

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Banks on track to meet Basel III requirements**

The Basel Committee on Banking Supervision's survey of 224 banks worldwide, including 98 banks that have a Tier One capital of more than €bn each, shows that the 98 banks have met the Basel III risk-based capital minimum requirements of 4.5% as of June 2014. It estimated the capital shortfall at €0.1bn at the end of June 2014 for the remaining 126 banks compared to a shortfall of €2bn a year earlier. It said that capital shortfalls relative to the higher Common Equity Tier One (CET1) target level of 7% have been further reduced. It estimated the aggregate shortfall for the 98 banks to reach the CET1 target level of 7% at €3.9bn at end-June 2014, compared to shortfalls of €5.1bn at end-2013 and €485.6bn at end-June 2011. In addition, it estimated the capital shortfall for the remaining 126 banks at €1.8bn compared to €0.4bn at end-June 2013. In parallel, 96% of surveyed banks reported a Liquidity Coverage Ratio (LCR) that met or exceeded the minimum requirement of 60%, while 80% of banks reported an LCR at or above 100% as at the end of June 2014. It estimated the aggregate LCR shortfall for a minimum requirement of 60% at €55bn, equivalent to less than 0.3% of bank assets. It noted that the aggregate LCR shortfall for a minimum requirement of 100% was €305bn, which represents about 0.5% of the €58.7 trillion in total assets of the aggregate sample. The minimum LCR requirement is set initially at 60% and will gradually rise to 100% by 2019.

*Source: Basel Committee on Banking Supervision*

#### AFRICA

##### **Sovereign creditworthiness deteriorates**

Standard & Poor's indicated that overall sovereign creditworthiness in Sub-Saharan Africa (SSA) has deteriorated since July 2014. It said that the sharp drop in global oil prices since mid-2014 would continue to weaken the region's economic, external and fiscal profiles. It noted that it took negative rating actions on Angola, the Republic of the Congo, Gabon and Nigeria, mainly due to falling oil prices. It pointed out that the dependence on the oil & gas sector in the region's oil-producing sovereigns is a key vulnerability, mainly in the context of low sovereign buffers. In addition, it considered that the region's rated net hydrocarbon importers would benefit from a modest improvement in their fiscal and external accounts as a result of lower oil prices. However, it noted that the fall in the prices of their non-oil commodity exports would partly offset some of the oil-related gains. Overall, it said that the improvements in the macroeconomic indicators of oil-importers would not be significant enough to lead to positive rating actions. Further, S&P indicated that it lowered the ratings on Ghana and Burkina Faso, primarily due to rising fiscal and political risks, respectively; while it revised the outlook on Rwanda's ratings to 'positive' from 'stable' on fiscal consolidation and receding geopolitical risks. In parallel, the agency anticipated that Eurobond issuance may be more challenging in 2015 due to deteriorating macroeconomic conditions for many SSA countries in the context of low oil and commodity prices, and the expected rise in U.S. interest rates.

*Source: Standard & Poor's*

#### MENA

##### **Equity markets up 6% in first two months of 2015**

Arab stock markets increased by 5.7% and GCC markets rose by 7.3% in the first two months of 2015 compared to increases of 8.4% and 7.4%, respectively, in the same period of 2014. Activity on the Saudi Arabia equity market grew by 11.8% in the first two months of 2015 and posted the best performance among Arab markets in the covered period. It was followed by the Casablanca stock market with an 8.7% increase, the Tunis stock exchange with a 6.9% rise, the Egyptian equity market with a 4.6% growth, the Abu Dhabi securities market with a 3.5% expansion, the Oman equity market and the Bahrain bourse with a 3.4% improvement each, the Dubai financial market with a 2.4% increase, the Amman bourse with a 1.4% rise, the Qatar stock exchange with a 1.3% growth, the Kuwait securities market with a 1% expansion and the Beirut stock exchange with a 0.7% improvement. In parallel, activity on the Iraqi stock market declined by 23.4% and posted the weakest performance among Arab markets in the first two months of 2015. It was followed by the Khartoum bourse with a 10% decrease, the Palestine stock exchange with a 2.5% drop and the Damascus securities exchange with a 1.7% contraction. In comparison, global equities rose by 3.7%, while emerging market equities grew by 3.4% in the first two months of 2015.

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

##### **Remittance outflows from GCC countries unaffected by the drop in oil prices over the near term**

The World Bank estimated remittance inflows from Gulf Cooperation Council (GCC) economies to other countries in the Middle East & North Africa (MENA) at \$21bn in 2013, equivalent to 22.5% of the \$93.4bn in outward remittance inflows from GCC countries. Remittance flows from Saudi Arabia to other MENA countries reached \$10.7bn in 2013 and accounted for 50.8% of the \$21bn, followed by the UAE with \$4.1bn (19.6%), Kuwait with \$3.9bn (18.5%), Qatar with \$1.5bn (7.4%), Bahrain with \$0.5bn (2.4%) and Oman with \$0.3bn (1.3%). As such, 34% of remittance flows from Kuwait went to other MENA countries, followed by 31% from Saudi Arabia, 19% from Bahrain, 15% from Qatar, 14% from the UAE and 6% from Oman. The Bank indicated that MENA countries received 43% of their remittances from GCC countries, 29% from Europe and 8% from the United States. It noted that Egypt, Yemen and Jordan are the largest recipients of remittance inflows from GCC economies in the MENA region, which makes them the most vulnerable to changes in such flows from Gulf countries. The World Bank considered that there is no sizeable impact from the drop in oil prices on remittance outflows from GCC countries. But it pointed out that these outflows are affected by changes in real GDP growth in GCC economies, which captures most of the impact of the fluctuation in oil prices.

*Source: World Bank*

# POLITICAL RISK OVERVIEW - February 2015

## EGYPT

Egypt's air force bombed Islamic State (IS) militant camps, training sites and weapon storages in Libya in retaliation for the IS beheadings of 21 Egyptian Christians. Deadly bomb attacks continued in Cairo. An Egyptian court sentenced prominent activist Ahmed Douma, along with 229 other anti-Mubarak activists, to life in prison over clashes with police officers and armed forces during the December 2011 protests. The government resumed its crackdown on Muslim Brotherhood members. The jihadist group Ansar Beit al-Maqdis continued to conduct violent attacks in the Sinai Peninsula.

## IRAN

Nuclear talks between Iran and the UN Security Council's permanent members plus Germany (P5+1) continued in Geneva. Technical disputes are still standing in the way of a deal, including the pace of sanctions relief for Tehran and Iran's uranium enrichment capacity. P5+1 countries and Iran have set a March 31, 2015 deadline to reach a political framework agreement. Some U.S. Senators indicated that President Barack Obama has until the end of March to reach a political understanding with Iran before they pursue additional sanctions on Tehran. Supreme Leader Ali Khamenei voiced an unusual support for negotiations. He referred to Iran's concessions under the November 2013 interim agreement as "logical" and expressed his opposition to any deal that is against national interests.

## IRAQ

The killings of a prominent Sunni tribal leader, Sheikh Qassem al-Janabi, his son and six bodyguards by Shiite militiamen raised sectarian tensions in Parliament and heightened Sunni anger against Shiite militia groups. In response to Sheikh al-Janabi's killing, the two main parliamentary blocs announced that they would boycott Parliament for at least a week, and blamed the Cabinet and the Defense Ministry for ignoring criminal activities of Shiite militias. The government approved a draft law for the creation of a National Guard force to assist in the fight against the Islamic State militant group. Prime Minister Haider al-Abadi declared the end of a decade-long night-time curfew in Baghdad, as well as a series of other measures aimed at normalizing life in the capital. Violence and acts of terrorism in February led to 1,103 deaths and to at least 2,280 injuries. The Peshmerga Kurdish forces discovered a mass grave in the north containing the remains of about 25 members of the Yazidi minority.

## DEM REP CONGO

La Commission électorale nationale indépendante released the 2015-16 electoral calendar on February 12th. It noted that both presidential and parliamentary elections would be held on November 27, 2016. The Congolese army launched unilateral military operations against Les Forces démocratiques de libération du Rwanda in South Kivu on February 24th, and in North Kivu on February 26, 2015.

## LIBYA

The internationally-recognized Tobruk-based House of Representatives suspended its participation from UN-sponsored peace talks following deadly suicide attacks in the eastern city of al-Qubba. The Islamic State (IS) militant group claimed responsibility for the attacks that killed at least 45 people. Deepening political divisions and the resultant military clashes between warring parties have facilitated the rise of jihadist armed groups. Libya asked the UN Security Council to lift the arms embargo, to impose a maritime blockade on areas under the control of Islamist extremists and to help build the country's army to combat IS and other militants. Libya has been in a state of turmoil since the 2011 uprising that ended the decades-long rule of dictator Muammar Gaddafi.

## SOUTH SUDAN

The final session of peace talks between the government and the Sudan People's Liberation Movement-in-Opposition (SPLM-IO), which is being mediated by the Inter-governmental Authority on Development (IGAD), began on February 23 in Addis Ababa. IGAD chief mediator Seyoum Mesfin called on warring parties to make genuine compromises and to conclude a final peace agreement by the March 5 deadline. He noted that, in case an agreement is reached by the deadline, a pre-transitional period could begin on April 1st and a national unity transitional government could be formed by July 9, 2015. Clashes continued in the Unity and Upper Nile states. South Sudan signed a new Status of Forces agreement with Uganda to allow Ugandan troops to extend their presence in the country by another four months. The government suspended the 2015 general elections as peace negotiations continue.

## SUDAN

Fighting between the Sudanese Armed Forces and the Sudanese People's Liberation Movement-North continued in South Kordofan. The campaigns for Sudan's presidential and parliamentary elections began amid continued crackdown on civil society and media. The National Consensus Forces, a coalition of opposition groups, announced a nationwide campaign to encourage an elections' boycott. The Sudan Call Forces indicated readiness to discuss the requirements and procedures of the national dialogue with the ruling National Congress Party.

## SYRIA

The Syrian regime and allied forces began a major military campaign in the south of the country in early February, following months of rebel gains in the Daraa and Quneitra provinces. They recaptured some ground from rebels, including areas in the southwest of Damascus. The pro-regime media reported the direct participation of Iran and Hezbollah in the battles. The regime and allied forces made strategic advances in rebel-held areas around the city of Aleppo. Deadly regime airstrikes continued around Damascus.

## TUNISIA

Parliament approved a coalition government led by the secular Nidaa Tounes Party and included An-Nahda, the Free Patriotic Union and the Afek Tounes parties. Security forces clashed with demonstrators who were protesting the imposition of an exit tax along the Libyan border. In light of the clashes, Tunisian authorities are considering to suspend the exit tax for the citizens of Maghreb countries, especially the Libyan citizens. Security forces foiled terrorist operations and arrested about 3,000 suspects. Military units were deployed along the Tunisia-Libya border to prevent terrorist infiltration and arms trafficking.

## YEMEN

The country's political crisis deepened when the Huthi movement created a revolutionary council, a high security committee and a parliamentary body. Anti-Huthi protests grew in the capital Sanaa and central provinces. Several foreign embassies suspended operations in the country and evacuated their diplomats. Ousted President Abed Rabbo Mansour Hadi rescinded his resignation and attempted to reclaim his position after escaping a house arrest imposed by the Huthis in Sanaa and fleeing to the city of Aden. A UN Security Council resolution demanded Huthis' withdrawal from Yemeni institutions immediately and unconditionally. Yemen's rival factions agreed to create an interim governing council in a bid to overcome the country's political crisis. Southern political leaders called for the establishment of an alternative capital in either the city of Taiz or Aden.

Source: International Crisis Group, Newswires

# OUTLOOK

## EMERGING MARKETS

### Banking sectors of oil exporters to increasingly feel impact of lower oil prices

Standard & Poor's anticipated that the drop in global oil prices would not significantly affect the performance of banking sectors in 10 oil-exporting countries that are the six Gulf Cooperation Council economies, Brunei, Kazakhstan, Malaysia and Nigeria. However, it said that some of those banking sectors could suffer from higher credit losses and lower liquidity, mainly in countries with low fiscal buffers, significant economic imbalances and high dependence on oil-related bank deposits.

S&P said that banks in Nigeria are directly vulnerable through their significant exposure to the oil sector. It indicated that credit to the oil sector accounted for about 25% of total lending at the end of 2014, the highest direct exposure to the oil sector among the 10 banking sectors. It noted that the depletion of foreign currency buffers at local private companies in the oil sector would have a negative effect on banks' asset quality. It added that the pressure on the Nigerian naira constitutes a risk for banks due to the significant share of loans in foreign currency on their balance sheets. S&P considered that the risks from banks' direct exposure to the oil sector in the remaining countries, mainly GCC economies, could be underestimated because some of the oil-related activities are linked to the government. Further, S&P considered that banks in Bahrain and Oman are indirectly vulnerable to lower oil prices through the potential drop in public investment and economic activity.

S&P expected credit growth to decelerate and for problem loans to increase in the 10 banking systems. However, it said that losses would not exceed historical trends and earnings' buffers would remain sufficient to absorb the losses. Further, it forecast banks' return on equity to drop this year in most of the 10 countries due to the increase in credit losses and the higher cost of funding. Also, it anticipated that lower deposit growth would weaken the funding profile of the 10 banking systems and could increase their reliance on external debt.

Source: Standard & Poor's

## RUSSIA

### Prospects of banking sector reliant on government support

Standard & Poor's indicated that the Russian banking sector faces key risks this year, which include economic contraction, extremely volatile capital and currency markets, weaker investor confidence and deteriorating sovereign creditworthiness. It considered the current crisis to be more challenging than the 2009 financial crisis. But it expected government support and loan forbearance, in some cases, to prevent systemically important and other selected banks from failing, and to avert a deeper banking crisis. It noted that the government may absorb some of the banks' losses directly or indirectly by providing loans to troubled industrial companies. It added that authorities have been extending liquidity and capital support to banks that are critical for the stability of the banking sector. But it pointed out that the deteriorating sovereign creditworthiness is reducing the government's capacity to support banks and, in turn, to maintain the stability of the sector. It noted that small- and mid-

sized banks would suffer more than large banks from deposit volatility and from the rapidly deteriorating asset quality, as they would not receive any government support.

S&P anticipated that the challenging domestic economic conditions would erode borrowers' debt-servicing capacity. As such, it expected non-performing and restructured loans to reach about 17% to 23% of the total loan book in 2015 relative to 8% in 2014. It cautioned that these loans could reach about 35% to 40% of the loan book this year in the event of a higher-than-expected deterioration in economic conditions. It said that the deterioration in asset quality could pose a threat to banks' capitalization and profitability. It pointed out that the outlook for profitability is negative this year, mainly due to higher credit costs, slow loan growth, higher provisioning and intensifying pressure on costs.

Source: Standard & Poor's

## NIGERIA

### Outlook subject to significant downside risks

The International Monetary Fund projected Nigeria's real GDP growth to decelerate from 6.3% in 2014 to 4.8% in 2015 due to the sharp contraction in public spending and in domestic demand. It forecast hydrocarbon output to contract by 1.6% in 2015 relative to a contraction of 1.3% in 2014, and for the non-hydrocarbon sector to expand by 5.5% compared to a growth rate of 7.3% last year. It projected the inflation rate at 11.5% at the end of 2015 compared to 7.9% at end-2014, reflecting the pass-through from the depreciation of the currency. It said that the outlook is subject to external risks that include changes in the oil market and in investor sentiment. It added that domestic risks consist of uncertainty over the upcoming elections and security conditions. Further, it pointed out that Nigeria has limited fiscal and external buffers and that the hydrocarbon sector remains a critical source of public revenues and of foreign currency. As such, it called on authorities to implement additional policy adjustments and broader structural reforms to accumulate foreign currency reserves, to rebuild the reserves in the Excess Crude Account (ECA) and to mitigate risks.

In parallel, the Fund considered that tightening fiscal policy and allowing the currency to depreciate were appropriate responses to the recent fall in oil prices. However, it pointed out that achieving the authorities' fiscal targets would require a careful prioritization of public spending, a cautious implementation of capital projects and improved budgeting. It indicated that mobilizing additional non-hydrocarbon revenues is critical to improve the fiscal space and the public-service delivery over the medium-term. It forecast the fiscal deficit to widen from 2.5% of GDP in 2014 to 2.8% of GDP in 2015, with hydrocarbon revenues decreasing from 5.8% of GDP last year to 3.4% of GDP in 2015. It expected reserves at the ECA to decline from \$2bn at end-2014 to \$1.5bn at the end of 2015.

Further, the IMF forecast the current account surplus to narrow from 2.2% of GDP in 2014 to 0.2% of GDP in 2015 as receipts from hydrocarbon exports are expected to fall by 6% of GDP in 2015. It projected foreign currency reserves to decrease from \$34.3bn at the end of 2014, equivalent to 6.1 months of imports, to \$28.4bn or 4.7 months of imports at the end of 2015.

Source: International Monetary Fund



## ECONOMY & TRADE

### EGYPT

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

Capital Intelligence affirmed Egypt's long-term foreign and local currency sovereign ratings at 'B-' with a 'stable' outlook. It attributed the affirmation of the ratings to stabilizing short-term external financing risks, the implementation of some fiscal consolidation measures, the improvement in security conditions and the relative resilience of the banking sector. It said that GCC countries have disbursed most of their pledged support, which is equivalent to about 6.6% of GDP. It noted that this support has stabilized short-term financing risks and expected such aid to continue in the medium term. It anticipated foreign currency reserves to continue to increase if political and geopolitical conditions do not deteriorate which would provide an adequate coverage of short-term external debt and would constitute a reasonable buffer against moderate external economic shocks. But it noted that foreign currency reserves would not rise to pre-unrest levels. Further, the agency indicated that the ratings are supported by a relatively low level of external debt that it estimated at 16% of GDP and at 61.5% of current account receipts in 2014. It added that Egypt's debt profile is relatively favorable and that its gross external financing requirements are low at an estimated 7.7% of GDP in the fiscal year ending in June 2015. It forecast the fiscal deficit to narrow to 11.5% of GDP, and for the public debt level to remain elevated at 94.5% of GDP in FY2014/15, which would result in significant fiscal financing needs.

*Source: Capital Intelligence*

### SAUDI ARABIA

#### **Sovereign ratings affirmed, outlook 'stable'**

Fitch Ratings affirmed Saudi Arabia's long-term foreign and local currency Issuer Default Ratings at 'AA', with a 'stable' outlook. It said that the country's substantial external and fiscal buffers are a key support for the ratings in the low oil price environment. It noted that Saudi Arabia's net foreign assets have declined since reaching an all-time high of about 114% of GDP at the end of August 2014. It expected the country's net external assets to further decline but to remain above 100% of GDP by the end of 2016. Further, the agency projected the fiscal deficit to widen from 1.9% of GDP in 2014 to more than 10% of GDP in 2015, due to lower oil prices and the recently announced spending package of about 4.3% of GDP. It expected the fiscal deficit to narrow to 3.7% of GDP in 2016, reflecting limited expenditures overruns, lower capital spending, higher oil prices and the fading impact of the one-off spending package. It said that authorities would draw down sovereign foreign assets and issue government securities in order to finance the deficit. In parallel, the Arab Petroleum Investments Corporation anticipated that Saudi Arabia's government deposits of \$416.2bn at end-2014 would finance the fiscal deficit for 4.6 years, under a scenario whereby OPEC basket's price would remain at \$60 per barrel and public spending would be at the 2015 level. It noted that the fiscal buffer rise to \$751.2bn when including assets of other autonomous government institutions, which would finance the fiscal deficit over 8.4 years.

*Source: Fitch Ratings, APICORP*

### ANGOLA

#### **Outlook revised to 'negative' on downside risks from lower oil prices**

Moody's Investors Service revised the outlook to 'negative' from 'stable' on Angola's 'Ba2' government bond rating. It attributed the outlook revision to downside risks from lower global oil prices on Angola's economic activity, public finances and the external payments position. It said that authorities project a fiscal deficit of more than 5.5% of GDP this year despite the adjustment in public spending. It expected the balance of payments to post a deficit of about 6% of GDP this year, which would negatively affect the country's foreign currency reserves that stood at \$27bn at the end of 2014. It pointed out that the successful completion of planned external borrowing would support the level of foreign currency reserves in 2015. In parallel, the agency indicated that Angola's sovereign credit profile is supported by several strengths. First, it projected real GDP growth at about 3% this year, supported by a rise in oil production from an average of 1.66 million barrels per day (p/d) in 2014 to 1.83 million barrels p/d in 2015 from new projects coming on stream. It noted that new capacity would help cushion the economy against weaker oil prices and against the large expected deceleration in the non-hydrocarbon sector due in part to cuts in government spending. Second, it noted that the government's debt-to-GDP ratio of 23% at end-2014 is relatively low with a favorable debt structure. Third, it estimated the government's aggregate fiscal reserves at a minimum of 10% of 2014 GDP.

*Source: Moody's Investors Service*

### GHANA

#### **IMF deal to ease short-term pressure, fiscal targets too optimistic**

Fitch Ratings anticipated that the newly-reached three-year \$940m agreement between Ghana and the International Monetary Fund would ease the short-term pressure on the government's finances and on external financing. It said that the program aims to restrain and prioritize public spending, to increase tax collection and to strengthen the effectiveness of the Bank of Ghana's monetary policy. It considered that the successful implementation of the program would improve fiscal discipline, help restore macroeconomic stability and support the Ghanaian cedi. It noted that the cedi lost 8% of its value against the US dollar so far this year, while foreign currency reserves fell by \$600m to \$4.9bn. It pointed out that an IMF program should reduce external vulnerabilities and support the accumulation of foreign currency reserves through a narrower current account deficit. It added that the involvement of the IMF in Ghana would unlock access to cheaper concessional financing. However, Fitch considered that the implementation of the agreement, which includes ambitious fiscal consolidation targets, would be challenging ahead of the 2016 general elections. It forecast the fiscal deficit to narrow from 9.5% of GDP in 2014 to 8% of GDP in 2015, relative to a target of 7.5% of GDP in the IMF program. It considered that achieving a deficit of 3.5% of GDP by 2017 is too optimistic given structural obstacles to growth and given the spending pressure from the upcoming elections.

*Source: Fitch Ratings*



# BANKING

## JORDAN

### Construction and trade account for 43% of overall lending at end-2014

Figures released by the Central Bank of Jordan indicate that credit facilities extended by commercial banks operating in Jordan totaled JD19.3bn or \$27.2bn at the end of 2014, constituting an increase of 1.8% from JD18.9bn at end-2013 and compared to a rise of 6.2% in 2013. Foreign currency credits accounted for 13.3% of the total, down from 14.1% at end-2013. The resident private sector accounted for 89.8% of total credit relative to 87.5% at end-2013, followed by the central government with 5.9%, down from 6.5% a year earlier; the non-resident private sector with 2.5% relative to 4.3% at end-2013 and public entities with 1.8%, up from 1.7% a year earlier. The distribution of credit by sector shows that construction represented JD4.6bn or 23.6% of the total in 2014, up from 21.6% in the previous year; while general trade represented JD3.7bn or 19.1% of the total relative to 20.8% a year earlier. They were followed by industry with JD2.5bn or 13.1% of the total; public services & utilities with JD2.2bn (11.3%); tourism, hotels & restaurants with JD572m (3%); financial services with JD540m (2.8%); transportation services with JD293m (1.5%); agriculture with JD243m (1.3%), and mining with JD196m (1%). Further, other sectors accounted for JD4.5bn, or 23.3% of total credit, of which JD295m were extended to buy shares. In parallel, loans & advances totaled JD12.6bn of overall credit at end-2014, followed by Islamic banks receivables with JD4.1bn, overdrafts with JD2.2bn and discounted bills with JD241m.

Source: Central Bank of Jordan, Byblos Research

## MOROCCO

### Capital adequacy ratio at 13.5%, NPLs on the rise

The risk-weighted capital adequacy ratio of banks operating in Morocco reached 13.5% at the end of June 2014 relative to 13.3% at the end of 2013 and 12.3% at the end of 2012; while the banks' Tier-One capital ratio increased to 11.4% at end-June 2014 from 11.1% at end-2013 and 10.2% at end-2012. Also, the banks' aggregate capital-to-assets ratio was 8.7% at end-June 2014, up from 8.6% at end-2013 and 8.5% at end-2012. The sector's liquid assets were equivalent to 11.3% of total assets at the end of June 2014 relative to 12.5% at the end of 2013 and 10.5% at the end of 2012; while they represented 17.1% of total short-term liabilities at end-June 2014 compared to 17.4% at end-2013 and 14.7% at end-2012. Further, the banks' lending to the private sector accounted for 91% of total loans at the end of June 2014, unchanged from 2012 and 2013. Foreign currency loans accounted for 3.9% of total loans at end-June 2014, up from 2.7% at end-2013. The sector's deposit-to-loan ratio was 98% at end-June 2014 relative to 96.2% at the end of 2013. Also, the sector's non-performing loans ratio was 6.5% at the end of June 2014, up from 5.9% at end-2013 and 5% at the end of 2012, while specific provisions-to-NPLs ratio regressed to 63% at end-June 2014 from 64% at end-2013 and 67.8% at end-2012. In parallel, the banks' return on assets was 1.1% on an annualized basis in June 2014, relative to 1% in each of 2012 and 2013; while their annualized return on equity was 12% in June 2014 compared to 10.6% in 2013 and 11.8% in 2012.

Source: International Monetary Fund

## TURKEY

### Slowdown in credit growth to have positive impact on banks' asset quality

Standard & Poor's projected the growth in the lending of Turkish banks to decelerate to between 15% and 18% in nominal terms in 2015 due to the macro-prudential measures that authorities introduced last year to limit the rapid growth of unsecured lending. It added that credit growth is affected by the stabilization of real GDP growth at about 3% in 2015. It said that lending growth would range between 7% and 10% in real terms this year given the high inflation rate. It noted that aggressive lending has started to slow down last year, and that the credit card segment is no longer the major driver of credit growth. It considered the less aggressive credit growth to be positive for banks, following an average annual rise of seven percentage points in the credit-to-GDP ratio during the past four years. It noted that the banks' asset quality would benefit from slower lending growth given that loans are still seasoning, which makes them highly susceptible to a domestic economic shock. It estimated credit losses at Turkish banks to range between 100 and 150 basis points and expected the sector to maintain its low non-performing loans ratio of about 3%. In parallel, S&P anticipated that the U.S. Federal Reserve's monetary decisions and the European Central Bank's Quantitative Easing program would offset each other, which would minimize their impact on the availability and pricing of foreign funding. Also, it indicated that domestic monetary policy and falling global oil prices would shape the banks' interest rate margins and could slow the ongoing narrowing of margins.

Source: Standard & Poor's

## OMAN

### Outlook on banks' deposit ratings revised to 'negative'

Moody's Investors Service affirmed the 'A1' long-term foreign and local currency deposit ratings on Bank Muscat, the 'A2' ratings on Oman Arab Bank and the 'A3' ratings on each of Bank Dhofar, National Bank of Oman and HSBC Bank Oman. It revised the outlook on the five banks' deposit ratings to 'negative' from 'stable'. It attributed the outlook revision to its similar action on Oman's sovereign ratings, which reflects a weakening in the government's capacity to provide support to the banking sector. However, it considered that there is a very high probability that authorities would support the banking sector in case of need. Further, Moody's anticipated that the banks' creditworthiness would remain broadly resilient despite a challenging operating environment as a result of low global oil prices. It said that the banks' creditworthiness is supported by their relatively solid capital buffers, strong deposit-based funding structure, good liquidity buffers and low levels of non-performing loans. It noted that the banks benefit from a high stock of loan-loss reserves, which provides ample cushion against the expected pressure on their asset quality. As such, it affirmed at 'baa1' the standalone baseline credit assessment (BCA) on Bank Muscat, the 'baa2' BCA on Oman Arab Bank and the 'ba1' BCA on each of Bank Dhofar, National Bank of Oman and HSBC Bank Oman.

Source: Moody's Investors Service



# ENERGY / COMMODITIES

## Brent oil prices to drop by 46% in 2015, bottom near \$40 p/b level

Oil prices are expected to reach a bottom of about \$40 per barrel (p/b) in coming months. A decrease in global oil production is likely to materialize in the near term as about 50% of the world's future projects would be unprofitable at oil prices below \$50 p/b. In parallel, lower oil prices are projected to have a positive impact on global oil demand. Global oil consumption is forecast to grow by 1.4% to 93.8 million barrels per day (b/d) in 2015, while global production would rise by 0.5% to 93.7 million b/d. The market would begin to balance from the second half of the year onwards. Brent oil prices are forecast to average \$50 p/b in the first quarter, \$45 p/b in the second quarter, \$55 p/b in the third quarter and \$65 p/b in the fourth quarter of 2015; while WTI prices are expected to average \$45 p/b in the first quarter, \$35 p/b in the second quarter, \$45 p/b in the third quarter and \$57 p/b in the fourth quarter of the year. Overall, Brent prices are forecast to drop by 46% to \$54 p/b in 2015, while WTI prices would decline by 50.5% year-on-year to \$46 p/b. Brent oil prices increased by 13% in the first two months of 2015 and by 29.7% month-on-month in February, while WTI oil prices decreased by 6.8% from end-2014 and rose by 4.3% last month.

Source: Citi Research, Byblos Research

## Libya's oil production at 25% of normal capacity

Libya's crude oil production is currently estimated at more than 400,000 barrels per day (b/d), or at about 25% of the country's normal supply level before the 2011 war, and reflects a rise of more than 10% from an average of 363,000 b/d in January 2015. The country's crude oil output has been negatively affected by the ongoing fighting between two rival governments battling to control the country. In parallel, Libya declared a force majeure related to 11 oil fields, after a series of attacks against the facilities by the Islamic State militant group.

Source: Thomson Reuters, Wall Street Journal

## Iraqi oil exports rise by 2% in February 2015

Iraqi crude oil exports averaged 2.597 million barrels per day (b/d) in February 2015, up by 2.4% from 2.535 million b/d in the preceding month. Exports of 2.293 million b/d, or 88.3% of the total, were shipped from southern oil terminals, and the remaining 304,000 b/d were exported from the north via the Kurdistan pipeline. Iraq generated \$3.45bn in revenues from the February 2015 shipments. The country sold its crude oil for \$47.43 per barrel. In parallel, Iraq's Oil Minister indicated that Baghdad and the Kurdish regional authorities are making progress to implement a permanent deal over crude oil exports.

Source: Thomson Reuters

## Middle East accounts for 17% of world's natural gas production

The Middle East region's aggregate natural gas output is projected to account for 17.4% of the world's natural gas supply in 2015 and to increase to 18.2% 2035. The region's natural gas production would post a compound annual growth rate of 1.96% during the 2015-35 period, constituting the world's third-fastest growth rate, behind Africa (+3.5%) and Asia Pacific (+2%).

Source: BP, Byblos Research

## Base Metals: Steel production up 1% in 2014

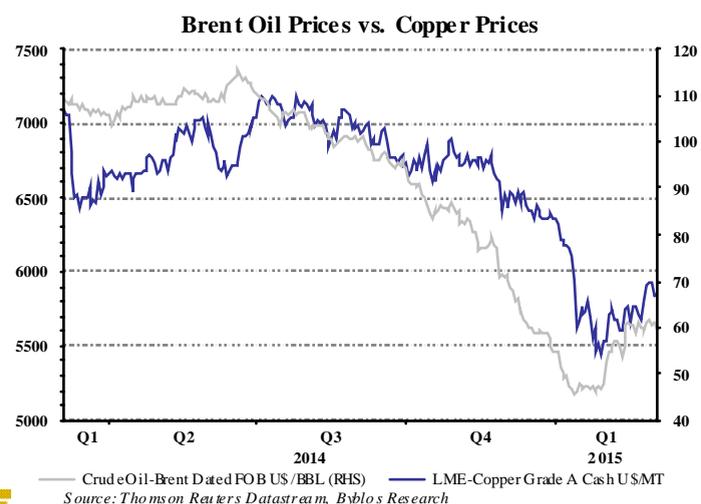
Global crude steel output reached 1,662 million tons in 2014, up by 1.2% from 1,642 million tons in 2013. Steel production growth weakened in 2014 due to a slowdown in Chinese finished steel consumption. China's crude steel production reached 822.7 million tons in 2014, reflecting an increase of 0.9% from 2013. China continued to account for about half of global crude steel output in 2014. It was followed by Japan at 110.7 million tons (6.7%), the U.S. at 88.3 million tons (5.3%), India at 83.2 million tons (5%) and South Korea at 71 million tons (4.3%). In parallel, the Middle East, the smallest region for crude steel production, posted growth of 7.7% in 2014. Steel output in North America grew by 2% in 2014, followed by the European Union (+1.7%) and Asia (+1.4%). In contrast, the metal's production in the Commonwealth of Independent States regressed by 2.8% last year, followed by Australia & New Zealand (-1.8%), South America (-1.4%) and Africa (-0.7%). The average LME steel billet cash price was \$410.4 per ton in 2014, up by 105% from \$200.2 per ton in 2013. Steel billet prices traded at a low of \$286.5 per ton and at a high of \$490 per ton in 2014.

Source: World Steel Association, Byblos Research

## Precious Stones: Rough diamond price to drop 2% in 2015

Global rough diamond production is forecast to reach 135.5 million carats in 2015, which would reflect a rise of 3.4% from an estimated level of 131.1 million carats in 2014. In terms of value, global rough diamond supply is forecast at \$14bn in 2015 relative to \$13.8bn in 2014. The world's 10 largest mines by production value are estimated to account for 61% of global output. The latter figures are based on an analysis of the world's 54 largest diamond mines. The global average price for rough diamonds in 2014 decreased by 3% to 5% as the closure of the Belgium-based Antwerp Diamond Bank, a leading financier for the diamond trade, led to industry-wide liquidity concerns for rough diamond buyers. In addition, a strong US dollar, a slower-growing Chinese economy, deflationary pressures in Japan and the European Union, and geopolitical tensions, led to downward pressure on rough diamond prices. These factors would continue to weigh on prices in the first half of 2015. The price of rough diamond is forecast to drop by about 2% to \$103 per carat in 2015.

Source: Kitco Metals



# 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								
<b>Africa</b>													
Algeria	-	-	-	-	BB	-1.9	9.7	1.5	9.4	1.1	-	0.5	-
Angola	B+	Ba2	BB-	-	BB	-2.0	29.2	9.4	-	1.9	79.0	2.2	-1.4
Egypt	B-	Caa1	B	B-	CCC	-11.1	91.3	16.4	127.5	7.5	286.8	-1.3	1.3
Ethiopia	B	B1	B	-	CCC	-3.0	23.5	21.1	116.3	-	-	-5.4	2.8
Ghana	B-	B2	B	-	B	-7.5	66.5	32.3	73.4	3.4	239.1	-10.6	7.5
Ivory Coast	-	B1	B	-	B	-2.8	40.4	15.8	62.7	6.3	-	-2.2	2.9
Libya	-	-	B	-	B	-30.4	1.6	9.5	10.9	3.4	-	-27.7	-
Dem Rep Congo	B-	B3	-	-	-	-2.1	23.4	12.3	45.1	1.4	5.4	-7.9	6.9
Morocco	BBB-	Ba1	BBB-	-	B	-4.9	62.7	31.5	115.4	17.2	270.2	-6.6	2.9
Nigeria	BB-	Ba3	BB-	-	B	-1.8	2.0	3.2	42.0	0.3	34.3	4.9	2.7
Sudan	-	-	-	-	C	-1.3	89.3	74.0	-	-	-	-8.2	-
Tunisia	-	Ba3	BB-	-	CCC	-6.8	50.9	59.1	127.6	10.9	360.6	-6.7	3.0
Burkina Faso	B	-	-	-	-	-3.9	32.1	25.9	143.5	-	-	-7.3	0.4
Rwanda	B	-	B	-	-	-3.1	28.8	21.5	253.7	-	153.6	-11.5	3.5
<b>Middle East</b>													
Bahrain	BBB-	Baa2	BBB	BBB	BB	-4.3	45.8	134.4	423.5	16.6	506.6	10.4	0.2
Iran	-	-	-	B	CCC	-2.5	10.8	1.8	13.9	1.3	15.4	5.2	-
Iraq	-	-	-	-	CCC	-2.0	16.3	10.7	69.5	-	-	1.0	-
Jordan	BB-	B1	-	BB-	CCC	-8.3	91.3	26.0	154.2	14.9	225.4	-12.9	6.3
Kuwait	AA	Aa2	AA	AA-	A	25.2	2.4	20.4	25.5	7.0	108.4	37.4	-4.7
Lebanon	B-	B2	B	B	CCC	-11.5	147.6	179.6	162.8	16.4	126.8	-15.8	6.0
Oman	A-	A1	-	A	A	0.6	8.0	12.0	25.0	3.8	105.3	7.8	0.6
Qatar	AA	Aa2	-	AA-	AA	7.7	25.7	75.6	123.9	14.3	477.0	25.4	-0.4
Saudi Arabia	AA-	Aa3	AA	AA-	A	7.1	2.6	11.8	24.3	1.9	11.4	15.8	0.6
Syria	-	-	-	-	C	-12.0	65.0	27.4	-	-	-	-3.7	-
UAE	-	Aa2	-	AA-	BB	7.9	12.3	38.0	38.0	4.0	330.2	13.3	2.1
Yemen	-	-	-	-	CC	-6.7	51.4	15.0	51.8	-	-	-1.5	-



# 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								
<b>Asia</b>													
Armenia	-	Ba3	B+	-	-	-2.3	42.1	77.0	109.2	17.9	543.0	-7.2	4.0
	-	Negative	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								
<b>Central &amp; Eastern Europe</b>													
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	BB+	Baa3	BBB-	-	BBB	-0.5	11.6	36.7	109.4	15.0	134.9	3.0	-0.9
	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	28-Jan-15	No change	18-Mar-15
Eurozone	Refi Rate	0.05	22-Jan-15	No change	05-Mar-15
UK	Bank Rate	0.50	05-Feb-15	No change	05-Mar-15
Japan	O/N Call Rate	0.00-0.10	18-Feb-15	No change	17-Mar-15
Australia	Cash Rate	2.25	03-Mar-15	No change	N/A
New Zealand	Cash Rate	3.50	29-Jan-15	No change	12-Mar-15
Switzerland	3 month Libor target	-1.25-(-0.25)	11-Dec-14	Cut 50bps	19-Mar-15
Canada	Overnight rate	0.75	04-Mar-15	Cut 25bps	15-Apr-15
<b>Emerging Markets</b>					
China	One-year lending rate	5.35	01-Mar-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.50	28-Jan-15	No change	18-Mar-15
Taiwan	Discount Rate	1.875	18-Dec-14	No change	26-Mar-15
South Korea	Base Rate	2.00	17-Feb-15	No change	12-Mar-15
Malaysia	O/N Policy Rate	3.25	28-Jan-15	No change	05-Mar-15
Thailand	1D Repo	2.00	28-Jan-15	No change	11-Mar-15
India	Reverse repo rate	7.75	03-Feb-15	No change	07-Apr-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	8.75	26-Feb-15	No change	23-Apr-15
Turkey	Base Rate	7.50	24-Feb-15	Cut 25bps	17-Mar-15
South Africa	Repo rate	5.75	27-Jan-15	No change	26-Mar-15
Kenya	Central Bank Rate	8.50	04-Feb-15	No change	01-May-15
Nigeria	Monetary Policy Rate	13.00	20-Jan-15	No change	24-Mar-15
Ghana	Prime Rate	21.00	18-Feb-15	Raised 200bps	01-Apr-15
Angola	Base rate	9.00	02-Feb-15	No change	N/A
Mexico	Target Rate	3.00	29-Jan-15	No change	26-Mar-15
Brazil	Selic Rate	12.25	03-Dec-14	Raised 50bps	04-Mar-15
Armenia	Refi Rate	10.50	10-Feb-15	Raised 100bps	N/A
Romania	Policy Rate	2.25	04-Feb-15	Cut 25bps	N/A
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	30.0	03-Mar-15	Raised 1050bps	N/A
Russia	Refi Rate	15.0	30-Jan-15	Cut 200bps	13-Mar-15



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