

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global assets of open-end mutual funds and ETPs at \$29.4 trillion at end-2014

Figures released by investment research firm Morningstar shows that global assets of open-end mutual funds and exchange-traded products reached \$29.4 trillion at the end of 2014, constituting a rise of 7.4% from \$27.4 trillion at end-2013. The United States remains the largest investable market, holding 57% of the world's assets at end-2014, followed by Europe (13.5%), Asia (3.8%), Latin America and Oceania (3.3% each), Canada (2.3%), Africa (0.6%) and the Middle East (0.3%); while cross-border funds held 15.8% of total assets at the end of 2014. Cross-border funds are generally domiciled in tax havens, such as Luxembourg and Ireland; and are dispersed in numerous markets, mainly in Europe. Morningstar indicated that assets of cross-border and Asia funds are growing at a much faster rate than in the mature U.S. market. In parallel, net flows to open-end mutual funds and exchange-traded products totaled \$1.35 trillion in 2014 relative to \$966bn in 2013. Funds in the U.S. attracted 40.5% of such flows in 2014, followed by cross-border funds at 32.9% and European funds at 11.7%. Further, equity funds attracted 32% of total net inflows, followed by fixed income funds with 27.5%, and allocation funds with 20%. Morningstar noted that rising global flows, mainly equity, reflect continued investor confidence in the markets and their potential for future growth.

Source: Morningstar

Global reserves in US dollar at \$3.8 trillion at end-2014, equivalent to 33% of total reserves

Figures released the International Monetary Fund show that official holdings of foreign currencies in 144 countries and jurisdictions worldwide reached \$11.6 trillion at the end of 2014, constituting a drop of 0.7% from \$11.7 trillion at end-2013. Official holdings of foreign currencies in advanced economies totaled \$3.9 trillion at the end of 2014, up from \$3.8 trillion at end-2013; while those in emerging & developing economies reached \$7.7 trillion, down from \$7.9 trillion a year earlier. Reserves in US dollars totaled \$3.8 trillion and accounted for 33% of total holdings in foreign currencies, followed by holdings in euros at \$1.35 trillion (11.7%), the Japanese Yen at \$241.2bn (2.1%), the British pound at \$231.3bn (2%), the Canadian dollar at \$116.1bn (1%), the Australian dollar at \$110bn (0.9%) and the Swiss franc at \$17.2bn (0.1%); while holdings in other currencies represented the balance of \$191.2bn, or 1.6% of total. In parallel, reserves in the Swiss franc rose by 2.9% year-on-year, followed by those in the Canadian dollar (+2.1%), in the Japanese yen (+1.4%) and in the US dollar (+0.7%); while holdings in the Euro fell by 11% from end-2013, those in British pounds declined by 6.8% and reserves in the Australian dollar dropped by 2.6%. In addition, reserves in other currencies rose by 7.2% in 2014.

Source: International Monetary Fund

EMERGING MARKETS

Non-financial corporate debt at \$2.4 trillion at end-2014, equivalent to 83% of GDP

The Institute of International Finance estimated the emerging market's (EM) non-financial corporate debt at a record high of \$2.4 trillion at the end of 2014 compared to \$1.2 trillion at end-2009. It indicated that highly accommodative monetary policies of key central banks across mature and EMs have contributed to the build-up of EM non-financial corporate debt over the past eight years. It noted that EM non-financial corporates' indebtedness reached a record high of 83% of GDP in 2014 relative to 67% of GDP in 2009. It said that domestic and cross-border bank credit expansion, the development of local currency bond markets in emerging economies and better access to international debt markets have contributed to the increase in the debt-to-GDP ratio. It pointed out that EM corporates have raised about \$1.7 trillion from domestic and international debt markets since 2009, with about \$615bn raised on international markets. It noted that \$510bn were issued in foreign currency, including \$430bn in US dollar. It indicated that the marked growth in firms' reliance on external funding has led to increased concerns about refinancing and repayment risks, as well as about currency mismatch risks. The IIF estimated that about \$645bn of EM non-financial corporate debt would mature between 2015 and 2017, with US dollar-denominated bonds accounting for about \$108bn.

Source: Institute of International Finance

Sovereign borrowing from commercial sources at \$49.5bn in 2015

Standard & Poor's projected sovereign borrowing from commercial sources by the Commonwealth of Independent States (CIS) at \$49.5bn in 2015, which would reflect a decrease of 16.4% from \$59.2bn in 2014. The figures cover six CIS countries with the highest debt stock. Russia would account for 76.3% of total commercial long-term borrowing in 2015, followed by Kazakhstan (10.6%), Ukraine and Belarus (6.1% each), Georgia (0.6%) and Azerbaijan (0.3%). S&P indicated that \$24.7bn, or about 50% of total sovereign borrowing, would go towards refinancing maturing long-term debt, which would result in an estimated net borrowing requirement of \$24.8bn in 2015. In parallel, S&P forecast the total sovereign commercial debt stock of the six countries at \$256.1bn at the end of 2015 relative to \$218bn at end-2014, which would consist of \$251.4bn in medium- and long-term debt and \$4.7bn in short-term debt. Russia would account for 73.5% of the stock of the commercial debt at end-2015, followed by Ukraine (14.2%), Kazakhstan (8.7%), Belarus (2.3%), Azerbaijan (0.8%) and Georgia (0.6%). Further, gross long-term sovereign commercial borrowing would be equivalent to 3% of the aggregate GDP of the six economies this year, while the commercial debt stock would be equivalent to 15.6% of their GDP.

Source: Standard & Poor's

POLITICAL RISK OVERVIEW - March 2015

EGYPT

Egypt's Supreme Constitutional Court ruled as unconstitutional an electoral law article that defines the country's electoral districts in the upcoming parliamentary elections. The election is the first instance since the ouster of President Mohamed Morsi in July 2013. President Abdel-Fattah el-Sissi reshuffled his Cabinet and replaced eight ministers, including Interior Minister Mohammad Ibrahim. The government continued its crackdown on members of the Muslim Brotherhood. Deadly bomb attacks against police stations and courts erupted in the Cairo area and Nile Delta. Egyptian armed forces continued to fight the Sinai Province militant group, a faction affiliated to the Islamic State, in the Sinai Peninsula. The U.S. lifted the arms embargo that it imposed on Egypt in 2013 and authorized the deliveries of more than \$1.3bn worth of weapons to Cairo. The leaders of Egypt, Ethiopia and Sudan signed an initial deal to end the dispute over the sharing of the water from the Nile River and to build Africa's biggest hydroelectric dam in Ethiopia.

IRAN

Iran and the UN Security Council's permanent members plus Germany (P5+1) reached a preliminary agreement over Tehran's nuclear program. The agreement includes the verification of mechanisms that guarantee the peaceful nature of Iran's nuclear program and stipulates the gradual lifting of sanctions. Some U.S. senators wrote an open letter to Iranian leaders warning them that any nuclear deal with the current administration could be reversed after the next U.S. presidential elections in 2016.

IRAQ

Iran-backed Shiite militias launched a massive military operation against Islamic State (IS) militants to recapture the city of Tikrit, with about 20,000 to 30,000 allied fighters led and armed by the Iranian Revolutionary Guard. A U.S.-led coalition launched airstrikes on IS targets in Tikrit. Iraqi Prime Minister Haider al-Abadi announced that the Iraqi security forces regained control of Tikrit on March 31st. Parliament discussed a draft legislation that proposes the merger of Shiite militias into the National Guard. Violence and acts of terrorism in March led to 997 deaths and to at least 2,172 injuries.

DEM REP CONGO

The UN Security Council passed a resolution that renews the mandate of the United Nations peacekeeping mission in the DRC (MONUSCO) for 12 months. It also endorsed a recommendation to reduce the MONUSCO force by 2,000 troops, while maintaining an authorized troop ceiling. The Agence Nationale de Renseignements, the country's intelligence agency, arrested at least 26 human rights activists in Kinshasa and more than 10 activists in the eastern city of Goma. President Joseph Kabila signed a law to increase the number of provinces from 11 to 26 provinces by mid-2015. The Congolese army continued its unilateral military operation against Les Forces démocratiques de liberation du Rwanda.

LIBYA

The United Nations-led Libyan political dialogue continued in March. The dialogue process consists of five tracks that include militias and armed groups, municipalities, the army, political parties and tribal leaders. The UN unveiled a six-point proposal aimed at ending the violence through establishing a transitional government that would rule the country until a new constitution is adopted. The representatives of Libya's two rival governments failed to reach an agreement on forming a new national unity government. Military confrontations between warring parties continued. The UN Security Council kept the four-year arms embargo on Libya, but opened the way for exemptions on a case-by-case basis.

SOUTH SUDAN

Fighting has escalated between government forces and the Sudan People's Liberation Movement-in-Opposition (SPLM-IO) rebels following the suspension of peace negotiations. The Inter-governmental Authority on Development (IGAD) indicated that future mediation between warring parties should be led by an 'IGAD-plus' group, which may include the African Union, China, and the EU as well as the U.S., the United Kingdom and Norway. The government opposed the direct involvement of the UN Security Council and other countries in the next round of peace talks. The UN Security Council threatened to sanction "senior individuals" in South Sudan, in case their actions or policies jeopardize the country's security and stability. Military operations continued in the Unity and Upper Nile states. The government offered SPLM-IO members an amnesty until the end of March 2015. South Sudan's Parliament extended President Salva Kiir's term until 2018.

SUDAN

Fighting between the Sudanese Armed Forces and the Sudanese People's Liberation Movement-North (SPLM-N) continued in South Kordofan. SPLM-N chief Yasir Arman denied claims that the attacks were aimed at disrupting the presidential and parliamentary elections in April 2015. Sudan and South Sudan resumed talks on the administrative arrangements of the disputed Abyei region. The government confirmed its participation in the Saudi Arabia-led military campaign on Huthi militants in Yemen. Violence and insecurity in the Darfur region continued, mainly in the east Jebel Marra area.

SYRIA

Syria entered its fifth year of conflict in March 2015. President Bashar al-Assad's military campaign, backed by Hezbollah and Iran, in the south of the country continued. Pro-regime forces maintained control of newly-gained territory in the southwest of Damascus. Attacks on rebel-held areas in the north of Aleppo continued, with regime forces suffering heavy casualties. The U.S.-led aerial coalition against the Islamic State persisted. Al-Qaeda-linked Jabhat al-Nusra continued to expand in the west of Aleppo. A coalition of rebels launched a major offensive against regime forces, and captured the city of Idlib and the town of Busra al-Sham in the southern province of Daraa.

TUNISIA

Tunisian Militants attacked the Bardo Museum in Tunis, leading to the death of 23 people, most of whom were European tourists. President Beji Caid Essebsi stressed the need for national unity and the An-Nahda party called for more efforts to counter terrorists. Divisions within the ruling Nidaa Tounes party narrowed following the terrorist attack. Hundreds of thousands of people marched in Tunis against terrorism, including President Essebsi and other world leaders. Social tensions in the south continued, driven by fears of attacks by the Libyan-based jihadist groups. Security forces expanded their crackdown on alleged terrorist suspects following mass arrests in February.

YEMEN

Saudi Arabia and 10 other countries launched on March 26 "Operation Decisive Storm" in Yemen, a countrywide aerial campaign targeting Huthi militants, in an attempt to restore President Abd Rabbuh Mansur Hadi's government. The UN's human rights chief Prince Zeid bin Ra'ad warned that Yemen is "on the verge of total collapse". Huthi fighters bombed the presidential residence in Aden. The country's political crisis continued to deepen as violence overtook the UN-brokered negotiations. Sectarian divisions grew and hopes to negotiate a political solution faltered. The Islamic State claimed responsibility for the suicide bombing attacks on two mosques in Sanaa.

Source: International Crisis Group, Newswires

OUTLOOK

SAUDI ARABIA

Fiscal deficit to average 15% of GDP in 2016-20 period if oil prices fall to \$50 per barrel

The Institute of International Finance projected real GDP growth in Saudi Arabia to decelerate from 3.6% in 2014 to 3% in 2015. It expected strong non-hydrocarbon sector activity to drive the economy and projected the sector to grow by 4.9% in 2015, supported by sustained fiscal spending and robust private sector activity. It noted that the economy would benefit this year from a fiscal package of about 4.3% of GDP in the form of one-off transfer payments to mark the start of the new king's reign.

The IIF projected the fiscal deficit to widen from 0.3% of GDP in 2014 to 14.5% of GDP in 2015 based on an average oil price of \$60 per barrel (p/b) for the year, given the authorities' commitment to high spending levels and in the absence of revenue raising measures. It anticipated the deficit to remain wide at between 5% and 8% of GDP during the 2016-20 period assuming a gradual increase in global oil prices to about \$80 p/b. However, it cautioned that the deficit could reach about 15% of GDP during the covered period if oil prices fell to \$50 p/b. It expected fiscal adjustments to be mainly in the form of lower capital expenditures, especially if low oil prices persist for more than a year, as revenue raising measures and increases in the prices of petroleum products or in utility tariffs would be politically difficult to implement. It indicated that authorities can finance the deficit by drawing down from SAMA's large foreign assets that were equivalent to 97% of GDP in 2014 and because of the low public debt level of 1.6% of GDP. It anticipated that the public debt level would increase to 12.2% of GDP in 2016 and SAMA's foreign assets would fall from \$732.4bn at end-2014 to \$645bn by the end of 2016, if authorities covered the deficit equally through borrowing and through foreign currency reserves. It estimated that 90% of foreign reserves could be depleted by 2020 if oil prices averaged \$53 p/b, unless authorities limit the fiscal deficit. In parallel, the IIF forecast the current account balance to shift from a surplus of 13.7% of GDP in 2014 to a deficit of 2.6% of GDP in 2015, but to revert to a surplus of 1.8% of GDP by 2016. It projected net external assets at 143.3% of GDP in 2015 and 128.5% of GDP in 2016, relative to 133.1% of GDP in 2014.

Source: *Institute of International Finance*

GHANA

Public finance imbalances to narrow with implementation of IMF program

The International Monetary Fund projected Ghana's real GDP growth to decelerate to 3.5% in 2015 from an estimated growth rate of 4.2% in 2014, due to the implementation of fiscal consolidation measures under the program with the IMF. The Fund approved in April a three-year \$918m arrangement under the Extended Credit Facility for Ghana to support the authorities' medium-term economic reforms program. It noted that the program aims to achieve a sizeable fiscal adjustment in order to restore debt sustainability, as well as to strengthen monetary policy, rebuild external buffers and safeguard the stability of the financial sector. It expected the planned fiscal consolidation to reduce non-hydrocarbon sector growth to 2.3% in 2015 from

4.1% last year. Also, it anticipated the fiscal measures to reduce inflationary pressure and projected the inflation rate to average 12.2% in 2015 relative to 15.5% in 2014. However, it forecast real GDP growth to pickup to 6.4% in 2016 and 9.2% in 2017 due to the expected increase in hydrocarbon production. It added that lower inflation and interest rates, along with a stable exchange rate, would support private sector activity. As such, it projected non-hydrocarbon sector growth to accelerate to 4.7% in 2016 and 5.5% in 2017.

In parallel, the IMF indicated that the program seeks to expand revenue collection and to restrain the wage bill and other primary spending, while making space for priority expenditures and for clearing all domestic debt arrears. It forecast the fiscal deficit to narrow from 9.4% of GDP in 2014 to 7.5% of GDP in 2015 and to 3.7% of GDP in 2017. It added that the program aims to shift the primary balance from a deficit of 3.7% of GDP in 2014 to surpluses of 0.9% in 2015 and 3.2% of GDP by 2017. As such, it projected the public debt level to rise from 67.6% of GDP in 2014 to 69.6% of GDP in 2015 before regressing to 62.6% of GDP by 2017. In parallel, it forecast the current account deficit to narrow from 9.2% of GDP in 2014 to 7% of GDP in 2015 and to 4.9% of GDP by 2017. It expected foreign currency reserves to rise from \$4.3bn, or 3 months of imports, at the end of 2014 to \$4.7bn or 3.1 months of imports at end-2015, and to \$7.5bn or 4.2 months of imports at end-2017.

Source: *International Monetary Fund*

QATAR

Fiscal balance to shift to deficit by 2016 despite high non-hydrocarbon growth

The International Monetary Fund projected Qatar's real GDP growth to accelerate from 6.1% in 2014 to 7.1% in 2015 despite the fall in global oil prices, as the Barzan natural gas field starts production and as the authorities continue implementing their investment program. It forecast non-hydrocarbon sector growth at 10.7% in 2015, given that lower oil prices would not lead to a drop in public spending over the short-term. But it expected economic activity to slow down in the medium term due to lower public investments.

The IMF pointed out that lower global oil prices would lead to a substantial deterioration of Qatar's fiscal and external balances. It forecast the fiscal surplus to narrow from 9.7% of GDP in 2014 to 0.3% of GDP in 2015 and to shift to a deficit of 4.1% of GDP in 2016. Also, it projected the current account surplus to narrow from 25.1% of GDP in 2014 to 5.2% of GDP in 2015 and to 0.7% of GDP in 2016. It anticipated hydrocarbon exports to stagnate due to the voluntary suspension of investments and to maturing oil fields, while it projected public spending and imports to continue to grow but at a slower pace. However, it expected authorities to accumulate net financial assets over the medium term due in part to capital gains from the Qatar Investment Authority's substantial global investments. The Fund indicated that the main risks to the outlook are related to lower-than-expected oil and natural gas prices and to the public investment program. It added that the ongoing public investment program could lead to short-term overheating and to excess capacity over the medium term.

Source: *International Monetary Fund*



ECONOMY & TRADE

EGYPT

Ratings upgraded on reduced external vulnerabilities and ongoing reforms

Moody's Investors Service upgraded Egypt's government bond rating by one notch to 'B3' from 'Caa1' with a 'stable' outlook. It also upgraded the country ceiling for foreign currency bank deposits to 'Caa1' from 'Caa2', the country ceiling for foreign currency bonds to 'B2' from 'B3', and the local-currency country risk ceiling to 'Ba2' from 'Ba3'. It attributed the upgrades to Egypt's improving macroeconomic performance, reduced external vulnerabilities and ongoing commitment to fiscal and economic reforms. First, it anticipated that domestic political stability would continue and that the business environment would improve. As such, it projected real GDP growth at 4.5% in the fiscal year that ends in June 2015 and at about 5% to 6% over the coming four years. Second, it indicated that Egypt's foreign currency reserves have stabilized at \$15.5bn at end-February 2015, which provides ample coverage for external debt payments due in 2015. It noted that the expected recovery in investment, along with GCC's sustained financial support, would help mitigate external vulnerabilities and reduce balance-of-payments risks. Third, it anticipated that authorities would continue implementing fiscal and economic reforms, which would narrow the fiscal deficit to about 9.3% of GDP in FY2015/16 and gradually reduce the public debt level to below 90% of GDP in the coming two years. It added that lower government borrowing costs, due to declining inflation rates, and measures to lengthen maturities would help reduce the country's very large borrowing requirements.

Source: Moody's Investors Service

KUWAIT

Profits of listed companies up 7% to \$5.9bn in 2014

The net income of companies listed on the Kuwait equity market totaled KD1.67bn, or \$5.87bn, in 2014, constituting an increase of 6.9% from KD1.56bn, or \$5.51bn in 2013. Listed banks generated net profits of KD794.4m and accounted for 47.6% of total earnings in 2014. They were followed by telecommunication companies with KD274.8m (16.5%), industrial firms with KD166.5m (10%), financial services institutions with KD161m (9.6%), real estate development firms with KD156.4m (9.4%), consumer goods companies with KD53.4m (3.2%), insurers with KD25m (1.5%), basic materials firms with KD22.3m (1.3%), healthcare companies with KD8.4m (0.5%), consumer services corporates with KD4m (0.2%), technology firms with KD2.5m (0.1%) and petrochemical corporates with KD0.2m (0.01%). Net earnings of listed financial services institutions rose by 167.6% in 2014, followed by basic materials companies (+35.8%), banks (+18.1%) and consumer goods companies (+2.2%). Also, technology firms shifted from net losses of KD3.7m in 2013 to net profits of KD2.5m last year. In contrast, profits of listed petrochemical companies regressed by 98.7%, followed by consumer services companies (-92.7%), healthcare firms (-13.2%), telecom companies (-11.7%), real estate development firms (-10.6%), insurers (-8.7%) and industrial firms (-0.2%).

Source: KAMCO

TUNISIA

Outlook revised to 'stable' on political stability and fiscal consolidation

Fitch Ratings revised the outlook to 'stable' from 'negative' on Tunisia's 'BB-' long-term foreign Issuer Default Rating (IDR) and 'BB' long-term local currency IDR. It attributed the outlook revision to increased political stability and the narrowing of the fiscal deficit. However, it noted that the risks from social conflicts or terrorist attacks remain significant, which would destabilize political and economic conditions. Further, the agency indicated that the fiscal deficit narrowed from 6.5% of GDP in 2013 to 4.5% of GDP in 2014, which contained the public debt level at about 50% of GDP at end-2014. It noted that the fiscal consolidation reflects in part sustained low capital spending and a lower energy subsidy bill. It expected the fiscal position to slightly strengthen in coming years, supported by lower global oil prices and a gradual improvement in economic activity. In parallel, Fitch indicated that Tunisia's external finances remain a key rating weakness, with a current account deficit of 8.9% of GDP and a net external debt equivalent to 34.8% of GDP last year. It expected the current account deficit to narrow but to remain wide at 7.7% of GDP in 2015 due to weak tourism receipts and higher cost of energy imports from a depreciating Tunisian dinar. Further, the agency pointed out that economic activity is subdued, and revised downward its projections for real GDP from 3.2% to 2.7% for 2015 after the recent terrorist attack. It considered that the country's medium-term prospects are contingent on social and security stability, as well as on the implementation of structural reforms.

Source: Fitch Ratings

IRAN

Lifting of EU sanctions to weigh on oil prices, UAE to benefit from trade with Iran

Regional investment bank EFG Hermes anticipated that the European Union would lift its sanctions on Iran before U.S. sanctions are removed, given the domestic political divisions in the United States. It noted that this would follow the conclusion of a nuclear agreement between Iran and the five permanent members of the UN Security Council plus Germany. It said that EU sanctions, which were imposed in 2012, have prevented insurers from covering Iranian cargo and blocked imports of Iranian crude oil. It noted that lifting the sanctions would increase Iran's oil exports to about 2 million barrels per day (b/d) in the short-term from 1.3 million b/d in January 2015, compared to a peak of 2.7 million b/d in August 2008. It added that Iran has reportedly about 30 million barrels of oil in storage, which means that selling them would put more downward pressure on global oil prices. Further, it considered that the lifting of EU sanctions would allow for easier financial flows between Iran and the rest of the world in the second half of 2015, with the UAE being the main beneficiary as it is Iran's largest source of imports. In addition, it pointed out that Dubai's geographic proximity to Iran and the fact that it hosts a large Persian speaking population would make it a base for multinational firms wanting to engage with Iran in the first years of the post-sanctions era.

Source: EFG Hermes



BANKING

WORLD

Basel committee sets stage for Basel IV

PricewaterhouseCoopers indicated that the Basel Committee on Banking Supervision (BCBS) discussed five revisions to Pillar I of the Basel III framework. It noted that the BCBS proposed revisions to the standardized approach to credit, operational and counterparty credit risks, in addition to a fundamental review of the trading book and the standardized capital floors. It considered that these revisions set the foundations for Basel IV. PwC indicated that the revision to the credit risk standardized approach aims to reduce the role of credit rating agencies in determining capital requirements, as it requires banks to examine their counterparty's financial conditions in order to assess the risk level of their exposures. But it noted that the proposed method for calculating interbank exposure could lead to increased cyclicality of credit risk, which has the potential to create systemic financial instability. It added that banks could need more capital and that the assessment of interbank risk-weighted assets on financial positions requires up to date and good quality data, which might not be available. Further, PwC pointed out that the BCBS developed a new measure for operational risks as it noted that banks that use the standardized and basic approaches underestimated losses by up to 50%. But it noted that it is unclear whether the new measure better reflects operational capital needs than the old approaches.

Source: PricewaterhouseCoopers

Cross-border lending on the decline since global financial crisis

The International Monetary Fund indicated that international banks have reduced their cross-border lending since the global financial crisis and have increased local lending by their subsidiaries. It said that tighter regulations on banks, both general and specific to their international operations, along with a need to clean up balance sheets, have induced banks to cut back their international lending. It noted that banks have shifted their focus on regions and financial centers that are strategically more important to them. It added that banks with weak balance sheets have retrenched more materially from cross-border lending. It considered that the retrenchment of European banks from cross-border lending to Asia provided room for the expansion of Chinese and Japanese banks. It added that the expansion of pan-African banks in Africa has increased the financial linkages among African countries. The IMF considered that the relative shift towards more subsidiary-based lending since the crisis would have positive implications for the financial stability of the host country. It said that foreign-owned affiliates usually continue to allocate more credit than domestic banks in times of crises, especially if the parent bank is well-capitalized and has stable funding sources. As such, it noted that foreign banks are less likely to be affected by local instability and could help stabilize credit growth during stress periods. But it cautioned that foreign banks are likely to transmit global shocks to host countries. In addition, the Fund pointed out that cross-border lending presents some benefits, as it contributes to the allocation of global savings across countries and helps borrowers diversify their funding sources.

Source: International Monetary Fund

QATAR

Capital adequacy ratio at 15.8%, NPLs at 1.7%

The risk-weighted capital adequacy ratio of banks operating in Qatar reached 15.8% at the end of September 2014, constituting a decrease from 16% at the end of 2013 and from 18.9% at end-2012; while the banks' Tier-One capital ratio stood at 15.4% at end-September 2014 compared to 15.3% at end-2013 and 18.2% at end-2012. In parallel, the sector's liquid assets reached 32.9% of total assets at the end of November 2014 relative to 33.6% at end-2013 and 38.1% at end-2012; while they were equivalent to 50.4% of total short-term liabilities at end-November 2014 compared to 50.9% at end-2013 and 58.5% at end-2012. Foreign currency assets accounted for 19.6% of total assets at end-November 2014, up from 17.9% at end-2013. Further, the banks' lending to the private sector represented 63.3% of total loans at the end of November 2014, up from 57.8% at the end of 2013 and 56.6% at end-2012. The domestic loan-to-resident-deposit ratio stood at 106.1% at end-2014, up from 103.5% at end-2013. The banks' non-performing loans (NPLs) was 1.7% of total loans at end-November 2014, unchanged from end-2012. The banks' provisions-to-NPLs ratio reached 100.2% at end-November 2014, relative to 96.8% at end-2013 and 97.5% at end-2012. In parallel, the banks' annualized return on assets was 2% in November 2014 compared to 2.1% in 2013, while their return on equity reached 14.9% on an annualized basis in November, down from 16.5% in 2013. Also, the banks' non-interest expenses represented 27.2% of gross income at end-November, up from 26.5% at the end of 2013.

Source: International Monetary Fund

NIGERIA

Banks' ratings unaffected by the revision on the sovereign ratings' outlook

Fitch Ratings indicated that its outlook revision to 'negative' from 'stable' on Nigeria's long-term Issuer Default Ratings does not reflect a significant weakening in the ability of the sovereign to support the banking sector. It considered the authorities' willingness to support banks to be high, as demonstrated by their recent track record of support. As such, it affirmed the Support Ratings and Support Rating Floors (SRFs) of 10 Nigerian banks. Further, it affirmed the long-term IDRs of First Bank of Nigeria (FBN) and United Bank for Africa (UBA) at 'B+' and that of Diamond Bank, Fidelity Bank, Union Bank of Nigeria and First City Monument Bank at 'B'. It maintained the 'stable' outlook on the banks' long-term IDRs. It noted that the six banks' IDRs are driven by the probability of sovereign support. Fitch indicated that the Viability Ratings of the 10 banks it rates are unaffected by the sovereign rating action. As such, it said that the long-term IDRs of Zenith Bank, FBN Holding, Guaranty Trust Bank and Access Bank were unaffected by the outlook revision on the sovereign ratings as their IDRs are driven by the banks' standalone strength. Fitch anticipated that a one-notch sovereign downgrade would not result in a downward revision of any SRF. But it indicated that the banks' ratings and outlook are sensitive to a prolonged and severe deterioration in Nigeria's fiscal and external buffers or to an economic recession that would affect the authorities' ability to provide support.

Source: Fitch Ratings



ENERGY / COMMODITIES

Oil prices to reach bottom in second quarter of 2015

Crude oil prices are expected to post new lows in the second quarter of 2015. Global crude oil inventories are projected to increase in the near-term, driven by the combination of resilient growth in U.S. oil production and the seasonal downturn in demand for petroleum products and crude oil. As such, Brent prices are forecast to drop from an average of \$50 per barrel (p/b) in the first quarter to an average of \$45 p/b in the second quarter, and to pick up to \$55 p/b in the third quarter and to \$65 p/b in the fourth quarter of 2015. The average WTI price is anticipated at \$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. However, Iran and the five permanent members of the UN Security Council plus Germany (P5+1) reached a framework agreement that could lead to the lifting of oil-related sanctions against Iran. The removal of sanctions could substantially change the outlook for global oil supply, demand and prices. As such, the path to price-recovery remains highly uncertain.

Source: Citi Research, U.S. EIA, Byblos Research

Fuel efficiency in Saudi Arabia to save 20% of local energy usage by 2030

Saudi Arabia expects to save 1.5 million barrels of oil equivalent per day (boe/d) or about 20% of its energy consumption by 2030 through an efficiency drive that would prevent local consumption from reducing oil supplies available for export. Authorities cautioned that the country's energy demand would rise from 4.2 million boe/d currently to more than 8 million boe/d by 2030, if measures are not taken to limit energy waste. The long-term investment in the power system and alternative energy is projected to reduce domestic oil consumption.

Source: Thomson Reuters

Middle East supplied 40% of global LNG in 2014

Global trade in liquefied natural gas (LNG) grew by 1% to 239.2 million metric tons in 2014. Asia dominated the global LNG import market in 2014, as it accounted for about 75% of global imports, followed by Europe (14%), the Americas (9.4%) and the Middle East (1.7%). In parallel, the Middle East region accounted for 40.3% of global LNG exports in 2014, down from 41.5% in 2013. Qatar remained the world's largest LNG supplier last year, but its total production dropped by 2% to 76.4 million tons due to maintenance work.

Source: International Group of LNG Importers

KRG receives budget payment from Iraq

Baghdad indicated that it transferred \$455m to the Kurdistan Regional Government (KRG) as part of the latter's legal monthly entitlement from the Iraqi budget. The payment follows the \$420m that Baghdad transferred last month. The transfer of funds puts the December 2014 bilateral oil export and revenue sharing agreement back on track. The deal stipulates that the KRG would export 550,000 barrels per day of oil through Iraq's State Oil Marketing Organization and, in return, the Iraqi central government would transfer 17% of the national budget to Erbil. Baghdad said that neither side has been able to reach its immediate targets. It noted that monthly payments and export volumes could vary in 2015.

Source: Thomson Reuters

Base Metals: Copper prices to drop by 10% in 2015

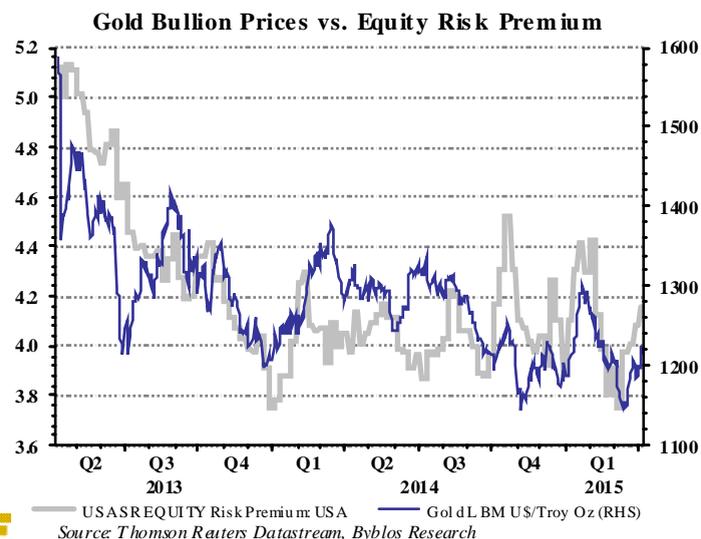
Copper prices are expected to gradually recover during 2015, given in part the upward pressure from continued scrap shortages and because the first quarter is a seasonally weak period for the metal's demand. The average cash price of copper is forecast at \$5,900 per ton in the second quarter, at \$6,200 a ton in the third quarter and at \$6,500 per ton in the fourth quarter of 2015. However, the copper market is forecast to be oversupplied during the 2015-16 period, which would place downward pressure on the metal's price. Global copper consumption is projected to grow by 3.3% to 22.46 million tons in 2015, while the metal's supply is projected to rise by 2.3% to 22.57 million tons. LME copper's cash prices are forecast to average \$6,125 a ton in 2015, which would reflect a drop of 10.5% from \$6,846 a ton in 2014, and to decrease by an additional 1.6% to \$6,025 a ton on average in 2016. The Bloomberg Copper Total Return Sub-Index regressed by 3% in the first quarter of 2015.

Source: Deutsche Bank, Bloomberg Indexes

Precious Metals: Gold prices to average \$1,228 an ounce in 2015, volatility to persist in short-term

The gold market is expected to shift to a deficit during the 2015-16 period as gold supply fails to keep up with rising demand amid resilient jewelry consumption and a stabilizing ETF market. The correlation between gold prices and the physical market balance is typically weaker than for many other industrial commodities. This is due to the exceptionally large quantities of readily available stocks stored by investors and central banks, and as most gold investments are done through opaque over-the-counter (OTC) transactions. Gold prices are expected to remain volatile during 2015, with wide short-term fluctuations determined by rapidly changing OTC investor demand. Gold prices are forecast to average \$1,240 a troy ounce in the second quarter and to decrease to \$1,230 an ounce in the third quarter and to \$1,210 a troy ounce in the fourth quarter of 2015. The metal's average price is expected to decrease by 3% to \$1,228 a troy ounce in 2015 as the U.S. economy gathers momentum, the US dollar strengthens, US long term yields increase, and as inflationary pressures in developed economies remain subdued due in part to the drop in oil prices.

Source: Economist Intelligence Unit, 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	-9.5	9.0	1.4	5.7	1.2	-	-7.7	-
Angola	B+	Ba2	BB-	-	BB	-4.2	38.8	27.0	56.0	15.4	57.6	2.0	-4.7
Egypt	B-	B3	B	B-	CCC	-8.5	92.6	17.3	124.6	8.2	467.5	-1.1	-1.3
Ethiopia	B	B1	B	-	CCC	-2.9	54.3	28.9	135.9	4.4	591.0	-4.07	-3.1
Ghana	B-	B3	B	-	B	-9.2	67.2	33.8	77.3	4.5	376.2	-7.8	7.5
Ivory Coast	-	B1	B	-	B	-2.7	50.3	29.2	-	9.4	198.2	-5.3	2.6
Libya	-	-	B	-	B	-14.9	6.2	9.9	-	7.5	-	-20.5	-
Dem Rep Congo	B-	B3	-	-	-	-1.7	21.7	29.2	32.0	2.3	5.5	-8.8	6.9
Morocco	BBB-	Ba1	BBB-	-	B	-4.3	68.0	32.9	96.6	11.7	249.1	-3.7	2.7
Nigeria	B+	Ba3	BB-	-	B	-2.8	20.2	3.4	11.1	0.4	43.8	0.2	2.0
Sudan	-	-	-	-	C	-1.2	87.6	77.9	-	-	-	-6.3	3.3
Tunisia	-	Ba3	BB-	-	CCC	-3.3	49.9	55.1	100.9	8.5	367.9	-5.5	3.7
Burkina Faso	B	-	-	-	-	-3.1	21.9	21.9	-	-	-	-7.0	-
Rwanda	B+	-	B	-	-	-4.2	33.5	30.9	-	11.8	-	-11.0	2.9
Middle East													
Bahrain	BBB-	Baa2	BBB	BBB	BB	-12.5	60.8	118.6	-	17.5	721.6	0.1	0.4
Iran	-	-	-	B	CCC	-3.1	12.5	1.7	-	-	-	2.2	-
Iraq	-	-	-	-	CCC	-8.7	-	-	-	-	-	-6.5	-
Jordan	BB-	B1	-	BB-	CCC	-3.2	90.7	73.3	-	9.6	205.3	-4.1	5.3
Kuwait	AA	Aa2	AA	AA-	A	8.8	8.4	20.0	-	1.2	87.5	15.2	-6.1
Lebanon	B-	B2	B	B	CCC	-8.1	143.2	110.7	-	17.7	160.8	-15.3	7.7
Oman	A-	A1	-	A	A	-13.1	9.5	17.6	-	3.7	81.8	-3.7	0.4
Qatar	AA	Aa2	AA	AA-	AA	1.4	24.4	64.2	-	18.0	360.3	3.6	-2.4
Saudi Arabia	AA-	Aa3	AA	AA-	A	-14.2	8.9	12.4	-	4.7	13.7	-1.4	1.0
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	BB	-4.3	25.0	26.8	-	4.2	488.6	4.0	1.8
Yemen	-	-	-	-	CC	-5.0	47.4	13.2	-	-	-	-1.1	2.3

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	-	Ba3	B+	-	-	-2.3	44.8	81.8	298.8	21.9	431.8	-7.3	4.1
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-2.0	41.9	10.2	-	2.7	25.1	2.0	1.5
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-4.1	62.6	23.6	101.9	5.6	158.2	-1.7	1.1
	Stable	Stable	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BB	4.1	14.3	74.3	195.4	17.3	787.9	-0.6	3.6
	Stable	Positive	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BB	-1.1	20.5	87.3	122.3	20.2	261.1	-1.9	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	B	-1.8	40.5	54.3	132.5	19.4	249.2	-1.1	2.1
	Stable	Negative	Stable	-	Stable								
Russia	BB+	Baa3	BBB-	-	BBB	-1.9	16.2	39.0	133.7	29.1	195.0	2.4	-1.2
	Negative	-	Negative	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-1.7	32.4	49.0	181.2	23.2	376.5	-6.0	1.7
	Negative	Negative	Stable	Stable	Stable								
Ukraine	CCC	Caa3	CCC	-	CC	-7.5	70.6	114.6	189.9	32.0	978.3	0.9	2.5
	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 2015



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	18-Mar-15	No change	29-Apr-15
Eurozone	Refi Rate	0.05	05-Mar-15	No change	15-Apr-15
UK	Bank Rate	0.50	05-Mar-15	No change	09-Apr-15
Japan	O/N Call Rate	0.00-0.10	17-Mar-15	No change	08-Apr-15
Australia	Cash Rate	2.25	07-Apr-15	No change	08-May-15
New Zealand	Cash Rate	3.50	12-Mar-15	No change	30-Apr-15
Switzerland	3 month Libor target	-1.25-(-0.25)	19-Mar-15	No change	18-Jun-15
Canada	Overnight rate	0.75	04-Mar-15	Cut 25bps	15-Apr-15
Emerging Markets					
China	One-year lending rate	5.35	01-Mar-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.50	18-Mar-15	No change	29-Apr-15
Taiwan	Discount Rate	1.875	26-Mar-15	No change	30-Jun-15
South Korea	Base Rate	1.75	12-Mar-15	Cut 25bps	09-Apr-15
Malaysia	O/N Policy Rate	3.25	05-Mar-15	No change	07-May-15
Thailand	1D Repo	1.75	11-Mar-15	Cut 25bps	29-Apr-15
India	Reverse repo rate	7.50	07-Apr-15	No change	N/A
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	17-Mar-15	No change	22-Apr-15
South Africa	Repo rate	5.75	26-Mar-15	No change	21-May-15
Kenya	Central Bank Rate	8.50	04-Feb-15	No change	01-May-15
Nigeria	Monetary Policy Rate	13.00	24-Mar-15	No change	19-May-15
Ghana	Prime Rate	21.00	18-Feb-15	Raised 200bps	13-May-15
Angola	Base rate	9.25	30-Mar-15	Raised 25bps	N/A
Mexico	Target Rate	3.00	26-Mar-15	No change	30-Apr-15
Brazil	Selic Rate	12.75	04-Mar-15	Raised 50bps	29-Apr-15
Armenia	Refi Rate	10.50	10-Feb-15	Raised 100bps	N/A
Romania	Policy Rate	2.00	01-Apr-15	Cut 25bps	N/A
Bulgaria	Base Interest	0.01	01-Apr-15	No change	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	14.0	13-Mar-15	Cut 100bps	30-Apr-15



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