

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Real estate funds raise \$90bn in 2014

Preliminary figures released by research provider Preqin indicate that private real estate investment funds raised \$90bn in 2014, constituting a drop of 2.2% from \$92bn in 2013. On a quarterly basis, 43 private real estate funds raised \$24bn in the first quarter 2014, 48 funds raised \$21bn in the second quarter, 30 funds raised \$18bn in the third quarter and 56 funds raised \$27bn in the fourth quarter of 2014. A total of 177 funds closed in 2014 compared to 239 funds in 2013. The average real estate fund size reached \$528m in 2014 relative to \$417m in 2013, reaching its highest level since 2009. Further, 106 North American-focused funds secured \$43bn in 2014, followed by European funds with \$35bn in capital raised through 40 vehicles, and Asian funds with \$10bn in capital raised through 10 vehicles. Fundraising is expected to remain highly competitive in coming months, as investors are more selective about the managers they choose to invest with. Further, Preqin indicated that nearly 48% of closed private real estate funds in 2014 exceeded their target size compared to 44% of closed funds in 2013. It added that funds in 2014 required an average of 18 months to reach a final close, which indicates that fundraising is a long process for many firms.

Source: Preqin

MENA

Equity issuance up 173% to \$11.4bn in 2014

Equity Capital Markets' (ECM) issuance in the Middle East reached \$11.4bn in 2014, constituting a rise of 173% from \$4.2bn in 2013. ECM issuance totaled \$0.9bn in the first quarter, \$2.4bn in the second quarter, \$1.9bn in the third quarter and \$6.2bn in the fourth quarter of 2014. Initial public offerings accounted for 69% of ECM activity in the region. The financial sector had a total issuance of \$3.7bn and accounted for 32.1% of ECM activity, followed by the real estate sector with \$1.8bn (15.4%), which constituted the two most active sectors in 2014. Also, debt issuance in the region reached \$37bn in 2014, constituting a decrease of 6% from 2013. Islamic debt issuance reached \$39.1bn through 116 issues in 2014, and rose by 18% from 2013. Further, the volume of mergers and acquisitions (M&A) reached \$50.3bn in 2014, up 23% year-on-year. M&A deals in the Middle East region includes inbound, outbound and inter-regional deals. In parallel, investment banking and advisory fees in the Middle East stood at \$751.7m in 2014, a decline of 3% from \$776.2m in 2013. Syndicated lending fees totaled \$287.7m and accounted for 38.3% of the overall fee pool, followed by fees from M&A deals with \$197.1m (26.2%), fees from equity capital markets with \$175.6m (23.4%), and debt capital markets fees with \$91.3m (12.1%).

Source: Thomson Reuters

Private net wealth in Arab world at \$3.2 trillion at end-June 2014

Global investment bank Credit Suisse estimated the aggregate net wealth of Arab citizens at \$3,223bn at the end of June 2014, constituting an increase of 4% from \$3,099bn a year earlier. The aggregate net wealth of Arab nationals accounted for 1.2% of the global net wealth, higher than only Africa (1.1%). Credit Suisse defines a country's net wealth as the sum of its population's marketable value of financial and non-financial assets, with the latter including mainly real estate holdings, less aggregate personal debt. It excluded a country's stock of human capital as well as its stock of public assets and liabilities, such as the public debt. Arab nationals' aggregate net wealth included \$1,528bn in financial wealth, \$2,186bn in non-financial wealth and \$490.3bn in personal debt at the end of June 2014. Citizens of Saudi Arabia accumulated the most wealth in the Arab world at \$653.3bn as at June 2014, followed by those of the UAE (\$461.1bn) and of Egypt (\$389.7bn). In contrast, citizens of Djibouti accumulated the lowest wealth of \$1.9bn in the Arab world as at June 2013, relative to a net wealth of \$4bn in Mauritania and \$23.7bn in Sudan. In parallel, Qatar has the highest net wealth per adult among Arab countries at \$156,096 as at end June 2014, followed by Kuwait (\$122,688) and the UAE (\$121,021); while Syria (\$2,511), Mauritania (\$2,148) and Sudan (\$981) have the lowest net wealth per adult among Arab countries.

Source: Credit Suisse, Byblos Research

M&A deals up 39% to \$21bn in 2014

The value of mergers & acquisitions (M&A) deals targeting Arab countries in the Middle East totaled \$21.3bn in 2014, constituting a rise of 39.3% from \$15.3bn in 2013. Targeted M&A deals in the region decreased to 277 transactions in 2014 from 374 transactions in 2013. The value and number of deals targeting the region accounted for less than 1% of the global value and volume of M&A transactions, constituting the lowest such shares among regions worldwide. The UAE was the top targeted M&A country by value with \$11.9bn or 56% of the region's aggregate value, followed by Qatar with \$4.5bn (20.9%), Saudi Arabia with \$1.6bn (7.5%), Kuwait with \$1.1bn (5.1%), Bahrain with \$931m (4.4%), Oman with \$633m (3%), Jordan with \$314m (1.5%) and Lebanon with \$313m (1.5%). The UAE was the top targeted M&A country by volume with 92 transactions, followed by Jordan with 80 deals, Saudi Arabia with 29 transactions, Kuwait with 27 deals, Oman with 15 transactions, Qatar with 14 transactions, Bahrain with 11 deals and Lebanon with seven transactions. Targeted M&A deals in the construction and trade sector accounted for about 48% of the region's total, with the construction sector representing almost 27% and the trade sector accounting for around 21% of the aggregate value of deals. In parallel, there were 30 private equity deals in the region worth \$1.9bn in 2014, relative to 35 deals worth \$290m in 2013.

Source: Zephyr, Bureau van Dijk

OUTLOOK

EMERGING MARKETS

Net private capital inflows to decrease by 2% to \$1,064bn in 2015

The Institute of International Finance projected net private capital inflows to emerging markets at \$1,064bn in 2015, constituting a decrease of 2.2% from \$1,088bn in 2014 and a drop of \$94bn from its forecast in October. It attributed the decline to the expected increase of the U.S. Federal Reserve's policy rate and to the relative slow growth in emerging markets. It said that lower oil prices would stimulate global growth, but it noted that the acceleration in economic activity would be concentrated in mature economies as benefits to emerging market oil importers would be offset by the negative impact on oil exporters. It anticipated that private capital flows would be volatile this year, as markets would be affected by shifting expectations of the Federal Reserve's policy trajectory, oil market uncertainty and political risks. It revised upwards its October forecast for inflows to Emerging Asia by \$18bn to \$656bn; while it revised downwards its inflows projections to Latin America by \$29bn to \$246bn, to the Middle East & Africa by \$14bn to \$93bn and to Emerging Europe by \$69bn to \$69bn for 2015.

The IIF forecast net direct investment in emerging economies at \$529bn in 2015 compared to \$549bn in 2014. It estimated net portfolio investment at \$107bn in 2014 and expected inflows to increase to \$119bn in 2015. Also, it forecast net commercial bank lending to increase to \$169bn in 2015 from \$128bn in 2014. It estimated net non-bank private lending to drop from \$304bn in 2014 to \$247bn in 2015. It revised downwards its forecast by \$41bn for net FDI in 2015, by \$36bn for non-bank private lending and by \$26bn for net portfolio investment; while it revised upwards by \$8bn its projections for net commercial bank lending.

Source: *Institute of International Finance*

MENA

Growth at 2.5% in 2015, downside risks significant

The World Bank projected real GDP growth in the developing countries of the Middle East & North Africa at 2.5% in 2015 compared to an estimated contraction of 1.2% in 2014, and relative to growth rates of 4.8% for developing nations and 3% for the global economy. The Bank's growth forecast for the MENA geographic region becomes 3.3% in 2015 when including GCC economies. It expected the region's developing oil exporters to grow by 1.8% in 2015 compared to a growth rate of 0.3% in 2014, and projected real GDP growth in developing oil importers at 3.6% in 2015 relative to 2.6% in 2013. Also, it forecast economic growth in GCC countries at 4.1% in 2015 compared to 4.7% in 2014. It expected the fiscal deficit in the MENA region's developing countries to narrow from 7.1% of GDP in 2014 to 6.1% of GDP in 2015.

The Bank considered that the region's outlook is subject to significant downside risks. First, it said that the intensification of the conflict in Syria and its spillovers in Iraq, Jordan and Lebanon would worsen external and fiscal pressures in these countries. It added that setbacks in political transitions or an

escalation of violence in Egypt, Iraq, Libya, Tunisia and Yemen would undermine confidence, delay the implementation of structural reforms and reduce oil output. Second, it pointed out that debt rollover and refinancing risks are rising, mainly in countries in political transitions that receive large financial support from GCC countries. It added that debt levels have significantly increased in countries in political transitions and are approaching unsustainable levels. Third, it cautioned that a weaker-than-expected recovery in the Eurozone could reduce export receipts, tourism revenues, and remittance and capital inflows in North Africa. Fourth, it indicated that a sharp monetary tightening or persistently volatile global financial conditions could increase borrowing costs and lower FDI inflows to emerging economies. Fifth, it said that a sharper- or longer-than-expected decline in oil prices could lead to a significant deterioration in external and fiscal accounts of oil exporters.

Source: *World Bank*

SAUDI ARABIA

Fiscal deficit at 20% of GDP in 2015 if oil prices average \$50 per barrel

Merrill Lynch anticipated that Saudi Arabia would post a fiscal deficit of 9% of GDP in 2015, based on a flat growth rate in public spending in the 2015 budget and an average global oil price of \$75 per barrel (p/b). However, it cautioned that the fiscal deficit would widen to about 20% of GDP in 2015 if global oil prices fall to an average of \$50 p/b this year. It noted that a fiscal deficit of this magnitude is not unprecedented for Saudi Arabia, as the average deficit reached about 18% of GDP between 1985 and 1988. It estimated that public revenues in the 2015 budget are consistent with an oil production level of about 9.7 million barrels and an average oil price of between \$60 and \$65 p/b. It said that bringing capital expenditures in line with the budgetary target, which would be equivalent to a 50% reduction in realized capital spending in 2014, and maintaining current spending flat in real terms would cut public spending by 12% in 2015 and would result in a fiscal deficit of 15% of GDP.

In parallel, Merrill Lynch forecast a current account deficit of 8.5% of GDP in 2015 if oil prices average \$50 p/b. It cautioned that macro imbalances could increase rapidly in the absence of significant fiscal adjustments. It noted that deposits at SAMA from the central government, government agencies and institutions totaled \$445bn, or 59% of GDP, in November 2014. It estimated that maintaining the level of these deposits over the period to 2025 would require an average oil price of \$90 p/b and a flat nominal spending at the 2013 level. It added that an average oil price of \$50 p/b would fully exhaust public sector deposits by 2023 and would increase government debt to over 40% of GDP; while an average oil price of \$70 p/b would exhaust deposits by 2026. It pointed out that if authorities narrowed the non-hydrocarbon fiscal deficit by 3% of non-hydrocarbon GDP each year relative to the 2013 outturn, along with an average oil price of \$70 p/b, they would achieve a balanced budget by 2025. It noted that this would reduce public sector deposits at SAMA to 25% of GDP and would moderately increase government debt. It indicated that if oil prices average \$50 p/b, along with the same fiscal adjustment, public sector deposits at SAMA would be depleted by 2026.

Source: *Merrill Lynch*

ECONOMY & TRADE

GCC

Public finances to deteriorate due to lower global oil prices

Citigroup anticipated that its downward revision for the average global oil price to \$63 per barrel (p/b) in 2015 from \$80 p/b previously and to \$70 p/b in 2016 from \$85 p/b would weigh on public finances of the Gulf Cooperation Council (GCC) economies. It considered that lower global oil prices would generate higher-than-expected cuts in public spending in GCC countries and would shift the fiscal surpluses in some countries to wide deficits. It forecast the fiscal balance in Kuwait to shift from a surplus of 12.8% of GDP in 2014 to a deficit of 12.2% of GDP in 2015 and that in Abu Dhabi to move from a surplus of 3.3% of GDP in 2014 to a deficit of 8.3% of GDP in 2015. It projected the fiscal deficit in Qatar to widen from 2.6% of GDP in 2014 to 13.3% of GDP in 2015, that in Bahrain to deteriorate from 4.3% of GDP in 2014 to 8.5% of GDP in 2015, the deficit in Saudi Arabia to widen from 1.8% of GDP last year to 8.9% of GDP in 2015, and the deficit in Oman to deteriorate from 1.9% of GDP last year to 8.8% of GDP in 2015. It expected Qatar to post the highest fiscal breakeven oil price of \$112.5 p/b in 2015, followed by Bahrain (\$101.6 p/b), Abu Dhabi (\$87.9 p/b), Saudi Arabia (\$85 p/b), Oman (\$83.2 p/b) and Kuwait (\$80.9 p/b). Citigroup indicated that the fiscal balance would improve in Abu Dhabi, Kuwait, Qatar and Saudi Arabia when including the returns realized on their sovereign wealth funds, which would also lower their fiscal breakeven oil price.

Source: Citigroup

RUSSIA

Ratings downgraded to 'BBB-', outlook 'negative'

Fitch Ratings downgraded Russia's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BBB-' from 'BBB', with a 'negative' outlook. It also lowered the Country Ceiling to 'BBB-' from 'BBB' and affirmed the short-term IDR at 'F3'. It attributed the downgrade to the significant deterioration of the country's economic outlook since June 2014 following the sharp drop in global oil prices, the depreciation of the Russian ruble and the steep rise in interest rates. It added that the imposition of western sanctions since March 2014 continue to weigh on activity as they prevented Russian banks and corporates from accessing external capital markets. It forecast real GDP to contract by 4% in 2015 and estimated that the Russian economy would not post a positive growth until 2017. It cautioned that lower global oil prices would lead to a deeper recession. It pointed out that the depreciation of the currency, intense market volatility and the sharp increase in the policy rate from 10% to 17% constitute a major shock to the banking sector. It noted that regulatory forbearance would mitigate the impact on banks' balance sheets of the sharp fall in the ruble and of the decline in the value of their securities portfolio. Fitch indicated that the downgrade takes into account the faster-than-expected drop in foreign currency reserves, as they fell by \$120bn from end-2013 to below \$390bn at end-2014. It forecast foreign currency reserves to fall to about \$315bn at the end of 2015 in the absence of renewed access to international capital markets and with net private capital outflows of \$130bn.

Source: Fitch Ratings

CÔTE d'IVOIRE

Sovereign ratings affirmed, outlook 'positive'

Fitch Ratings affirmed Côte d'Ivoire's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'B', with a 'positive' outlook. It also affirmed the short-term foreign currency IDR at 'B' and the Country Ceiling at 'BBB-', in line with the Country Ceiling of the West African Economic and Monetary Union to which Côte d'Ivoire belongs. It said that the ratings and the outlook are supported by solid economic activity in the context of political stability, high public investment and structural reforms. It projected real GDP growth at 8.5% in 2015, unchanged from 2014, but to decelerate to 7.5% by 2017 as the positive impact on economic activity of post-2011 investments gradually fades. It forecast the fiscal deficit to widen from 2.3% of GDP in 2014 to 3.4% of GDP in 2015, mainly due to higher capital spending estimated at 7.4% of GDP in 2015, as well as to a potential rise in current expenditures related to the October 2015 presidential election. It expected the public debt level to decline gradually in coming years from 43% of GDP in 2014, supported by strong economic activity and moderate primary deficits. It anticipated that the drop in global oil prices would have a slightly positive impact on Côte d'Ivoire's current account balance given that the country is a small net hydrocarbon importer, and despite that oil revenues accounted for 20% of current account receipts in 2014. But it noted that lower oil prices would have a marginally negative impact on public finances as income from the tax on oil & gas would decline from 1.1% of GDP in 2014 to 0.6% of GDP in 2015.

Source: Fitch Ratings

GABON

Sovereign ratings assigned, outlook 'stable'

Moody's Investors Service assigned to Gabon local and foreign currency issuer ratings of 'Ba3' with a 'stable' outlook. The ratings are three notches below investment grade. It also assigned a 'Baa3' ceiling for foreign and local currency bonds and bank deposits. The agency said that the ratings are supported by the country's robust growth prospects, strong balance sheet and reduced external vulnerabilities from its membership in the Communauté Financière Africaine (CFA) zone. But it noted that the ratings are mainly constrained by the high dependence on the oil sector, which contributes about 43% of GDP and generates around 85% of export receipts. It considered that the expected sustained decline in oil production in coming years would not prevent the economy from reaching robust growth levels. It anticipated that authorities would increasingly exploit other abundant natural resources, such as manganese, to support activity. It added that the government's plan to diversify the economy, in part through improving the infrastructure, would support growth prospects. Further, the agency indicated that Gabon's track record of prudent monetary policy mitigate its weak institutions. Also, it indicated that the Gabon benefits from very high fiscal strength, given the low public debt level of about 28% of GDP in 2014. It said that the public debt stock is mostly external and denominated in foreign currency, but it noted that risks of a rise in debt servicing from a weakening CFA franc is limited mainly due to the currency arrangement.

Source: Moody's Investors Service



BANKING

JORDAN

Bank ratings affirmed, outlook 'stable'

Capital Intelligence affirmed at 'BB-' the long-term foreign currency ratings of Arab Bank (AB), the Housing Bank for Trade & Finance (HBTF), Jordan Islamic Bank (JIB), Cairo Amman Bank (CAB) and Jordan Ahli Bank (JAB), with a 'stable' outlook. Also, it affirmed the banks' short-term foreign currency ratings at 'B'. The agency indicated that the banks' foreign currency ratings are capped at the sovereign level, reflecting their substantial holdings of government debt. Further, the agency maintained the Financial Strength Rating (FSR) of AB and HBTF at 'BBB+', that of CAB and JIB at 'BBB-' and that of JAB at 'BB'. It revised the outlook to 'stable' from 'negative' on HBTF's FSR due to the significant improvement in its non-performing loan (NPL) ratio in the first half of 2014, the increase in its loan-loss reserve coverage, as well as to the rise in its profitability and liquidity levels. It kept the outlook at 'stable' on the remaining banks' FSR. The agency indicated that AB's FSR is supported by its ample liquidity level, a sound capital adequacy ratio, a geographically diversified balance sheet, and an almost full loan-loss reserve coverage for NPLs. But it noted that the bank's FSR is constrained by its high NPL ratio and related-party exposure, as well as by its modest gross income generation. Further, it said that HBTF's FSR reflects its robust liquidity metrics, solid capital adequacy ratio, as well as its high net interest margin and favorable cost efficiency. But it noted that the ratings are constrained by a high NPL ratio and large holdings of government securities. It anticipated that the difficult operating environment and increased geopolitical risks in the region would continue to weigh on the banks' asset quality.

Source: Capital Intelligence

LIBYA

Banking sector's profits down 26% in first nine months of 2014

Figures issued by the Central Bank of Libya show that the total assets of commercial banks reached LYD95.6bn, or \$73.7bn at the end of September 2014, constituting a decrease of 2.8% from the end of 2013. Commercial banks' lending reached LYD19.4bn, or \$15bn at end-September 2014, up by 6.5% from end-2013. Total loans accounted for 20.3% of aggregate assets at the end of September 2014, unchanged year-on-year. In parallel, commercial banks' aggregate deposits totaled LYD79.3bn, or \$61.1bn at the end of September 2014, constituting a decrease of 5.1% from the end of 2013. Demand deposits accounted for 71% of total deposits at end-September 2014, followed by time deposits (28.4%) and saving deposits (0.8%). Total deposits accounted for 83% of aggregate liabilities at end-September relative to 85% at end-2013. The loan-to-deposit ratio increased to 24.5% at end-September 2014 from 21.8% at the end of 2013 and relative to 24.7% at the end of September 2013. In parallel, banks' pre-tax profits reached LYD273.9m, or \$211m in the first nine months of 2014, constituting a drop of 26.4% from LYD372m in the same period of 2013 and relative to pre-tax earnings of LYD513.3m in 2013.

Source: Central Bank of Libya, Byblos Research

EGYPT

Banks' exposure to government debt up 28% at end-October, equivalent to 42% of assets

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP1,938.4bn, equivalent to \$270.7bn at the end of October 2014, constituting an increase of 15.1% from the end of 2013 and a rise of 17.7% from end-October 2013. Lending to the private sector reached EGP568.3bn or \$79.4bn, and rose by 12.6% from end-2013 and by 11.9% year-on-year. Banks' exposure to government securities totaled EGP805.8bn at the end of October 2014, equivalent to \$112.5bn, and rose by 20% from end-2013 and by 28.2% from a year earlier. Banks' sovereign exposure in local currency stood at EGP720.7bn and increased by 22% from end-2013 and by 26.4% year-on-year; while their exposure in foreign currency reached EGP85.1bn and rose by 4.8% from end-2013 and by 45.2% from a year earlier. In US dollar terms, banks' sovereign exposure in local currency stood at \$100.6bn, while their exposure in foreign currency reached \$11.9bn. Further, total deposits reached EGP1,496bn or \$208.9bn, constituting an increase of 13.7% from end-2013 and of 20.5% from a year earlier. Private sector deposits totaled EGP1,293bn or \$180.5bn at end-October 2014, and rose by 12.9% from end-2013 and by 17.7% year-on-year. Also, private sector deposits in foreign currency grew by 11.1% year-on-year to EGP241.2bn or \$33.7bn at the end of October 2014; while those in local currency rose by 19.3% from end-October 2013 to EGP1,052bn or \$146.9bn.

Source: Central Bank of Egypt, Byblos Research

ARMENIA

Dram to further weaken in 2015

Business Monitor International anticipated that the Armenian dram would continue to depreciate in 2015 due to the country's exposure to the weakening Russian economy. It noted that the dram lost more than 15% of its value against the US dollar since October 2014. It said that the continued depreciation of the dram would erode households' purchasing power. It indicated that Armenian households rely on remittance inflows from Russia, which are usually transferred in US dollars. As such, it noted that the depreciation of the Russian ruble and the contracting Russian economy would lead to lower transfers in US dollars, which would weigh on households' income in Armenia. Further, BMI considered that Armenian authorities would revise the 2015 budget to take into account the depreciation of the dram and the slowdown in Russia's economic activity. It noted that the 2015 budget assumes that the Armenian economy would grow by 4.1% in 2015, but it considered that this growth rate is not reachable under current circumstances. It projected Armenia's real GDP growth to be lower at 2.9% in 2015 and anticipated that the government would revise its fiscal deficit target to 2.6% of GDP for this year. BMI expected Russia to continue to inject structural funding into Armenia despite its recession as a way to increase support to the Eurasian Economic Union. It considered that a rise in Russian influence would negatively prevent the independence of policy-making in Armenia, but it would ensure a relative degree of security for the country in the context of regional instability.

Source: Business Monitor International



ENERGY / COMMODITIES

Low oil prices to persist in first quarter of 2015

The Bloomberg Brent Crude Oil Total Return Sub-Index decreased by 47.6% in 2014, while the WTI Crude Oil Sub-Index dropped by 41.7% last year. Crude oil prices are expected to remain low through 2015 until the excess supply in the market is corrected. North Sea Brent prices could reach a 2009 low of about \$40 per barrel (p/b) in the first quarter of 2015, and would trade at a maximum of \$65 p/b during the year. Brent oil prices are forecast to average \$55 p/b in 2015, below Bloomberg's consensus price of \$75 p/b; while WTI oil prices are projected to average \$52 p/b in 2014, below Bloomberg's consensus of \$70.5 p/b. Oil prices would reach a bottom this year as persistent prices below \$60 p/b will lead to mass production cutbacks, while prices below \$50 p/b are unsustainable for many producers. The aggressive pricing strategy of Gulf Cooperation Council producers would begin to show results by the second half of 2015, as less competitive producers come under stress. GCC producers have the world's cheapest production costs. In parallel, if production cutbacks materialize, the positive impact on oil prices would be partly offset by further strengthening of the US dollar. Global oil consumption is anticipated to rise by 1.6% in 2015 due to lower prices, while global production would rise by 2.3% over the year.

Source: *Business Monitor International, Byblos Research*

Megaprojects in energy sector delayed due to drop in oil prices

Several multinational oil and gas companies have discontinued or put on hold investment spending on oil and petrochemicals projects following the substantial drop in crude oil prices. For example, Royal Dutch Shell abandoned plans for one of the world's biggest petrochemical plants, a \$6.5bn project with Qatar Petroleum. The decrease in oil prices generated concerns over deflation and intensified scrutiny of capital spending across the energy sector. As such, many companies decreased their exploration and development budgets.

Source: *Financial Times*

Iraq to increase oil exports in February 2015

Iraq plans to double its monthly crude oil exports from its southern ports to 300,000 b/d in February 2015. In parallel, Iraq's State Oil Marketing Organization has reportedly allocated 3.3 million barrels per day (b/d) of Basra crude oil to be shipped out in February 2015, up from an average of 2.7 million b/d in the previous month. Iraqi crude oil exports averaged 2.94 million b/d in December 2014, constituting the country's highest export level since the 1980s. Iraq currently holds the world's fifth largest crude oil reserves.

Source: *Thomson Reuters, Bloomberg, Byblos Research*

Africa's non-OPEC supply to drop by 1% in 2015

Crude oil consumption in Africa is expected to average 3.81 million barrels per day (b/d) in 2015, constituting a rise of 2.4% from 3.72 million b/d in 2014. The continent's demand for oil would account for about 4.1% of global consumption this year. In parallel, the continent's non-OPEC oil supply is forecast at 2.39 million b/d in 2015, reflecting a drop of 0.8% from 2014. Africa's non-OPEC oil production would be equivalent to about 4.2% of global non-OPEC oil supply in 2015.

Source: *Organization of the Petroleum Exporting Countries*

Base Metals: Steel market to remain oversupplied in 2015

Global steel consumption is expected to grow by 3.3% in 2015, relative to a growth rate of 2.6% in 2014, as activity stabilizes in mature economies and accelerates in emerging markets. The main risk factor for steel demand during the 2015-16 period is the uncertainty related to the performance of the Chinese construction sector. China consumes about 44% of global steel demand and the usage of steel is heavily linked to the construction sector, which has been struggling. In parallel, global crude steel production is projected to grow by 3.6% in 2015 relative to a 2.7% rise in 2014. The steel market is expected to shift towards a more balanced position during the 2015-16 period as output increases to meet higher demand. EU hot rolled coil steel prices are forecast to average \$520 a ton in the first quarter of 2015, which would reflect a decrease of 9.6% from the preceding quarter and a decline of 13.3% from the same quarter of 2014. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index regressed by about 7% year-on-year in 2014.

Source: *Economist Intelligence Unit, Bloomberg Indexes*

Precious Metals: Gold prices to drop by 8% in 2015

Gold prices rose by about 6% from the end of 2014 to a four-month high of about \$1,258 on January 15, 2015 after the Swiss National Bank unexpectedly abandoned its three-year policy of capping the Swiss franc against the euro. But the metal's price is expected to decrease by 7.6% to an average of \$1,170 a troy ounce in 2015 from \$1,265.8 an ounce in 2014. Gold prices are forecast to average \$1,200 a troy ounce in the first quarter and to drop to \$1,180 an ounce on average in the second quarter of 2015. The metal's price is expected to reach new lows in 2015 as the US dollar appreciates and as US interest rates increase for the first time in nine years. Gold prices are projected to drop below \$1,130 an ounce in the third quarter of the year for the first time since April 2010 as disinvestment in the metal accelerates. In contrast, gold prices could increase if the U.S. economy grows weaker and the US Federal Reserve delays its anticipated monetary policy tightening in the middle of 2015. In parallel, the Bloomberg Precious Metals Total Return Sub-Index regressed by 6.7% year-on-year in 2014, while the Gold Sub-Index declined by 1.8% last year.

Source: *Barclays Capital, Bloomberg Indexes, Byblos Research*

Performance of Select Base Metals in 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	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
	Negative	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-	B2	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
	Negative	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
	Stable	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-Dec-14	No change	28-Jan-15
Eurozone	Refi Rate	0.05	04-Dec-14	No change	22-Jan-15
UK	Bank Rate	0.50	08-Jan-15	No change	05-Feb-15
Japan	O/N Call Rate	0.00-0.10	19-Dec-14	No change	21-Jan-15
Australia	Cash Rate	2.50	02-Dec-14	No change	03-Feb-15
New Zealand	Cash Rate	3.50	11-Dec-14	No change	29-Jan-15
Switzerland	3 month Libor target	-0.75-0.25	11-Dec-14	No change	19-Mar-15
Canada	Overnight rate	1.00	03-Dec-14	No change	21-Jan-15
Emerging Markets					
China	One-year lending rate	5.60	21-Nov-14	Cut 31bps	N/A
Hong Kong	Base Rate	0.50	17-Dec-14	No change	28-Jan-15
Taiwan	Discount Rate	1.875	18-Dec-14	No change	01-Mar-15
South Korea	Base Rate	2.00	11-Dec-14	No change	15-Jan-15
Malaysia	O/N Policy Rate	3.25	06-Nov-14	No change	28-Jan-15
Thailand	1D Repo	2.00	17-Dec-14	No change	28-Jan-15
India	Reverse repo rate	8.00	02-Dec-14	No change	03-Feb-15
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	27-Nov-14	No change	15-Jan-15
Turkey	Base Rate	8.25	24-Dec-14	No change	20-Jan-15
South Africa	Repo rate	5.75	19-Nov-14	No change	27-Jan-15
Kenya	Central Bank Rate	8.50	04-Nov-14	No change	04-Feb-15
Nigeria	Monetary Policy Rate	13.00	25-Nov-14	Raised 100bps	20-Jan-15
Ghana	Prime Rate	21.00	12-Nov-14	Raised 200bps	16-Feb-15
Angola	Base rate	9.00	22-Dec-14	No change	N/A
Mexico	Target Rate	3.00	05-Sept-14	No change	29-Jan-15
Brazil	Selic Rate	11.75	03-Dec-14	Raised 50bps	21-Jan-15
Armenia	Refi Rate	8.50	23-Dec-14	Raised 175bps	N/A
Romania	Policy Rate	2.50	07-Jan-15	Cut 25bps	04-Feb-15
Bulgaria	Base Interest	0.01	01-Jan-15	Cut 1bps	N/A
Kazakhstan	Refi Rate	5.50	04-Jan-13	No change	N/A
Ukraine	Discount Rate	14.0	13-Nov-14	Raised 150bps	N/A
Russia	Refi Rate	17.0	15-Dec-14	Raised 650bps	N/A



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