

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate default rate at 2.1% at end-September 2014

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.1% at the end of September 2014, down from 2.2% at the end of June 2014 and 2.9% at end-2013. It said that 43 corporate issuers have defaulted in the first nine months of the year, including 18 companies in the third quarter. It forecast the global speculative-grade default rate at 2.3% at the end of 2014. Moody's noted that global default rates remain low, but it expected a few corporates to default in the next 12 months despite signs of strengthening economic activity. Measured on a dollar volume basis, the global speculative-grade bond default rate reached 1.9% at the end of September 2014, up from 1.3% a year earlier and compared to 2% at the end of June 2014 and to 1.2% at end-2013. Moody's added that its speculative-grade corporate distress index, which measures the percentage of rated issuers that have debt trading at distressed levels, stood at 8.3% at the end of September 2014, up from 6.5% at end-June and from 7.4% at end-2013, but down from 8.6% a year earlier.

Source: *Moody's Investors Service*

MENA

Level of economic freedom stagnates

The Fraser Institute's Index of Economic Freedom for 2014, a broad indicator of economic freedom in 152 countries, shows that overall economic freedom among Arab countries regressed from an average score of 6.99 points in 2013 to 6.93 points in 2014. The level of economic freedom in the region came slightly above the global level of 6.85 points. In comparison, GCC economies had an average score of 7.46 points, significantly higher than the average score among non-GCC Arab countries of 6.53 points. The index measures on a scale of zero to 10 the extent that a country's policies and institutions are supportive of economic freedom. It evaluates individual economies on the basis of 42 variables that are divided into five broad factors of economic freedom that measure the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. The rankings of three Arab countries improved and 11 declined from the 2013 survey, while the level of economic freedom improved in four countries and declined in 10 economies. The UAE remains the most economically-free country in the Arab world, ranking as the sixth freest economy in the world, followed by Jordan (9th), Qatar (15th), Bahrain (25th) and Oman (45th); while Mauritania (120th), Egypt (122nd) and Algeria (148th) are the least free economies in the region.

Source: *Fraser Institute, Byblos Research*

Country risk level in Arab world slightly deteriorates in third quarter of 2014

Euromoney magazine's quarterly survey on global country risk shows that the risk level in the Arab world slightly deteriorated in the third quarter of 2014, as the average score of 19 Arab economies reached 41.27 points in the covered quarter compared to 41.86 points in the second quarter of the year. The region's risk level remains higher than the global risk level that averaged 42.19 points in the third quarter of the year. The GCC countries' risk level slightly deteriorated to 66.13 points from 66.66 points in the preceding quarter, while the average score of non-GCC Arab countries dropped to 29.79 points from 30.41 points in the second quarter of 2014. The Arab world's Political Risks level stood at 11.99 points, which is riskier than the global average of 13.92 points in the third quarter of 2014; while the Economic Performance score was 14.37 points, which is better than the global average of 14.26 points. Further, the region's Credit Ratings averaged 5.21 points relative to the global average of 4.52 points; while the Access to Bank Finance & Capital Markets score reached 3.42 points, below the global average of 3.96 points. Qatar is the country with the best risk ratings in the Arab world and ranked in 18th place globally, followed by the UAE (24th), Kuwait (25th), and Oman (29th); while the lowest-ranked countries in the region are Mauritania that came in 161st place, followed by Sudan (162nd), Syria (165th) and Djibouti.

Sources: *Euromoney, Byblos Research*

Equity issuance up 43% to \$5.1bn in first nine months of 2014

Equity Capital Markets' (ECM) issuance in the Middle East reached \$5.1bn in the first nine months of 2014, constituting a rise of 43% from the same period last year. ECM issuance totaled \$0.9bn in the first quarter, \$2.4bn in the second quarter and \$1.9bn in the third quarter of the year. Initial public offerings accounted for 62% of ECM activity in the region. The real estate sector had a total issuance of \$1.8bn and accounted for 34.4% of ECM activity, followed by the industrial sector with \$1.2bn (24.2%), which constituted the two most active sectors during the covered period. Also, debt issuance in the region reached \$32.8bn in the first nine months of 2014, constituting an increase of 5% from the same period last year. Islamic debt issuance reached \$29.9bn from 76 issues during the covered period, constituting a rise of 48% from the same period last year. Further, the volume of mergers and acquisitions (M&A) reached \$29.9bn in the first nine months of 2014, up 2% from the same period of 2013. In parallel, investment banking and advisory fees in the Middle East stood at \$633.1m year-to-September, constituting a marginal rise of 0.2% from \$631.7m in the same period last year. Syndicated lending fees totaled \$259.4m and accounted for 41% of the overall fee pool, followed by fees from M&A deals with \$143.9m (23%), fees from equity capital markets with \$134.5m (21.2%), and debt capital markets fees with \$95.3m (15.1%).

Source: *Thomson Reuters*

OUTLOOK

IRAQ

Real GDP to contract by 3.2% in 2014 and 2.4% in 2015

The Institute of International Finance projected Iraq's real GDP to contract by 3.2% in 2014 and by an additional 2.4% in 2015 relative to growth rates of 2.6% in 2013 and 8% in 2012. It attributed the contraction in economic activity to the intensification of fighting that has negatively affected the hydrocarbon and non-hydrocarbon sectors. It pointed out that the newly-formed Cabinet remains fragile and reflects little change in the distribution of real power. It cautioned that the fighting against Islamic State militants may deepen divisions among ethnic groups. It forecast hydrocarbon output to shrink by 1.4% in 2014 and by 1.8% in 2015 compared to growth rates of 1.9% in 2013 and 9.4% in 2012. It noted that oil production from northern fields, including Kirkuk, fell from 0.6 million barrels per day (b/d) in February 2014 to 0.1 million b/d in August 2014, while Kurdistan's hold on Kirkuk has compromised the central government's ability to control the country's oil production. It added that federally-controlled exports, mostly from southern terminals, declined slightly in recent months as some foreign oil workers left the country. It expected the non-hydrocarbon sector to contract by 5% in 2014 and by 3% in 2015, relative to expansions of 4% last year and 6% in 2012. The IIF projected the economy's aggregate output losses from internal tensions and from the rise of the Islamic State at \$58.4bn between 2013 and 2014, which is equivalent to 11.9% of the country's cumulative GDP during the covered period.

In parallel, the IIF forecast the fiscal deficit to widen from 1.5% of GDP in 2013 to 5.4% of GDP in 2014 and to 7.8% of GDP in 2015. It expected the public debt level to rise from 33.1% of GDP in 2013 to 35.7% of GDP in 2014 and to 44.5% of GDP in 2015. Further, it projected the current account surplus to narrow from 8.4% of GDP in 2013 to 6.1% of GDP in 2014 and to 2.4% of GDP in 2015. It anticipated Iraq's foreign exchange reserves to fall from a peak of \$76bn in 2013 to \$68bn in 2014 and to \$59bn in 2015, reflecting capital flight and lower oil exports.

Source: Institute of International Finance

ANGOLA

Non-oil real GDP growth to reach 7.3% in 2014 and 2015

The International Monetary Fund projected economic growth in Angola at 3.9% in 2014 and 5.9% in 2015 relative to a growth rate of 6.8% in 2013, and compared to growth rates of 6% in 2014 and 7% in 2015 in Sub-Saharan Africa's oil-exporting countries. It expected the country's non-oil GDP to grow by a real rate of 7.3% in both 2014 and 2015, down from 10.8% in 2013, and compared to growth rates of 6.7% and 7.5% in 2014 and 2015, respectively, in the region's oil exporting countries. The Fund forecast Angola's annual average inflation rate at 7.3% in both 2014 and 2015, compared to inflation rates of 7.4% and 7.9% in 2014 and 2015, respectively, for SSA's oil-exporting economies. It estimated total investment at 14.8% of GDP in 2014 and 14.6% of GDP in 2015, relative to 14.7% of GDP in 2013. It also expected broad money to grow by 21.1% this year and by 19.6% next year, compared to a rise of 14.3%

last year. It added that claims on the non-financial private sector grew by 24.2% and by 10.9% in 2012 and 2013, respectively.

The Fund projected the central government's fiscal balance to shift from a surplus of 0.3% of GDP in 2013 to a deficit of 4.1% of GDP in each of 2014 and 2015, compared to a deficit in oil-exporting peers of 2.2% of GDP in 2014 and 2.5% of GDP in 2015. It estimated public revenues at 37.5% of GDP this year and at 37% of GDP in 2015, and total expenditures at 41.6% of GDP in 2014 and at 41.2% of GDP in 2015. Further, it expected 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. In comparison, it forecast oil-exporting countries in SSA to post current account surpluses of 3% of GDP this year and 1.6% of GDP next year. It noted that Angola's gross official reserves reached 7.9 months of import cover at end-2012 and 7.7 months of import cover at end-2013.

Source: International Monetary Fund

DEM REP CONGO

Economic growth to average 8.6% in 2014-15

The International Monetary Fund projected the Democratic Republic of Congo's real GDP growth rate at 8.6% in 2014 and 8.5% in 2015 compared to a growth rate of 8.5% in 2013. In parallel, it forecast growth at 5.1% in 2014 and 5.8% in 2015 for Sub-Saharan Africa (SSA), and at 6.1% in 2014 and 6.6% in 2015 for the Common Market for Eastern & Southern Africa (COMESA), to which the DRC belongs. It forecast the country's annual average inflation rate at 2.4% in 2014, compared to 0.8% in the previous year, and compared to average inflation rates of 6.7% in SSA and 6.5% in the COMESA. It also expected the country's average inflation rate to reach 4.1% in 2015 relative to 7% for SSA and 6.6% for COMESA. It projected the DRC's real per capita GDP to grow by 5.5% in 2014 and by 5.3% in 2015 relative to a growth rate of 5.4% in 2013. Further, it anticipated broad money to expand by 12.3% in 2014 and by 17.7% in 2015 relative to 11.1% last year. It added that claims on the non-financial private sector grew by 25.6% and by 26.5% in 2012 and 2013, respectively, relative to 22% and 14% for COMESA.

In parallel, the Fund projected the government's fiscal balance to post deficits of 5.6% of GDP in 2014 and 5.8% of GDP in 2015, when excluding grants, relative to 6.1% of GDP in 2013; while it estimated deficits of 2.1% of GDP in 2014 and 1.6% of GDP in 2015, when including grants, relative to 1.7% of GDP in 2013. It projected public revenues, excluding grants, at 14% of GDP in 2014 and 14.2% of GDP in 2015 and total expenditures at 19.6% of GDP in 2014 and 20% of GDP in 2015. The IMF projected the country's external debt to official creditors at 12.4% of GDP in 2014 and 13% of GDP in 2015, up from 11.2% of GDP in 2013. Further, it expected the current account to post deficits of 9.3% of GDP in 2014 and 9.2% of GDP in 2015, compared to 10.2% of GDP in 2013. The Fund noted that the country's gross official reserves reached 1.5 months of imports of goods & services at the end of 2012 and 2013.

Source: International Monetary Fund



ECONOMY & TRADE

EMERGING MARKETS

Lower oil prices to affect fiscal balance of oil exporters

Deutsche Bank estimated the fiscal breakeven Brent oil price of Venezuela at \$162 per barrel (p/b) in 2014, the highest among major oil producers, followed by Bahrain at \$136.2 p/b, Nigeria at \$126.2 p/b, Oman at \$100.7 p/b, Russia at \$100.1 p/b, Saudi Arabia at \$99.2 p/b, the UAE at \$80.2 p/b, Kuwait at \$75.5 p/b and Qatar at \$71.3 p/b. It pointed out that a Brent spot price of \$83 p/b would exceed the level needed to balance the budget in Qatar, Kuwait and the UAE, while it would be below that of Venezuela, Bahrain, Nigeria, Oman, Russia and Saudi Arabia. It pointed out that Saudi Arabia has a substantial stock of assets that would enable it to withstand lower global oil prices for a sustained period of time without the need to borrow or to tighten its fiscal policy. It indicated that, under a scenario whereby oil prices remain at about \$83 p/b, Saudi Arabia would be able to finance its resulting fiscal deficit without containing public spending for 7.9 years. It said that Russia would be able to finance its fiscal deficit for 3.8 years without any adjustment to public expenditures. However, it pointed out that Nigeria's assets would only finance its deficit for 0.3 years in the absence of any adjustment. It added that Venezuela has no meaningful cushion to absorb this shock. In parallel, Deutsche Bank projected the fiscal breakeven oil price of Bahrain at \$138.1 p/b in 2015, the highest among major oil producers, followed by Nigeria at \$122.7 p/b, Venezuela at \$117.5 p/b, Oman at \$110 p/b, Russia at \$105.2 p/b, Saudi Arabia at \$104.4 p/b, the UAE at \$80.8 p/b, Kuwait at \$78.4 p/b and Qatar at \$76.8 p/b.

Source: Deutsche Bank

JORDAN

Real GDP to expand by 3% in 2014, fiscal deficit at 15% of GDP

The World Bank projected Jordan's real GDP to expand by 3% in 2014 following a growth rate of 2.8% in 2013 and relative to a growth rate of 3% in the Middle East & North Africa region. The Bank indicated that the political and military crises in Iraq and Syria have adversely affected the Jordanian economy. It noted that investor and exporter confidence is decreasing, while uncertainty is rising. But it said that Jordan's medium-term outlook is positive and expected real GDP growth to accelerate to 3.4% in 2015 and 3.9% in 2016. However, it considered that the positive outlook is contingent on the success of the ongoing reforms to the energy sector and on the containment of military activity in the region. It forecast the inflation rate at 3.1% in 2014 and 2.8% in 2015 relative to 5.6% in 2013. Further, the Bank pointed out that macroeconomic vulnerabilities persist due to a wide fiscal deficit and an elevated public debt level. It projected the fiscal deficit, excluding grants, to widen from 14.1% of GDP in 2013 to 14.7% of GDP in 2014 due to the rise in the losses of the state-owned National Electric Power Company. It expected the current account deficit to deteriorate from 10% of GDP in 2013 to 11.3% of GDP in 2014, reflecting rising energy imports and a slowdown in export growth. But it expected the fiscal deficit to improve to 8.9% of GDP and for the current account deficit to narrow to 9.4% of GDP in 2015.

Source: World Bank

EGYPT

Outlook revised to 'stable' from 'negative'

Moody's Investors Service revised to 'stable' from 'negative' the outlook on Egypt's 'Caa1' government bond rating. It attributed the revision to improved domestic political and security conditions, the launch of several fiscal and economic reforms, signs of a recovery in economic activity and enhanced macroeconomic stability, as well as to strong support from external donors. It noted that authorities cut energy subsidies in July 2014 and unveiled plans to phase out fuel and electricity subsidies over the next five years. It added that the government is planning revenue-enhancing measures, including a shift from the current goods and services tax to a value-added tax system. It said that these measures aim to narrow the fiscal deficit from 12.8% of GDP in the fiscal year that ended in June 2014 to 10% of GDP in FY2014/15 and 8.5% of GDP in FY2018/19, and to reduce the public debt level to about 80% to 85% of GDP by FY2018/19. Also, it pointed out that domestic investors are showing confidence in the economic recovery, as the recent issuance of Suez Canal investment certificates to retail investors yielded the equivalent of \$8.5bn. The agency pointed out that external financial support, mainly from the GCC countries, has strengthened Egypt's external liquidity, supported its budget and lowered the government's financing cost. It expected financial support from Gulf countries to continue in the future. In parallel, Moody's pointed out that the government's bond rating remains constrained by wide fiscal deficits, elevated public debt levels, very large borrowing needs of about 45% of GDP in FY2014/15, and persistent challenges that are delaying the recovery of economic growth.

Source: Moody's Investors Service

ARMENIA

Remittance inflows up 24% to \$2.7bn in 2014

The World Bank estimated remittance inflows to Armenia at \$2.7bn in 2014, constituting an increase of 23.5% from \$2.2bn in 2013 and compared to nearly \$1.9bn in 2012. Armenia would post the fastest growth in remittance inflows among the 12 economies of the Commonwealth of Independent States (CIS) in 2014 and the fifth highest growth rate among developing countries. Remittances to Armenia would account for 6.9% of total remittances to the CIS in 2014, up from 5.7% in 2013 and 5.6% in 2012. They would also represent 0.6% of remittance inflows to developing countries in 2014, up from 0.5% in each of 2012 and 2013. Further, the World Bank estimated expatriates' remittances to Armenia to be equivalent to 24.4% of the country's GDP in 2014, up from 21% of GDP in 2013, 19.2% of GDP in 2012, and 17.7% of GDP in 2011. In comparison, remittance inflows to the CIS economies are equivalent to 1.4% of the region's GDP in 2014. Also, the country's remittances per capita are estimated at \$822.1 in 2014 relative to \$667.1 in 2013, the highest among CIS countries. Armenia would be the 32nd largest recipient of remittances in developing economies in 2014, ranking ahead of Ecuador and behind Peru. Also, it would be the fifth largest recipient among CIS countries, behind Ukraine, Russia, Uzbekistan and Tajikistan.

Source: World Bank, Byblos Research



BANKING

MENA

Tier One capital of top 100 Arab banks up 11% to \$233bn at end-2013

The Banker magazine's annual survey of the Top 100 Arab banks by Tier One capital included 21 banks from the UAE, 12 banks from Saudi Arabia, 10 banks from each of Bahrain, Egypt, Kuwait and Qatar, eight from Lebanon, seven from each of Morocco and Oman, three from Jordan and one bank from each of Algeria and Tunisia. It said that Saudi Arabia accounted for 28% of the aggregate Tier One capital of the top 100 Arab banks. The UAE followed with 25.3%, Qatar with 10.4%, Kuwait with 10%, Bahrain with 6.2%, Morocco with 5.3%, Lebanon with 4.3%, Egypt with 4.2%, Oman and Jordan with 2.7% each, Algeria with 0.9% and Tunisia with 0.2%. *The Banker* indicated that the aggregate Tier One capital of the Top 100 Arab banks reached \$233.1bn at the end of 2013, constituting an increase of 11.1% from \$209.8bn at end-2012, and accounting for 3.5% of that of the Top 1000 banks globally. The Arab banks' total assets reached \$2,187bn at end-2013, up 12.2% from a year earlier. Also, the banks' pre-tax profits grew by 10.1% to \$37.8bn, while their return on capital regressed from 16.25% to 16.23%. The banks' return on assets stood at 1.73% and their average capital adequacy ratio rose from 10.35% to 10.66%. National Commercial Bank of Saudi Arabia retained its top ranking with its Tier One capital rising by 9% to \$11.1bn at end-2013.

Source: *The Banker*

DEM REP CONGO

Banking sector highly vulnerable to currency depreciation

The International Monetary Fund indicated that the Democratic Republic of Congo's banking sector is vulnerable to shocks due to the lack of risk-based supervision, inadequate regulation, weak implementation of banking guidelines, low profitability, high dollarization and an excessive reliance on sight deposits. It said that lending to the private sector remains scarce, expensive, short term in nature and highly concentrated. As such, it noted that the default of a large borrower would have systemic implications. The IMF indicated that a depreciation of the Congolese franc would directly affect banks' balance sheets that are heavily denominated in US dollar and that are not backed by dollar-denominated reserves and other prudential requirements. It noted that indirect currency risks stem from borrowers that are inadequately hedged. It added that a sudden steep loss of the currency's value would harm borrowers' ability to repay their loans, and would substantially increase banks' provisions and capital needs. It said that the capital adequacy ratio for large banks would fall to 1.8%, while small banks would be insulated because of their very limited lending activity. Further, it indicated that foreign and medium-sized banks are most exposed to liquidity shocks from deposit outflows. In parallel, the Fund called on the Banque Centrale du Congo (BCC) to strengthen its framework in order to deal with a possible generalized crisis in the banking system or of an individual bank. It said that the BCC's capacity to respond to U.S. dollar funding pressures is very limited, given the high dollarization rate and low foreign currency reserves.

Source: *International Monetary Fund*

EGYPT

Bank ratings affirmed, outlook revised to 'stable'

Moody's Investors Service affirmed the long-term local currency deposit ratings of National Bank of Egypt (NBE), Banque Misr (BM), Banque du Caire (BdC), and Commercial International Bank (CIB) at 'Caa1', and that of Bank of Alexandria (BoA) at 'B3', and revised the outlook on the ratings from 'negative' to 'stable'. The agency attributed the outlook revision to its similar action on Egypt's sovereign ratings. It pointed out that the banks' ratings reflect the stabilization of the government's credit risk profile and its capacity to provide support to state-owned banks, as well as the improvement in the domestic operating conditions that would stabilize the banks' asset quality and profitability. It said that the five banks are highly exposed to government risk, as their holdings of government debt range between 24% and 43% of their total assets. It noted that this high concentration makes the banks vulnerable to a sovereign credit event and negatively affect their capital buffers. In parallel, Moody's affirmed the standalone baseline credit assessment (BCA) of state-owned banks NBE, BM and BdC at 'E/caa2', and those of the privately-owned banks CIB and BoA at 'E/caa1'. It attributed the divergence in BCAs between state-owned and privately-owned banks to the weaker capital levels of the state-owned banks. It indicated that the Tier One capital ratios range between 3.2% and 5.6% for the three state-owned banks and are 7.3% for CIB and 9.1% for the BoA, when using a 150% risk weighting for local currency-denominated securities instead of the regulatory zero risk weight.

Source: *Moody's Investors Service*

RUSSIA

Capital adequacy of largest banks at risk

Standard & Poor's anticipated that the slowdown in Russia's economic activity and the increase in credit risks would increase funding costs and credit losses, and would negatively affect the profitability and capitalization of Russian banks. It expected Russian banks' net profits this year to be equivalent to half of the profits generated in 2013. It forecast the banking sector's return on equity at about 10% in 2014, down from 14% in 2013, and to further drop in 2015. It projected net interest margins to range between 4.3% and 4.7% in 2014 with further downside pressure next year. It said that the deceleration in economic growth would weaken demand for credit, which would slow down the pace of growth in the sector's assets and loan portfolios. It considered that state-owned banks would grow faster than privately-owned banks, as they fulfill their special mandate to support the domestic economy and meet borrowers' refinancing needs. In parallel, S&P indicated that risks of a deterioration in capital adequacy at large Russian banks over the next 12 to 18 months has significantly increased. It pointed out that the 30 largest Russian banks would not be able to generate sufficient internal capital to support growth in risk-weighted assets in coming months. It said that the pressure on interest margins and rising credit costs would stretch banks' capital generation. It noted that state-owned banks' capital and profitability metrics are at greater risk than those of private banks from the impact of sanctions and from their exposure to Ukraine-related risks.

Source: *Standard & Poor's*



ENERGY / COMMODITIES

Oil dips into bear market territory

Brent oil prices dropped by about 18% and WTI crude prices by about 16%, since the beginning of August 2014, driven by both supply and demand dynamics and by the strengthening of the US dollar. The drop in prices led oil to dip into the largest bear market since 2009. Oil prices could extend their substantial drop as long as the Organization of the Petroleum Exporting Countries (OPEC) does not show signs of reducing supply. The International Energy Agency indicated that OPEC may no longer be willing to adjust production, as the oil market is influenced by the U.S. shale oil revolution. OPEC members are responding to the bear market by decreasing their prices to compete for market share rather than by reducing production. Oil prices are anticipated to remain above \$80 a barrel in the long run despite growing global supply, supported by rising oil demand. Global oil consumption is projected to grow by an average of 0.65 million barrels per day (b/d) or by 0.7% in 2014, and to increase by an additional 1.1 million b/d or 1.2% in 2015 as macroeconomic conditions improve. The prices of oil futures, which are currently near four-year lows, would support global oil demand, given that consumption would grow by about 0.15% with every 10% drop in oil prices.

Source: IEA, Goldman Sachs, Moody's Investors Service

OPEC's oil output at highest level since end-2013

Crude oil production from the Organization of the Petroleum Exporting Countries (OPEC) totaled 30.6 million barrels per day (b/d) in September 2014, up by 400,000 b/d from the previous month, and reflecting its highest level since December 2013. The rise was mainly due to further recovery in Libyan oil production and to higher Iraqi oil supply. The September output led OPEC to exceed its 30 million b/d oil production ceiling by 600,000 b/d at a time of rising non-OPEC supply, mainly from the U.S. The OPEC currently consists of 12 member countries.

Source: Platts

M&A transactions up 7 times in MENA region's oil & gas sector in first nine months of 2014

There were eight completed mergers & acquisition deals that targeted the MENA region's oil & gas sector in the first nine months of 2014, up from seven deals in the same period last year. There were seven deals executed in the GCC's oil & gas sector, of which two deals in each of the UAE, Bahrain and Kuwait, and one deal in Qatar; while one transaction was completed in North Africa for an undisclosed amount. The aggregate declared value of M&A deals was \$597.8m during the covered period, up 6.9 times from the first nine months of 2013.

Source: Zawya M&A Monitor, Byblos Research

Saudi's oil exports at lowest level in three years

Saudi Arabia's crude oil exports averaged 6.663 million barrels per day (b/d) in August 2014, down by 4.7% from 6.989 million b/d in the preceding month and by 14.5% from the same month last year. The August export figures constituted the lowest level since March 2011. Saudi Arabia's oil exports have been dropping in recent months as shale oil is squeezing Saudi oil out of U.S. markets, and as demand from Asia, mainly China, has been slower than expected. Also, a large share of the Kingdom's oil output was consumed domestically in August 2014 due to higher local energy consumption during the summer season.

Source: Thomson Reuters

Base Metals: Steel prices to remain subdued with limited upside due to market oversupply

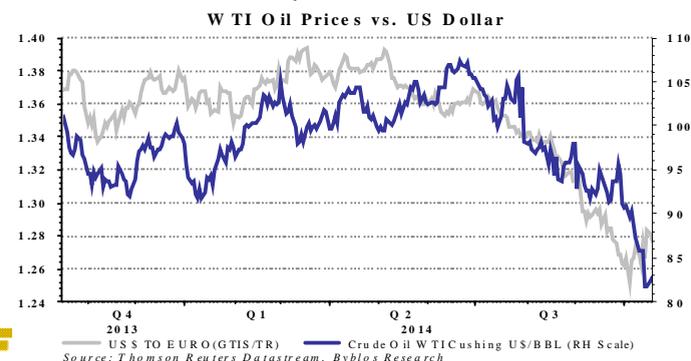
The MEPS World Carbon Steel Price Index is expected to remain subdued in coming months, given the inability of China to reduce steel production continues to contribute to a global surplus of the metal. Chinese crude steel accounts for about 49% of the world's steel output, while China consumes about 46% of the metal's global demand. The MEPS World Carbon Steel Index is forecast to average \$700 a ton in 2015, reflecting a decrease of 0.7% from an average of \$705 a ton in 2014 and a significant drop from the Index's 2011 average of \$854 a ton. Global steel consumption is expected to grow by 3% in 2015, down from 3.3% in 2014. The modest growth in consumption is projected to further increase the surplus on the global market next year. But the expectations of a gradual government crackdown on steel overcapacity in China, along with rising international trade disputes over Chinese steel dumping, would narrow China's structural steel surplus and would increase the metal's global prices in 2016. Also, steel demand in Europe and the U.S. would likely improve during the 2014-15 period. In addition, steel consumption in Saudi Arabia, India and Turkey would strengthen global demand in coming years as growth in construction and infrastructure activities accelerates. As such, the MEPS Carbon Steel Index is forecast to rise by 1.4% to \$710 a ton in 2016.

Source: Business Monitor International, EY

Precious Metals: Gold prices to face downward pressure heading into 2015

Gold prices have been on a downward trend since August 2014 over investors' concerns of an early increase in U.S. interest rates and as the US dollar strengthens. Gold prices are expected to face downward pressure going into 2015 over expectations of a stronger US dollar, of further rises in the S&P 500 index, and of higher long term real yields in the U.S. As such, gold prices are forecast to average \$1,265 a troy ounce in 2014 and to decline by 8.1% to \$1,163 an ounce in 2015. The average price of the metal on the London Bullion Market is projected at \$1,175 a troy ounce in the first quarter of 2015, reflecting a drop of 1.7% from the preceding quarter. In contrast, gold prices could recover if the U.S. economic growth outlook deteriorates, which would extend the U.S. Federal Reserve's timeline to end its quantitative easing program. In addition, gold prices could rise if the US dollar depreciates and if a price correction in U.S. equity markets occurs. In parallel, the gold-to-silver price ratio has been rising gradually in recent years to reach its highest level in five years in October 2014, which indicates that the price of gold is currently outperforming that of silver.

Source: Deutsche Bank, 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								
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	Stable	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
	Stable	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	02-Oct-14	No change	06-Nov-14
UK	Bank Rate	0.50	09-Oct-14	No change	06-Nov-14
Japan	O/N Call Rate	0-0.10	07-Oct-14	No change	31-Oct-14
Australia	Cash Rate	2.50	07-Oct-14	No change	04-Nov-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	25-Sept-14	No change	25-Dec-14
South Korea	Base Rate	2.00	15-Oct-14	Cut 25bps	13-Nov-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	30-Sep-14	No change	02-Dec-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	25-Sept-14	No change	23-Oct-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	25-Nov-14
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	23-Sept-14	No change	N/A
Romania	Policy Rate	3.00	01-Oct-14	Cut 25bps	N/A
Bulgaria	Base Interest	0.03	01-Oct-14	Cut 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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryman Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293

