	No change	31-Oct-14
Brazil	Selic Rate	11.00	03-Sept-14	No change	29-Oct-14
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-Sept-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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