

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Bank lending conditions tighten in third quarter of 2014

The Emerging Markets Lending Conditions Index decreased to 49.6 in the third quarter of 2014 from 50.2 in the preceding quarter, reflecting a tightening in overall bank lending conditions from the second quarter of 2014. The tightening was driven by a slowdown in loan demand from the weak recovery in emerging markets, as well as by an increase in non-performing loans, which indicated that the previous slowdown in growth and financial market volatility continued to affect banks' asset quality. Also, the improvement in international funding conditions subsided compared to the previous quarter, reflecting greater risk aversion towards emerging markets' assets during the quarter. Also, the supply of trade finance contracted despite the continued expansion in the demand for trade finance. The Lending Conditions Index in the MENA region was the highest globally at 53.9 compared to 55.1 in the second quarter of 2014. Also, the Lending Conditions Index for Emerging Europe decreased to 50.5 in the third quarter of 2014 from 52.7 in the previous quarter, while the index for Sub-Saharan Africa declined to 52.1 from 52.4 in the second quarter of the year, reflecting a tightening in bank lending conditions. In contrast, the Lending Conditions Index for each of Latin America and Emerging Asia rose to 47.4 in the third quarter of 2014 from 47.1 and 46.9, respectively, in the preceding quarter.

Source: *Institute of International Finance*

Sovereign and corporate debt issuance at \$378bn in first 10 months of 2014

The aggregate sovereign and corporate bond issuance in emerging markets totaled \$377.6bn in the first 10 months of 2014, relative to \$439bn in full year 2013. Issuance in Asia reached \$146.6bn or 38.8% of the total, followed by Latin America with \$114.1bn (30.2%), Emerging Europe, the Middle East & Africa (EEMEA) with \$96.4bn (25.5%), and Gulf Cooperation Council (GCC) countries with \$20.5bn (5.4%). Further, corporate bond issuance in emerging markets totaled \$280.6bn in the first 10 months of 2014 relative to \$358bn in full year 2013. Issuance in Asia reached \$132.9bn or 47.4% of the total, followed by Latin America with \$87.5bn (31.2%), the EEMEA with \$42.6bn (15.2%) and GCC countries with \$17.7bn (6.3%). In parallel, sovereign issuance totaled \$97bn in the covered period relative to \$81bn in full year 2013. Sovereign issuance in the EEMEA region reached \$53.9bn or 55.6% of total sovereign issuance, followed by Latin America with \$26.6bn (27.4%), Asia with \$13.7bn (14.1%) and GCC economies with \$2.8bn (2.9%). Merrill Lynch projected sovereign bond issuance in emerging markets at \$107.2bn in 2014, and expected the EEMEA region to issue \$54.5bn, followed by Latin America with \$26.9bn, Asia with \$16.8bn and GCC countries with \$2.9bn.

Source: *Merrill Lynch*

MENA

Equity markets up 15% in first 10 months of 2014

Arab stock markets increased by 14.5% and GCC markets rose by 14.6% in the first 10 months of 2014 compared to increases of 15.4% and 18.9%, respectively, in the same period of 2013. Arab stock markets and GCC markets dropped by 5.9% and 6.7%, respectively in October 2014 from September 2014. Activity on the Dubai financial market grew by 34.9% in the first 10 months of 2014 and posted the best performance among Arab markets during the period. It was followed by the Egyptian equity market with a 34.4% rise, the Qatar stock exchange with a 30.1% increase, the Saudi Arabia equity market with a 17.6% expansion, the Bahrain bourse with a 15.6% improvement, the Casablanca stock market with a 13.6% growth, the Abu Dhabi securities exchange with a 13.3% increase, the Tunis stock market with an 11.9% rise, the Beirut stock exchange with a 7.4% expansion, the Damascus financial market with a 3.4% improvement, and the Oman equity market and the Amman bourse with a 2% increase each. In parallel, activity on the Iraqi stock exchange declined by 11.7% and posted the weakest performance among Arab markets in the first 10 months of 2014. It was followed by the Palestine equity market with a 7.5% decrease, the Khartoum bourse with a 5.2% contraction, and the Kuwait stock market with a 2.5% drop. In comparison, global and emerging market equities rose by 2.6% and 2.1%, respectively, in the first 10 months of 2014.

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

IRAN

FATF urges Tehran to address its anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that it remains "particularly and exceptionally" concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system, despite Iran's previous engagement with the FATF and its recent submission of information. It reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also repeated its call to its members and other jurisdictions to apply counter measures to protect their financial sectors and the international financial system from the money laundering and terrorist financing (ML/FT) risks originating from Iran. The FATF also urged jurisdictions to protect against correspondent relationships being used to bypass or to evade counter measures and risk mitigation practices, and to take into account ML/FT risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. The FATF warned that, if Iran fails to take concrete steps to improve its AML/CFT regime, it will consider calling on all countries and jurisdictions in February 2015 to strengthen counter measures.

Source: *Financial Action Task Force*

POLITICAL RISK OVERVIEW - October 2014

EGYPT

Clashes erupted between the military and militants in the Sinai Peninsula. The government declared a state of emergency for three months in the north and central parts of the Peninsula, while it closed the border with Gaza and evacuated 1,100 residents along the border to create a buffer zone. The government postponed indirect talks between Israel and the Palestinian factions that were scheduled in Cairo. Protests on university campuses across the country were renewed on October 11th. Twelve persons were reportedly injured in a bomb blast near a Cairo courthouse. Several bombings went off in the northern city of Tanta during the Sufi muslim religious festival.

IRAN

Nuclear negotiations between Iran and the UN Security Council's permanent members plus Germany (P5+1) continued, with little progress reported in reaching a comprehensive agreement ahead of the November 24 deadline. The International Atomic Energy Agency (IAEA) and Iran held technical meetings in Tehran. Iran refused to issue a visa for a U.S. member of the IAEA team. Several deadly incidents were reported in the southeast province of Sistan and Balochistan. Two border guards were allegedly killed in a shootout along the Pakistani border.

IRAQ

Islamic State (IS) militants advanced in the western province of Anbar, including around the provincial capital of Ramadi. The IS group seized the town of Heet in the northwest of Ramadi and displaced up to 180,000 people. Provincial officials appealed for urgent military assistance, and warned of the potential fall of the province. The U.S.-led aerial campaign against the IS continued. Kurdish forces have reportedly gained territory against the IS in the north, including the town of Zumar. Prime Minister Haider al-Abadi was subject to heightened criticism over his policies. Prime Minister al-Abadi appointed Mr. Mohammed Salem al-Ghabban as Minister of Interior and Mr. Khaled al-Obeidi as Defense Minister. Violence and acts of terrorism continued this month, leading to more than 1,273 deaths and to at least 2,010 injuries.

DEM REP CONGO

The Allied Democratic Forces allegedly killed over 80 persons and displaced thousands of individuals in North Kivu. President Joseph Kabila visited the region and promised to take action. The UN joint human rights office (UNJHRO) published a report on M23 human rights violations, and called for the initiation of judicial enquiries. Also, the UNJHRO published another report on rights violations that accused police of executing civilians during an anti-gang operation in the capital Kinshasa. The government declared the head of the UNJHRO as "persona non grata". The disarmament process of Les Forces Démocratiques de Libération du Rwanda is set to end by early January 2015.

LIBYA

The military and political crisis continued despite repeated UN calls for a ceasefire. The anti-Islamist militia coalition led by Zintan-based groups, rebranded as "tribal army", attacked western Jebel Nefusa towns allied to the Islamist-leaning coalition Libya Dawn. Fighting between groups allied to General Khalifa Haftar and Islamist rivals continued in Benghazi. The internationally recognized Tobruk-based Parliament, the House of Representatives, described General Haftar's "Operation Dignity" against Islamist militants as a Libyan army operation. Egyptian airstrikes reportedly struck Islamist forces in Benghazi but Egypt denied any involvement. The Prime Minister of the Tripoli-based Islamist-supported government, Omar al-Hasi, held his first publicly known diplomatic meeting with a Turkish envoy on October 21st.

SOUTH SUDAN

Fighting between President Salva Kiir's government forces and Sudan People's Liberation Movement/Army-in-Opposition rebels led by former Vice President Riek Machar continued. UN Security General Ban Ki-Moon condemned the renewed violence. Factions of the Sudan Peoples' Liberation Movement signed a framework agreement on reforms that aims to address the causes of the conflict that erupted in December 2013. The National Assembly passed a controversial national security bill, which allows the National Security Service to arrest suspects without a warrant and shields officers from accountability.

SUDAN

The rebel Sudan People's Liberation Movement-North said that it received an invitation from the African Union High Implementation Panel to resume talks with the Sudanese government in Addis Ababa on November 12. The ruling National Congress Party (NCP) nominated President Omar al-Bashir as the party's presidential candidate. The National Electoral Commission and the NCP refused to postpone the April 2015 general elections. President al-Bashir continued to discuss a roadmap for national dialogue. Several opposition parties signed the Teiba Charter in an attempt to overthrow the al-Bashir regime.

SYRIA

The U.S.-led airstrikes expanded despite the lack of a coherent strategy. The U.S. increased air support to help Kurdish forces, the Peshmerga, and anti-regime rebels in defending the city of Kobani after attempts by Islamic State (IS) militants to capture the city. The U.S. escalated pressure on Turkey to increase its cooperation with the anti-IS coalition. But Turkey resisted, citing the need for the U.S. to address the rule of Syrian President Bashar al-Assad. Turkey renewed calls for a no-fly zone in northern Syria, while it blocked fighters and weapons from crossing its border to assist Kurdish forces in Kobani. But it then allowed up to 200 Peshmerga fighters equipped with heavy weapons to travel from northern Iraq to Kobani at the end of October. Regime forces recaptured the central town of Morek in the Hama province. Clashes between regime and IS fighters continued in the city of Homs.

TUNISIA

The secular Nidaa Tounes party won the October 27 parliamentary elections with a 39.7% of the votes, followed by the Islamist An-Nahda party with 32%. The process of forming a coalition majority is expected to take some time as Nidaa Tounes considers a national unity government with An-Nahda or a narrower secular coalition. The government decided on October 23 to close the border crossings of Ras Jedir and Dhehiba with Libya during parliamentary polls as part of tightened security measures against spillover from the Libyan crisis.

YEMEN

Huthi fighters continued their advance, bringing the country's political transition to a brink of collapse despite a UN-brokered peace and power-sharing agreement aimed at preserving a nominal political process. The Huthis consolidated their control in the north following their mid-September seizure of the capital Sanaa, and expanded into central Yemen. The Huthi expansion was met with resistance from supporters of the Sunni Islamist party Islah, Ansar al-Sharia affiliates and al-Qaeda in the Arabian Peninsula. The Huthis and their tribal supporters issued an ultimatum to the president to form a new government in 10 days or face further escalation. Southern separatists renewed their call for independence, held large-scale rallies, and gave the government until November 30 to remove all employees and security forces from the south.

Source: International Crisis Group, Newswires

OUTLOOK

AFRICA

Growth at 5.5% in 2014-15, risks to the downside

The International Monetary Fund projected economic growth in Sub-Saharan Africa (SSA) at 5.1% in 2014 and 5.8% in 2015 relative to a growth rate of 4.4% for developing nations and 3.3% for the global economy in 2014. It attributed the strong economic performance of SSA to sustained infrastructure investment efforts, improving services sectors, and strong agricultural production. It noted that the growth momentum is particularly pronounced in the region's low-income countries, as it projected their real GDP growth at 6.7% in 2014 and 6.9% in 2015. Also, it forecast real GDP growth at 6% in 2014 and 7% in 2015 for SSA's oil exporters; and at 2.4% and 3.1% in 2014 and 2015, respectively, in middle-income countries. Further, it projected the region's fiscal deficit to widen from 3.1% of GDP in 2013 to 3.3% of GDP in 2014 and 2015, reflecting expansionary fiscal policies, less dynamic oil revenues and rising wage bills in some countries. It expected the overall current account deficit to widen from 2.4% in 2013 to 2.6% in 2014 and 3.2% in 2015, reflecting continued robust growth, expansionary fiscal positions and increased investment.

The IMF considered risks to the outlook are to the downside and include the Ebola virus outbreak, fiscal vulnerabilities in some countries and external risks. It said that the Ebola outbreak could have much larger regional spillovers, with trade, tourism and investment confidence severely affected. It indicated that a marked slowdown in emerging markets would weaken demand for commodity exports from SSA, with immediate negative effects on external and fiscal positions; while a faster-than-expected tightening of global financial conditions could trigger a new round of volatility. It added that risk aversion from foreign investors may lead to a reversal of sentiment toward the region, which would weigh on countries with large external financing needs.

Source: International Monetary Fund

IRAQ

Economic growth to slow down to 1.5% in 2015

The International Monetary Fund projected Iraq's real GDP to contract by 2.7% in 2014 and to grow by 1.5% in 2015, relative to 4.2% in 2013, and compared to growth rates of 2.5% in 2014 and 3.9% in 2015 for Middle Eastern oil exporting countries. It forecast the country's real non-oil GDP growth to regress from 7.3% in 2013 to 1.5% in 2014 and to post no growth in 2015. It also projected Iraq's oil GDP to contract by 4.3% in 2014 and to grow by 3.5% in 2015, relative to a growth rate of 0.3% in 2013. It expected the country's annual average inflation rate at 4.7% in 2014 and 6.2% in 2015. Also, it anticipated broad money to grow by 3.7% this year and by 4.8% next year. The Fund projected the fiscal deficit to narrow from 5.9% of GDP in 2013 to 3% of GDP in 2014 and to 0.6% of GDP in 2015. It forecast the fiscal breakeven oil price at \$111.2 per barrel (p/b) in 2014 and at \$100.6 p/b in 2015 relative to \$106.1 p/b in 2013. Also, it expected the non-oil fiscal deficit to narrow from 71.8% of non-oil GDP last year to 64.4% of non-oil GDP in 2014 and 58% of non-oil GDP next year. It estimated overall government revenues to fall from 43.1% of GDP in 2013 to 42.3% of GDP in

2014 and 41.3% of GDP next year; and for expenditures to decrease from 49.1% of GDP last year to 45.3% of GDP this year and to 42% of GDP in 2015.

The IMF projected Iraq's public debt to regress from 31.3% of GDP at end-2013 to 30.7% of GDP at the end of 2014 and to 29.8% of GDP at end-2015. It also forecast total gross external debt at 25.3% of GDP this year and 24% of GDP next year. Further, the Fund estimated Iraq's exports of goods & services at \$93.1bn in 2014 and \$93.9bn in 2015, and imports of goods & services at \$81.7bn in 2014 and \$84.7bn in 2015. It forecast the current account to post surpluses of \$7bn or 3% of GDP in 2014 and \$5.8bn or 2.4% of GDP in 2015. It expected the country's gross official foreign currency reserves to grow from \$77.7bn at end-2013 to \$78.6bn at end-2014 and \$81.7bn at end-2015. The Fund anticipated Iraq's oil production to decrease from 2.98 million barrels per day in 2013 to 2.85 million b/d this year, and for oil exports to rise from 2.33 million b/d last year to 2.4 million b/d in 2014.

Source: International Monetary Fund

EGYPT

Challenges remains despite economic turnaround

The Institute of International Finance projected Egypt's real GDP growth rate to accelerate from 2.2% in the fiscal year that ended in June 2014 to 4% in FY2014/15. It noted that investor sentiment improved in recent months due to more stable political conditions. But it considered that the modest recovery in economic activity remains fragile. It pointed out that authorities need to further improve security conditions and implement reforms in order to put the economy on a high and sustainable growth path to reduce the high unemployment rate projected at 13.6% in FY2014/15. It noted that the government's reform agenda needs to address the challenges in the energy sector, ease strict labor regulations and skills mismatches, promote financial sector deepening, improve the business and investment climate, and enhance governance. Further, it forecast the average inflation rate at 11% in the current fiscal year, reflecting supply bottlenecks, spillover from higher public-sector wages and the increase in fuel prices in July 2014.

In parallel, the IIF projected Egypt's fiscal deficit to narrow from 12.6% of GDP in FY2013/14 to 11% of GDP in FY2014/15, reflecting fiscal consolidation measures implemented since July 2014. It expected tax and non-tax measures to raise revenues by 2.1% of GDP in the current fiscal year. It anticipated that the increase in domestic prices of petroleum products, along with the recent decline in global oil prices, would lead to savings of \$7bn or 2.5% of GDP in fuel subsidies this year. Further, it forecast the current account deficit to widen from 0.8% of GDP in FY2013/14 to 3.7% of GDP in FY2014/15. It expected official reserves to rise from \$16.5bn or 2.9 months of imports at the end of June 2014 to \$16.9bn or 2.8 months of imports at the end of June 2015. The IIF considered that if Egypt reaches an agreement with the IMF, it would bring in additional financing from multilateral and bilateral sources on favorable terms, and send a strong signal to investors and financial markets that the government is committed to economic reforms.

Source: Institute of International Finance



ECONOMY & TRADE

GCC

New projects down 2.5% to \$122bn in first nine months of 2014

The aggregate value of construction and infrastructure projects awarded in the Gulf Cooperation Council (GCC) countries reached \$122bn in the first nine months of 2014, constituting a drop of 2.5% from the same period last year. The UAE accounted for 33% of the total amount of projects awarded in the covered period, followed by Saudi Arabia (25%) and Qatar (19%). Also, the construction sector received the highest value of projects awarded in the first nine months of 2014. The UAE had the biggest share of awarded projects in the construction sector, Qatar accounted for the largest share of projects awarded in transportation, Kuwait dominated those in the oil sector and Saudi Arabia had the largest share in the power sector. Further, the value of projects awarded in the GCC totaled \$19.5bn in the third quarter of the year, the lowest level since the third quarter of 2012; while it reached \$45.4bn in the second quarter of 2014 and \$57.1bn in the first quarter of the year. The UAE accounted for 36% of the total amount of projects awarded in the third quarter of 2014, followed by Saudi Arabia (31%) and Kuwait (18.1%). The construction sector received 36% of the total value of projects awarded in the covered quarter, followed by the oil sector (28%) and the transportation sector (26%). In parallel, the total value of awarded projects is forecast at \$215bn in 2014.

Source: EFG Hermes

JORDAN

Outlook revised to 'stable' on improving fiscal and external balances

Standard & Poor's revised the outlook to 'stable' from 'negative' on Jordan's long-term foreign and local currency sovereign credit ratings of 'BB-'. It also maintained the short-term sovereign credit ratings at 'B'. It noted that the outlook revision reflects a moderate improvement of the country's fiscal and external balances over the 2014-17 period due to ongoing energy diversification, more favorable global oil prices and reform efforts. It forecast public finances to strengthen, as the state-owned National Electric Power Company (NEPCO) moves towards cost recovery through 2017 and due to the government's fiscal consolidation efforts. Further, it estimated the fiscal deficit at 10% of GDP in 2014, reflecting rising transfers to NEPCO. But it noted that the deficit masks successful consolidation efforts. It added that higher-than-expected grants and revenue-raising measures supported public receipts, while the liberalization of fuel subsidies in 2013 and the gradual rise in electricity tariffs reduced spending. In parallel, the agency indicated that grants, remittance inflows, tourism receipts and a lower fuel import bill would moderately improve the external imbalance over the medium-term. It forecast the current account deficit to gradually narrow from 10% of GDP in 2014 to 6.1% of GDP by 2017. But it noted that Jordan would remain dependent on bilateral and multilateral lenders to close its external funding gap. It expected the country's gross financing needs to remain high and to average 105.8% of current account receipts plus usable reserves annually during the 2014-17 period.

Source: Standard & Poor's

QATAR

Profits of listed companies up 11% to \$6.8bn in first nine months of 2014

The net income of companies listed on the Qatar stock exchange totaled QAR24.6bn or \$6.8bn in the first nine months of 2014, constituting an increase of 11.3% from QAR22.1bn or \$6.1bn in the same period last year. Companies providing banking & financial services generated net profits of QAR14.8bn and accounted for 60.3% of total earnings of publicly-listed firms. They were followed by real estate firms with QAR2.3bn or 9.5% of the total, industrial organizations with QAR2.2bn (8.9%), telecommunication companies with QAR2.1bn (8.5%), transportation firms with QAR1.6bn (6.6%), insurance institutions with QAR1.1bn (4.3%) and consumer goods & services corporates with QAR462m (1.9%). Net earnings of listed real estate companies rose by 37.4% year-on-year in the first nine months of the year, followed by consumer goods & services (+28.7%), transportation (+14.9%), banking & financial services (+12.4%), industrials (+10%) and telecoms (+0.5%); while the net earnings of listed insurance companies regressed by 22.2% from the first nine months of 2013.

Source: KAMCO

MOROCCO

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Morocco's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BBB-' and 'BBB', respectively, with a 'stable' outlook. It also maintained the Country Ceiling at 'BBB', and the short-term foreign currency IDR at 'F3'. It said that the ratings are supported by the country's stable macroeconomic and political conditions in the context of a volatile regional and global environment. It projected non-agricultural growth to accelerate from 4% in 2014 to 4.3% in 2015 and 4.8% in 2016, supported by the implementation of reforms and an improved global climate. But it cautioned from continued subdued economic activity in Europe, which accounts for 80% of foreign tourists, 66% of exports and 72% of remittance inflows to Morocco. Further, Fitch anticipated that the fiscal and current account deficits would continue to narrow from their peak in 2012, supported by a strong political commitment to reforms. It expected the fiscal deficit to narrow from 5.2% of GDP in 2013 to 5% of GDP in 2014 and 4.5% of GDP in 2015, reflecting lower spending on subsidies and constrained current expenditures. It noted that public finances are less vulnerable to increases in global oil prices following the reforms of the subsidy system. It forecast the current account deficit to narrow from 7.6% of GDP in 2013 to 6.7% of GDP in 2014 and 5.8% of GDP in 2015 due to fiscal tightening, new industrial exports and improved global environment. However, the agency forecast the public debt level at 49.3% of GDP in 2014 relative to 35% of GDP in 2010, and for the net external debt level to shift from -5.5% of GDP to 13% of GDP in 2014.

Source: Fitch Ratings



BANKING

SUDAN

Anti-money laundering deficiencies remain despite steps to improve AML regime

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Sudan has taken steps since June 2014 to improve its AML/CFT regime, including the introduction of three decrees related to the United Nations Security Council's resolution on asset freezing obligations. However, it noted that strategic AML/CFT deficiencies remain. It said that Sudan should continue to work on implementing its action plan to address the strategic AML/CFT deficiencies, including by addressing the remaining issues regarding the predicate offenses for money laundering; implementing adequate procedures for identifying and freezing terrorist assets; ensuring a fully operational and effectively functioning Financial Intelligence Unit; improving customer due diligence measures; and ensuring that appropriate laws and procedures are in place with regard to international cooperation and mutual legal assistance. It encouraged authorities to address the remaining deficiencies and to continue the process of implementing their action plan.

Source: *Financial Action Task Force*

ARMENIA

Deposits up 13% year-on-year in September 2014

Figures released by the Central Bank of Armenia show that the banking sector's total assets reached AMD2,959bn, equivalent to \$7.3bn at the end of September 2014, constituting a marginal increase of 0.5% from end-2013 and a rise of 8.9% from end-September 2013. Total loans stood at AMD1,931bn, or \$4.7bn at end-September 2014, up by 7.4% from the end of 2013 and by 12.8% from a year earlier. Loans in foreign currency accounted for 62.4% of total loans at end-September 2014 relative to 62.2% at end-2013 and 63.1% a year earlier; while loans to non-residents amounted to 3% of aggregate loans at end-September 2014. Deposits totaled AMD1,629bn, equivalent to \$4bn at end-September 2014, constituting an increase of 1% from end-2013 and of 12.6% from a year earlier. Deposits in foreign currency accounted for 67.3% of total deposits, down from 70.2% at end-2013 and from 71% a year-earlier. Non-resident deposits represented 24.5% of total deposits at the end of September relative to 28.8% at end-2013 and 24.8% at end-September 2013. In parallel, the risk-weighted capital adequacy ratio reached 16.3% at the end of September 2014, down from 16.5% a year earlier. The sector's liquid assets were equivalent to 26.7% of total assets at end-September relative to 26.3% a year earlier; while they represented 133.2% of short-term liabilities compared to 136.9% in September 2013. The loan-to-deposit ratio in foreign currency stood at 110%, up from 105.1% at end-September 2013, while the same ratio in local currency was 136.1% relative to 150.7% at the end of September 2013. The total loan-to-deposit ratio stood at 118.5% at the end of September 2014 compared to 118.3% a year earlier.

Source: *Central Bank of Armenia, Byblos Research*

INDIA

Negative outlook on banking sector to persist

Moody's Investors Service maintained its 'negative' outlook on the Indian banking system, given that the elevated corporate leverage is expected to prevent a significant recovery in asset quality in the coming 12 to 18 months. It pointed out that the country's corporate sector is highly leveraged, with debt equivalent to three times their equity base. It noted that firms engaged in infrastructure projects face both structural and cyclical challenges. It considered that a significant corporate deleveraging in the coming 12 to 18 months would require a stronger-than-expected recovery in economic activity. The agency indicated that the negative outlook applies mainly to state-owned banks, which represent more than 70% of the banking sector's assets. It noted that non-performing and restructured loans grew at a faster rate at state-owned banks than at privately-owned ones, and that net profits generated by state-owned banks have significantly weakened. It considered that these trends are unlikely to improve for state-owned banks. It anticipated that the sector's profitability would remain under pressure, as banks continue to increase their provisions against problem loans. It noted that this would be particularly problematic for state-owned banks, which have lower pre-provision margins and higher asset quality problems. However, it said that funding and liquidity would remain stable, given high domestic savings rates and low reliance on market funding.

Source: *Moody's Investors Service*

IRAN

Banking sector activity to decelerate in FY2015/16

Business Monitor International anticipated that the expansion of Iran's banking sector would decelerate in the fiscal year ending in March 2016, due to statistical base effects. It forecast the banking sector's total assets to grow by 14% in real terms in FY2014/15 and by another 8% in FY2015/16 compared to declines in previous years. Also, it projected customer deposits to grow by 12% in real terms in FY2014/15 and by an additional 8% in FY2015/16, relative to contractions in real terms in past years. Further, it expected lending growth to accelerate in coming quarters, but it noted that the pace of credit expansion would be slower than that of deposits. It indicated that the sector's high non-performing loans ratio of between 15% and 25% would discourage banks from lending. It added that the recovery in economic activity would not be strong enough to trigger a robust increase in lending activity. As such, it forecast customer loans to grow by 4% in real terms in FY2014/15 and by an additional 3% in FY2015/16 compared to contractions in preceding years. In parallel, BMI expected the growth in banks' profitability to be low due to the elevated NPL ratio, the dominance of highly leveraged state-owned banks and a lack of access to global financial markets. It expected sanctions on the banking sector to remain in place over the coming two years. It indicated that the issue of bad loans would increase provisions, while the dominance of highly leveraged state-owned banks in the financial system would reduce room for restructuring and diversifying income streams.

Source: *Business Monitor International*



ENERGY / COMMODITIES

Oil prices reach four-year low

Crude oil prices reached their lowest levels in four years due to weak global economic growth data and a stronger US dollar. Brent crude oil prices are forecast to average \$93 a barrel in 2015, reflecting a decrease of 28% from their peak level in 2012, while WTI prices would average \$85 a barrel next year, 25% lower than their 2011 peak and could reach \$75 a barrel in the long run. A prolonged drop in oil prices would have a material impact on several commodities. It could lead to a drop in gold prices as investors diminish their use of the metal as an inflationary hedge. Oil prices could reach a floor this year if the oversupply in the market gradually diminishes in the fourth quarter of 2014. In parallel, global oil consumption is expected to average 93.7 million barrels per day (b/d) in 2015, reflecting a rise of 1.3% from 92.5 million b/d on average in 2014. Demand for oil from non-members of the Organization for Economic Co-operation and Development (OECD) is projected to account for 51% of global oil demand in 2015, while OECD economies would account for the remaining balance of 49%. In parallel, Brent oil prices regressed by 23.5% in the first 10 months of 2014 and by 11.1% month-on-month in October, while WTI prices decreased by 18.3% from end-2013 and by 11.7% last month.

Source: Deutsche Bank, Barclays plc, Fitch Ratings

KRG to raise its oil exports in early 2015

The Kurdistan Regional Government (KRG) expected its oil exports to increase from about 300,000 barrels per day (b/d) currently to 500,000 b/d by early 2015, reflecting a rise of up to 67%. It indicated that three more oilfields are set to begin production in the coming two to three months. It noted that it sold its oil at similar prices than those of the Iraqi central government's State Organization for Marketing of Oil.

Source: Thomson Reuters, Byblos Research

Gas output to rise by 3% in 2015

Natural gas production in the Middle East & North Africa region is forecast to average 13.05 million of barrels of oil equivalent per day (boe/d) in 2015, constituting an increase of 2.7% from 2014. The Gulf Cooperation Council (GCC) countries' gas production would account for 64.4% of the region's gas supply in 2015, while non-GCC exporters would represent the remaining balance of 35.6%. Qatar's natural gas output is projected at 3.67 million boe/d in 2015, equivalent to about 28.1% of the region's gas production. It would be followed by Iran at 3.04 million boe/d (23.3%), Saudi Arabia at 2.09 million boe/d (16%) and Algeria at 1.4 million boe/d (10.7%).

Source: International Monetary Fund, Byblos Research

Energy sector heavily subsidized in MENA

The total amount of pre-tax subsidies that governments in the Middle East & North Africa region allocate to the energy sector is estimated at more than \$237bn, equivalent to 48% of energy subsidies worldwide. The Gulf Cooperation Council countries spend at least \$160bn annually on energy assistance, which accounts for 68% of the MENA region's total energy subsidies. Government expenditures on energy subsidies among hydrocarbon exporters, such as Algeria, Iran, Iraq and Saudi Arabia, exceed 10% of each country's GDP. Energy subsidies cover petroleum products, natural gas and electricity.

Source: The World Bank, International Monetary Fund

Base Metals: Copper prices to drop in coming three years due to oversupply in market

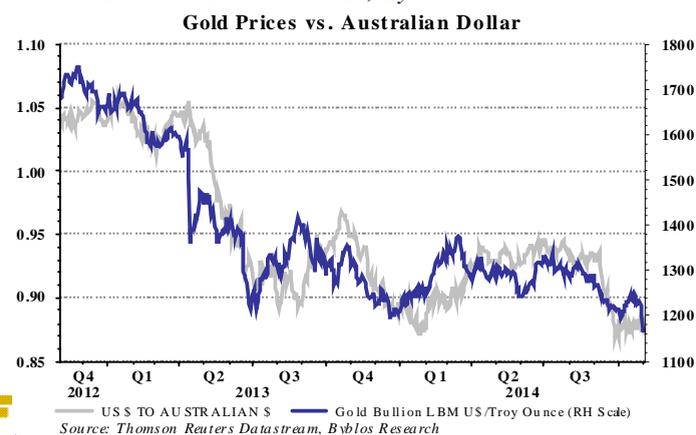
The copper market is expected to post modest surpluses in the coming three years as the excess mined supply is ultimately converted into refined metal. The oversupply in the market would place downward pressure on the metal's price during the 2014-16 period. LME Copper prices are forecast to average \$6,675 a metric ton in 2015, reflecting a decrease of 3.4% from \$6,911 a ton in 2014. But prices are projected to increase from 2016 onwards as the market would shift into a deficit due to limited new mine investments. In parallel, global copper production is projected to grow by 4.8% in 2014 and 6.1% in 2015; while the metal's global consumption would rise by 4.4% in each of 2014 and 2015. The construction industry is projected to utilize about 30% of global copper consumption in 2014, followed by consumer & other sectors with 28%, electrical with 19%, transport with 12% and the industrial industry with 11% of the total. In parallel, LME Copper Grade A 3-month future prices fell by 9% in the first 10 months of 2014 and increased by 0.4% in October to \$6,695 a ton, while LME Aluminium 3-month future prices grew by 13.3% from end-2013 and by 4% last month.

Source: Deutsche Bank, Byblos Research

Precious Metals: Palladium prices to rise notably in 2015 as global demand outweighs supply

The physical deficit of the palladium market is expected to widen in 2014 to about 1.2 million ounces, before narrowing slightly in 2015. The persistent deficits are projected to support the metal's price despite expectations of a rise in U.S. interest rates in 2015. Palladium prices are forecast to average \$950 a troy ounce in 2015, constituting an increase of 19.3% from \$796.5 an ounce in 2014, and relative to an estimated improvement of about 10% this year. Global jewelry demand for palladium is expected to contract at an annual average rate of 6% during the 2014-15 period as demand from Asian countries, mainly China, declines as a result of the metal's higher price environment. Palladium supply from autocatalyst scrap is projected to increase significantly in 2014 and 2015, mainly due to strong demand in the United States. In parallel, palladium prices grew by 9.5% in the first 10 months of 2014 and by 1.2% month-on-month in October, while platinum prices declined by 9.6% from end-2013 and by 5.6% to \$1,227 a troy ounce last month. In addition, gold prices dropped by 3.5% in the first 10 months of the year and 3.9% to \$1,166 an ounce in October, while the price of silver dropped by 18.4% from end-2013.

Source: Thomson Reuters GFMS, 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
	Stable	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
	Stable	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	29-Oct-14	No change	17-Dec-14
Eurozone	Refi Rate	0.05	06-Nov-14	No change	N/A
UK	Bank Rate	0.50	06-Nov-14	No change	04-Dec-14
Japan	O/N Call Rate	0-0.10	31-Oct-14	No change	19-Nov-14
Australia	Cash Rate	2.50	04-Nov-14	No change	N/A
New Zealand	Cash Rate	3.50	30-Oct-14	No change	11-Dec-14
Switzerland	3 month Libor target	0.00-0.25	18-Sept-14	No change	11-Dec-14
Canada	Overnight rate	1.00	22-Oct-14	No change	03-Dec-14
Emerging Markets					
China	One-year lending rate	6.00	06-July-12	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	29-Oct-14	No change	N/A
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	06-Nov-14	No change	27-Jan-15
Thailand	1D Repo	2.00	05-Nov-14	No change	N/A
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	Raised 100bps	N/A
Turkey	Base Rate	8.25	23-Oct-14	No change	20-Nov-14
South Africa	Repo rate	5.75	17-Sept-14	No change	19-Nov-14
Kenya	Central Bank Rate	8.50	04-Nov-14	No change	N/A
Nigeria	Monetary Policy Rate	12.00	19-Sept-14	No change	25-Nov-14
Ghana	Prime Rate	19.00	17-Sept-14	No change	10-Nov-14
Angola	Base rate	9.00	27-Oct-14	Raised 25bps	24-Nov-14
Mexico	Target Rate	3.00	05-Sept-14	No change	31-Oct-14
Brazil	Selic Rate	11.25	06-Nov-14	No change	03-Dec-14
Armenia	Refi Rate	6.75	23-Sept-14	No change	N/A
Romania	Policy Rate	2.75	05-Nov-14	Cut 25bps	07-Jan-15
Bulgaria	Base Interest	0.02	01-Nov-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	Raised 300bps	N/A
Russia	Refi Rate	8.25	13-Dec-13	No change	N/A



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