

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global speculative-grade default at a seven-year low of 1.4% in 2014

Standard & Poor's indicated that 60 corporate issuers worth \$91.6bn in rated debt defaulted globally in 2014, down from 81 defaulted issuers worth \$97.3bn in 2013. It noted that the number of defaults reached its lowest level since 2011 despite considerable geopolitical turmoil, the ending of the U.S. Federal Reserve's monthly asset purchases, and the steep decline in global oil prices. It added that the outstanding debt volume that defaulted was in line with the \$91.5bn average in the five years after the global financial crisis. The United States accounted for 55% of the number of defaults globally in 2014, the lowest in the past 34 years, followed by emerging markets (25%), and Europe and other developed countries (10% each). Further, S&P pointed out that the overall global default rate dropped to 0.69% in 2014 from 1.06% in 2013. It added that the global speculative-grade default rate fell to a seven-year low of 1.42% from 2.28% at the end of 2013, reflecting a smaller number of defaults and an increase in the number of speculative-grade issuers to 3,163 from 2,804 a year earlier. In parallel, S&P indicated that it downgraded 8.4% of corporate ratings in 2014 relative to 9.4% in 2013, while it upgraded 9.3% of the ratings compared to 11.4%. It added that 74.5% of the ratings remained unchanged year-on-year, the highest percentage in 10 years.

Source: Standard & Poor's

Sovereign wealth fund's AUM at \$6 trillion at end-March 2015

Research provider Preqin indicated that sovereign wealth funds (SWF) had \$6.31 trillion in assets under management (AUM) in March 2015, constituting an increase of 17.3% from \$5.38 trillion at end-2013 and compared to \$4.62 trillion at end-2012, \$3.95 trillion at end-2011 and \$3.59 trillion at end-2010. It noted that SWF's assets rose by more than \$900bn in 2014 despite the drop in the global prices of oil and other commodities. It attributed the increase in AUM to continued funding from governments, as well as to the high returns provided by such investments in the context of a low interest rate environment. It said that only one new SWF was formed in 2014, but it noted that new SWFs are in the pipeline, such as a third SWF for Hong Kong. Preqin said that AUM in 59% of SWFs rose between the end of 2013 and the end of March 2015, while AUM in 29% of SWFs remained unchanged during the covered period. It noted that AUM in 12% of SWFs decreased, with half of them deriving their capital from hydrocarbons. It pointed out that falling global oil prices in the second half of 2014 have led to significant withdrawals from some SWFs by governments that are highly funded by such assets, in order to counter the impact of lower oil prices on their economies and to fill funding gaps. Further, Preqin said that 86% of SWFs invested in fixed income in 2014, while 81% invested in public equities, 60% in infrastructure, 59% in real estate, 47% in private equity, 33% in hedge funds and 24% in private debt.

Source: Preqin

MENA

Equity markets up 7% in first four months of 2015

Arab stock markets increased by 6.6% and GCC markets rose by 9.9% in the first four months of 2015 compared to increases of 13.6% and 13.2%, respectively, in the same period of 2014. Arab and GCC stock markets improved by 7.5% and 10.3%, respectively, in April 2015 from March 2015. Activity on the Saudi Arabia stock exchange grew by 18% in the first four months of 2015 and posted the best performance among Arab markets in the covered period. It was followed by the Dubai financial market with a 12.1% increase, the Tunis stock exchange with an 8.9% rise, the Casablanca equity market with a 3.3% growth and the Abu Dhabi bourse with a 2.6% improvement. In parallel, activity on the Iraqi stock market declined by 19.2% and posted the weakest performance among Arab markets in the first four months of 2015. It was followed by the Khartoum bourse with a 7.8% decrease, the Palestine stock exchange with a 5.4% drop, the Damascus securities exchange with a 5.3% decline, the Egypt stock market with a 2.8% contraction, the Bahrain bourse with a 2.5% fall, the Kuwait equity market with a 2.4% decrease, the Amman securities exchange with a 2.3% drop, the Beirut stock exchange with a 1.3% decline, the Qatar bourse with a 1% drop and the Oman equity market with a 0.3% contraction. In comparison, global equities rose by 4.8%, while emerging market equities grew by 8.6% in the first four months of 2015.

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

M&A activity up by 9% to \$8.9bn in first quarter of 2015

Figures released by EY show that a total of 90 mergers & acquisitions (M&A) deals were announced in the Middle East & North Africa region in the first quarter of 2015, constituting an increase of 1.1% from 89 deals in the same quarter of 2014. The aggregate value of M&A deals in the MENA region reached \$8.9bn in the first quarter and increased by 8.5% from \$8.2bn in the first quarter of 2014. EY indicated that the region's M&A market continues to show resilience amid the challenging regional geopolitical climate. It added that the drop in global oil prices has had a limited impact on deal activity. The value of outbound deals rose by 11% from \$6.1bn in the first quarter of 2014 to \$5.5bn in the first quarter of 2015. Also, the value of inbound deals reached \$2.6bn in the first quarter of this year, up from \$0.4bn in the same quarter last year, which reflects continuous demand from foreign investors. In addition, the value of domestic deals decreased by 48% from \$1.7bn in the first quarter of 2014 to \$0.9bn in the first quarter of 2015. EY expected the pipeline of M&A deals to remain robust for the rest of the year.

Source: EY

POLITICAL RISK OVERVIEW - April 2015

EGYPT

The government continued its crackdown on Muslim Brotherhood (MB) members during the month. An Egyptian court confirmed the death sentences of MB leader Mohammed Badie and 13 other senior MB members for inciting chaos and violence in July 2013. Ousted President Mohammed Morsi was sentenced to 20 years in prison for ordering the arrest and torture of protesters during his rule. A committee was established to review the new electoral laws, in light of the March 2015 Supreme Court ruling that the draft law was unconstitutional. President Abdel-Fattah el-Sissi said that the parliamentary elections will be held after the holy month of Ramadan. The U.S. lifted the arms embargo that it imposed on Egypt in 2013.

IRAN

Iran and the UN Security Council's permanent members plus Germany (P5+1) reached an initial agreement on key parameters of the "Joint Comprehensive Plan of Action" over Tehran's nuclear program. Also, the International Atomic Energy Agency and Iran held a technical meeting in Tehran to discuss the implementation of the framework for cooperation. Under the Plan of Action parameters, Iran would cut its enrichment capacity by two thirds, reduce its stockpile of enriched material by 97% for 15 years, and extend the breakout time from two to three months currently to at least one year. The plan would also limit Iran's research and development to peaceful purposes only, and would prevent it from building new enrichment facilities or heavy water reactors for 15 years.

IRAQ

Iran-backed Shiite militias and Iraqi government forces, aided by U.S. airstrikes, successfully recaptured the city of Tikrit. Islamic State (IS) militants have reportedly retreated from the city. Prime Minister Haider al-Abadi secured about \$200m in U.S. humanitarian support during his first official visit to Washington on April 14th. Government forces withdrew from the eastern city of Ramadi in the Anbar province following heavy fighting with IS militants. The latter seized parts of Iraq's biggest oil refinery in Baiji city. Violence and acts of terrorism in April led to 812 deaths and to at least 1,726 injuries.

DEM REP CONGO

The European Union and the United Nations called for an urgent investigation into a mass grave of at least 421 bodies discovered in the city of Kinshasa. The government claimed that the grave was used to empty the city morgue of unclaimed bodies amid suspicions that it contained bodies of anti-government protestors killed in January 2015. La Commission électorale nationale indépendante (CENI) began candidates' registration for the October 2015 provincial elections. Opposition parties suspended their participation in the process and called for a meeting with CENI to revise the electoral calendar.

LIBYA

The UN Support Mission in Libya proposed a draft for a political agreement in Libya. Special Representative of the Secretary-General for Libya, Bernardino León, explained that the proposal builds on discussions that took place over the past three months. The draft seeks to create and develop a middle ground on the more difficult and sensitive issues for the remainder of the transitional period. The draft agreement is based on a number of key principles, including a clear separation of powers between the executive and legislative authorities. Supporters of the Tobruk-based House of Representatives and of the Tripoli-based General National Congress criticized the proposal. Military confrontations continued between the Libyan Dawn Coalition and the Tobruk-affiliated Libyan National Army. Heavy fighting resumed in Benghazi in mid-April. An Islamic State video showed the beheading of at least 28 Christians in Libya.

SOUTH SUDAN

Heavy fighting erupted in Bentiu, the capital of the Unity State, between government forces and Sudan People's Liberation Movement/Army-in-Opposition rebels led by former Vice President Riek Machar. Clashes between government troops and Shilluk militia fighters, led by General Johnson Olony, erupted in Malakal, the capital of the Upper Nile State. Tensions escalated on the Sudan-South Sudan border as both governments accused each other of supporting rebel groups. The Intergovernmental Authority on Development (IGAD) announced the formation of the 'IGAD-Plus' group to expand talks aimed at reaching a peace agreement between President Salva Kiir and rebel leader Machar.

SUDAN

President Omar al-Bashir, who has been in power since 1989, was reelected for another five-year term after he secured 94% of the votes with a voters' turnout of 46%. The U.S., the United Kingdom and Norway denounced the elections as not credible. Security forces have violently dispersed anti-election protests in Khartoum. Human Rights Watch accused the government of arresting and abusing opponents. The government accused the African Union-United Nations Mission in Darfur (UNAMID) of killing seven civilians in three separate incidents. But the UN-AMID denied the allegations, claiming that the peacekeepers had responded in self-defense after two patrols were attacked.

SYRIA

The Islamic State (IS) captured in early April large areas of the Yarmouk camp in southern Damascus in cooperation with al-Qaeda-linked Jabhat al-Nusra (JN). The regime responded with a military campaign against militants. The IS reportedly withdrew from much of the Yarmouk camp by April 14th, leaving JN as the main rebel force in the camp. Rebels continued to expand in the southern Daraa province after gains in Busra al-sham in late March. Southern Front Rebels (SFR) captured the Nassib border crossing at the Jordan-Syria border. The SFR announced that they will not cooperate militarily with JN militants, and they publicly disassociated themselves from the group. A coalition of Syrian opposition forces consolidated control in the Idlib province. Syrian militants, including JN fighters, attacked a government intelligence center in the northern city of Aleppo.

TUNISIA

A counter-terrorism campaign continued following the March 18 Bardo Museum terrorist attack. Human Rights Watch warned that the anti-terrorism bill approved by the Cabinet in late March, and the bill on repression of aggression against armed forces, could provide impunity for security forces and endanger human rights and freedom of speech. The government's new counter-terrorism draft law would permit extended incommunicado detention and allows the death penalty for people charged with terrorism offenses. A Tunisian parliamentary committee called for legislation allowing greater oversight of the country's intelligence agencies and their activities.

YEMEN

Saudi Arabia ended on April 21 a month-long aerial campaign, known as Operation Decisive Storm, against the Huthi rebels who seized large areas of Yemen, and against security forces aligned with former President Ali Abdullah Saleh. But a day later, Saudi Arabia's air force attacked Huthi positions in the mountainous central highlands. Also, the Saudi Arabian-led coalition bombed Sanaa airport on April 28 to prevent an Iranian plane from landing. Huthi leader Abdulmalik al-Huthi refused to surrender on April 19th. The UN Security Council imposed an arms embargo on Huthis and allied military units. UN Secretary General Ban Ki-Moon appointed Mr. Ismail Ould Cheikh Ahmed of Mauritania as his Special Envoy for Yemen.

Source: International Crisis Group, Newswires



OUTLOOK

MENA

Low oil prices to reduce fiscal and external vulnerabilities of oil importers

The International Monetary Fund projected real GDP growth in the oil-importing economies of the Middle East & North Africa region to accelerate from 2.5% in 2014 to 3.9% in 2015, supported by a gradual recovery in the Eurozone, improved domestic confidence, and more accommodative fiscal and monetary policies. It said that lower global oil prices would support confidence by easing fiscal and external vulnerabilities. However, it noted that the direct impact of lower oil prices on economic activity could be modest due to the limited pass-through to retail prices across the region, and could be offset by intensifying security risks and spillovers from conflicts. It forecast the inflation rate in oil-importers to average 8.2% in 2015 relative to 10% last year, mainly due to lower food prices and wide negative output gaps.

The Fund expected lower oil prices to help reduce external and fiscal vulnerabilities this year. It forecast the fiscal deficit of oil-importing economies to narrow from 9.8% of GDP in 2014 to 8.5% of GDP in 2015, as increased revenues would complement ongoing spending cuts and subsidy reforms. Further, it estimated oil importers' net external gains from lower oil prices at about \$16bn, or 1.5% of GDP, in 2015. But it noted that benefits from reduced oil import bills would be partially offset by the declining prices of non-oil commodity exports. It expected the aggregate current account deficit to widen from 5.5% of GDP in 2014 to 5.8% of GDP in 2015. The Fund called on authorities to use gains from lower oil prices to strengthen buffers and reduce the public debt levels. It said that rising foreign currency reserves and declining inflation rates create favorable conditions to increasing exchange rate flexibility and easing monetary policy.

The IMF pointed out that risks to the outlook are tilted to the downside. It cautioned that security and social tensions, as well as setbacks in political transitions and reforms, could undermine trade, confidence and macroeconomic stability. Also, it said that lower-than-expected growth in the Eurozone, in GCC economies or in emerging markets could slow tourism activity, export receipts, remittance inflows and financial support. It expected the pass-through from the anticipated increase in U.S. interest rates to be partial and slow due to oil-importers' limited global financial integration.

Source: *International Monetary Fund*

SUDAN

Average inflation rate at 19%, government debt to reach 79% of GDP in 2015

The International Monetary Fund projected real GDP in Sudan to grow by 3.3% in 2015 and by 3.9% in 2016, relative to a growth rate of 3.4% in 2014, and compared to growth rates of 3.9% and 4.3% in 2015 and 2016, respectively, for oil-importers in the MENA region. It estimated the country's nominal GDP at \$76.2bn in 2015 and at \$76.5bn in 2016. It forecast Sudan's annual average inflation rate at 19% in 2015 and at 10.5% in 2016, relative to an average rate of 37% in 2014. Also, it expected broad money to grow by 16.8% this year and by 15.4% in 2016, compared to a growth rate of 17.1% in 2014.

COUNTRY RISK WEEKLY BULLETIN

In parallel, the Fund projected the fiscal deficit to widen from 1% of GDP in 2014 to 1.5% of GDP in 2015 and 1.4% of GDP in 2016. It estimated government revenues to reach 10.2% of GDP in 2015 and 10.6% of GDP in 2016, when excluding grants, down from 11.2% of GDP in 2014; and for total expenditures and net lending to regress from 12.7% of GDP in 2014 to 12.3% of GDP in 2015 and 12.6% of GDP in 2016. The IMF expected the government's gross debt level to reach 78.5% of GDP at the end of 2015 and 74.8% of GDP at end-2016, compared to 74.2% at end-2014. It also forecast total gross external debt to rise from 63.1% of GDP in 2014 to 63.2% of GDP in 2015 and 65.1% of GDP in 2016. Further, the Fund estimated Sudan's exports of goods & services at \$6.2bn in 2015 and at \$7bn in 2016 compared to \$6.7bn in 2014; and its imports of goods & services to reach \$8.3bn in 2015 and \$8.9bn in 2016, relative to \$9.3bn in 2014. It forecast the country's current account balance to post deficits of \$3bn in 2015 and \$2.7bn in 2016, equivalent to 4% of GDP and 3.6% of GDP, respectively, and relative to a deficit of \$3.8bn or 5.1% of GDP in 2014. It expected gross official reserves to rise from \$1.6bn at end-2014 to \$1.8bn at end-2015 and to \$2.2bn at end-2016.

Source: *International Monetary Fund*

ARMENIA

Real GDP to contract by 1%, current account deficit at 8.6% of GDP in 2015

The International Monetary Fund projected real GDP in Armenia to contract by 1% in 2015 and to post flat growth in 2016, compared to an estimated growth rate of 3.4% in 2014. It estimated the country's nominal GDP at \$9.3bn in 2015 and at \$9bn in 2016. It forecast the annual average inflation rate at 6.4% in 2015 and at 4% in 2016 relative to an average rate of 3.1% in 2014. Also, it forecast broad money to grow by 3.3% in 2015 and by 4% in 2016, compared to a growth rate of 8.9% in 2014.

In parallel, the Fund projected the fiscal deficit to widen from 2.1% of GDP in 2014 to 4.5% of GDP in 2015 and to 2.8% of GDP in 2016. It estimated government revenues, excluding grants, at 23.6% of GDP in 2015 and 24.4% of GDP in 2016 relative to 23.2% of GDP in 2014, and total expenditures at 29% of GDP in 2015 and 28.3% of GDP in 2016 compared to 26.9% of GDP last year. It expected the government's gross debt level to rise from 44.2% of GDP at end-2014 to 53% of GDP at end-2015 and 56% of GDP at end-2016. It also forecast total gross external debt to increase from 79% of GDP at the end of 2014 to 92.6% of GDP at end-2015 and 99% of GDP at end-2016.

Further, the IMF estimated Armenia's exports of goods & services to drop from \$3.3bn in 2014 to \$3.1bn in 2015 and to \$3.2bn in 2016, and for imports of goods & services to regress from \$5.5bn in 2014 to \$4.7bn in 2015 and to \$4.8bn in 2016. It projected the country's current account deficit to narrow from 9.2% of GDP in 2014 to 8.6% of GDP in each of 2015 and 2016. The Fund forecast the country's gross official reserves at \$1.5bn at the end of 2015 and 2016, unchanged from the end of 2014.

Source: *International Monetary Fund*

ECONOMY & TRADE

EMERGING MARKETS

Impact of U.S. interest rates hike to differ across markets

Fitch Ratings indicated that current macroeconomic and policy environments in Brazil, India, Indonesia, South Africa and Turkey point to divergent effects of the expected increase in U.S. interest rates on the five countries. First, it said that India's vulnerability to higher U.S. interest rates has declined since 2013, given that the improvement in the policy environment has had a positive impact on the country's macroeconomic risk profile. It added that India benefits from a much stronger external balance relative to similarly-rated peers. Second, it pointed out that Indonesia's policy track record has strengthened over the past two years, but with limited adjustments to the current account balance. It noted that the country's vulnerability to an increase in U.S. interest rates would continue to depend largely on the monetary policy stance and on the Bank of Indonesia's willingness to allow the exchange rate to cushion shocks. Third, it indicated that Brazil and South Africa's macroeconomic profiles have weakened over the past two years. It said that tighter international financing conditions and the volatility of the Brazilian real could reduce access to external borrowing. It added that South Africa's weak credit profile and reliance on portfolio inflows expose the external account to changes in investor sentiment. Fourth, it pointed out that Turkey's macroeconomic and policy backdrop leading up to the increase in U.S. interest rates is mixed. It indicated that the country's reliance on external financing remains large despite efforts to rebalance the economy.

Source: Fitch Ratings

SAUDI ARABIA

Ratings affirmed, outlook maintained at 'negative'

Standard & Poor's affirmed Saudi Arabia's long- and short-term foreign and local currency sovereign credit ratings at 'AA-' and 'A-1+', respectively. It maintained the 'negative' outlook on the long-term ratings due to the weakening of the government's fiscal position. The agency indicated that the ratings are supported by Saudi Arabia's very strong external and fiscal positions, which provide a buffer against the drop in oil prices. It expected the current account surplus to average 3.3% of GDP during the 2015-18 period, and for net liquid external assets to average about 200% of current account receipts during the covered period. However, it anticipated the kingdom's fiscal balance to remain in deficit through 2018. It projected the fiscal deficit at 12% of GDP in 2015 compared to a target deficit of 6% of GDP in the 2015 budget, reflecting lower-than-budgeted oil prices and spending priorities. It noted that financing the deficits would lead to a gradual decrease in the government's net asset position from 137.5% of GDP in 2015 to 89.4% of GDP in 2018, and a rise in the government's debt level from 0.1% of GDP in 2014 to 8.4% of GDP in 2018. However, S&P considered that the government's liquid assets, which it expects to average about 115% of GDP during the 2015-18 period, would significantly offset the concentration of risks related to the dependence on the hydrocarbon sector. It cautioned that it would downgrade the ratings if the government's liquid assets fall well below 100% of GDP or in the event of a more pronounced deterioration in fiscal performance.

Source: Standard & Poor's

OMAN

Medium term outlook dependent on oil prices

The International Monetary Fund projected Oman's real GDP growth to accelerate from 2.9% in 2014 to 4.6% in 2015, but to moderate over the medium term. It forecast non-hydrocarbon growth to slow down from 6.5% in 2014 to 5% in 2015, in line with the government's spending plans, and to average 4.5% annually between 2017 and 2020. It anticipated hydrocarbon output to grow by 4.2% in 2015 relative to a contraction of 0.5% in 2014, and to decelerate to 1.1% in 2016. It said that oil market developments are the main risk to the medium-term outlook, given that a further drop in oil prices would worsen the fiscal and economic outlook. The Fund expected Oman's fiscal and current account balances to deteriorate in the coming years due to lower oil prices. It forecast the fiscal deficit to widen from 1.5% of GDP in 2014 to 14.8% of GDP in 2015 and 11.6% of GDP in 2016, and for the current account balance to shift from a surplus of 2.2% of GDP last year to deficits of 15% of GDP in 2015 and 13% of GDP in 2016. It said that the fiscal and external deficits would remain in double digits over the medium term in the absence of reforms. It cautioned that financing the projected cumulative fiscal deficits between 2015 and 2020 would exhaust fiscal buffers and increase the public debt level to about 25% of GDP by 2020. But it noted that if authorities decide to preserve the buffers then the debt level would exceed 70% of GDP by 2020.

Source: International Monetary Fund

BAHRAIN

Modest and gradual fiscal consolidation

Merrill Lynch projected Bahrain's real GDP growth to decelerate from 4.5% in 2014 to 2.9% in 2015, compared to the authorities' target growth of about 4%. It said that the oil sector's expansion plans could support economic activity in coming years. It considered that the authorities' target output of 100,000 barrels per day by 2030 is difficult to meet in the current environment due to lower projected investments. In parallel, Merrill Lynch anticipated the government's fiscal consolidation measures to be modest and gradual. It expected Parliament to ratify the 2015 budget by June 2015, but with more modest cuts than initially proposed. It said that authorities would gradually address the energy and food subsidy bill in coming years, adding that they recently delayed plans to increase diesel prices. It estimated that spending cuts of about 10% to 15% would decrease the fiscal breakeven oil prices from about \$125 per barrel in 2014 to \$110 per barrel in 2015. It forecast the fiscal deficit to widen from an estimated 4% of GDP in 2014 to 12% of GDP in 2015. It noted that lower global oil prices did not slow down the disbursement of GCC development funds, which would allow Bahrain to further decrease its budgeted capital spending. Further, it indicated that the external breakeven oil price stands currently at about \$65 per barrel, which eases the pressure on external balances. It said that the current account surplus was at 7.8% of GDP in 2013, but expected it to shift to a deficit this year. In parallel, Merrill Lynch considered that Bahrain would retain its investment-grade rating this year. But it noted that the challenging prospects for fiscal consolidation and sustained low oil prices point to a possible downgrade to speculative-grade over the medium term.

Source: Merrill Lynch



BANKING

WORLD

Outlook stable on 74% of bank ratings

Fitch Ratings indicated that it upgraded 10 banks globally in the first quarter of 2015, with 90% in emerging markets; while it downgraded 22 banks worldwide, with 64% in emerging economies. It indicated that there were 70 'negative' outlooks on the ratings of emerging market banks in the first quarter of 2015, unchanged from the fourth quarter of 2014 and up from 57 in the third quarter and 59 in the second quarter of 2014. In parallel, the number of 'positive' outlooks totaled 12 in the first quarter of 2015 compared to 14 in the fourth quarter of 2014, 12 in the third quarter and 13 in the second quarter of last year. Also, the number of 'stable' outlooks increased to 255 in the first quarter of 2015 from 253 in the preceding quarter, but decreased from 275 in the third quarter and 277 in the second quarter of last year. Overall, 73.9% of the banks' outlooks in emerging markets are 'stable', 20.3% are 'negative' and 3.5% are 'positive'. In parallel, 91.5% of outlooks in Emerging Asia are 'stable', 6.8% are 'negative' and 1.7% are 'positive'; while 86.7% of outlooks in the Middle East & Africa are 'stable' and 11.4% are 'negative'. Also, 76.8% of outlooks in Emerging Americas are 'stable', 13% are 'positive' and 10.1% are 'negative'; while 50.9% of outlooks in Emerging Europe are 'stable', 42% are 'negative' and 1.8% are 'positive'. Further, Fitch has 1.2% of bank ratings in emerging markets on 'positive watch', 0.9% on 'negative watch' and 0.3% on 'evolving watch'.

Source: Fitch Ratings

MENA

Bank lending conditions regress in first quarter of 2015

The Emerging Markets Lending Conditions Index for the Middle East & North Africa (MENA) region declined to 50.9 in the first quarter of 2015 from 52.7 in the fourth quarter of 2014. The improvement in bank lending conditions in the MENA region have decelerated since the second quarter of 2014, reflecting the impact of weaker commodity prices. The MENA region had the second most favorable lending conditions among all emerging markets, behind Sub-Saharan Africa whose index reached 51.2 in the covered quarter. The region's Trade Finance Index dropped to 54 in the first quarter of 2015 from 57.2 in the preceding quarter, reflecting a slowdown in the demand and supply of trade finance. Also, the Demand for Loans Index decreased to 52.6 in the first quarter from 54.2 in the previous quarter, as demand for housing loans fell and demand for corporate and commercial real estate loans slowed. The Non-Performing Loans Index decreased to 50.4 in the first quarter of 2015 from 52 in the fourth quarter of 2014, with MENA banks expecting NPLs to start rising in the second quarter of 2015. Further, the Credit Standards Index remained nearly unchanged at 49.4 in the first quarter of 2015 compared to 49.5 in the preceding quarter, as banks in the MENA region continued to ease their credit standards for corporate and consumer loans and to tighten those for commercial and residential real estate loans. Further, the Funding Conditions Index regressed for the first time since the fourth quarter of 2013, to 47.8 in the first quarter of 2015 from 52.4 in the previous quarter.

Source: Institute of International Finance

UAE

Banking sector risk assessment maintained

Standard & Poor's maintained the UAE's Banking Industry Country Risk Assessment (BICRA) in 'Group 5', and its economic and industry risk scores at '5' each. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking systems. S&P noted that other countries in BICRA's 'Group 5' include Brazil, China, India and South Africa, among other countries. In parallel, the agency indicated that the UAE's economic risk score reflects its "low risks" in economic resilience and "high risks" in economic imbalances and credit risks in the economy. It said that the decline in global oil prices has not been conducive to market sentiment, as evidenced by the recent volatility in the domestic equity markets. But it noted that the banking sector's direct exposure to equities is very limited. Also, it expected some correction in the domestic real estate markets, but it anticipated credit losses to remain limited. It said that domestic banks have adopted more conservative underwriting practices in the corporate real estate segment since the global financial crisis, and that key domestic developers are operating with broadly healthy balance sheets. Further, it pointed out that the industry score reflects the country's "high risks" in its competitive dynamics and "intermediate risks" in its institutional framework and system-wide funding. It said that the institutional framework in the UAE has significantly improved over the past few years. It expected the banking system to maintain healthy liquidity metrics despite the projected slowdown in deposit growth. It indicated that the trend for economic risk is "positive", while that for industry risk is "stable".

Source: Standard & Poor's

GHANA

Capital adequacy at 17.9%, NPL ratio at 11.3%

The risk-weighted capital adequacy ratio of banks operating in Ghana reached 17.9% at the end of 2014 relative to 18.5% at end-2013 and 18.6% at end-2012; while the banks' Tier-One capital ratio stood at 15.3% at end-2014, up from 14.7% at end-2013 and down from 16.4% at end-2012. The sector's core liquid assets were equivalent to 26.8% of total assets at the end of 2014 relative to 21.7% at the end of 2013 and 24.1% at the end of 2012; while they represented 34.8% of total short-term liabilities at end-2014, up from 28.2% at end-2013 and 30.7% at end-2012. Further, the sector's credit-to-assets ratio reached 43.2% at the end of 2014 relative to 42.6% at the end of 2013 and 42.9% at end-2012. Foreign currency liabilities accounted for 8.9% of total liabilities at end-2014, up from 8.5% at end-2013 and 3.5% at end-2012; while foreign currency deposits represented for 31.1% of total deposits at end-2014, compared to 27.1% at end-2013 and 28.9% at end-2012. Also, the sector's non-performing loans (NPL) ratio was 11.3% at the end of 2014, down from 12% at end-2013 and 13.2% at end-2012. The sector's provisions-to-NPL ratio decreased to 69.5% at end-2014 from 78.3% at end-2013. In parallel, the banks' pre-tax return on assets was 6.4% last year compared to 6.2% in 2013, while their pre-tax return on equity reached 44% in 2014 relative to 42.5% in 2013.

Source: International Monetary Fund



ENERGY / COMMODITIES

Brent oil prices to average \$58 p/b in 2015

North Sea Brent crude oil prices reached a 2015 high of \$68.2 per barrel on May 5, 2015 due to tensions in the Middle East, stronger-than-expected global demand growth, and signs that the oversupply in the market would ease. But oil prices retreated afterwards as the Organization of the Petroleum Exporting Countries indicated that it would maintain its strategy of pursuing market share rather than reducing output. Crude oil prices posted their largest monthly increase in almost six years in April 2015. Indeed, Brent oil prices rose by 15.6% in the first four months of 2015 and by 18.3% month-on-month in April, while WTI oil prices increased by 11.5% from end-2014 and by 25% last month. Brent crude oil prices are forecast to average \$58 per barrel (p/b) in 2015 and to rise to \$62 p/b next year, while WTI prices are projected at \$53 p/b this year and \$57 p/b in 2016.

Source: Bank of America Merrill Lynch, Byblos Research

MENA's oil output to rise modestly in 2015

Crude oil production in the Middle East & North Africa region is forecast to average 25.19 million barrels per day (b/d) in 2015, constituting an increase of 0.6% from 25.03 million b/d in 2014. Saudi Arabia's crude oil output is projected to average 9.76 million b/d in 2015, equivalent to about 38.8% of the region's crude oil production. It would be followed by Iraq at 3.4 million b/d (13.5%), Kuwait at 2.94 million b/d (11.7%), Iran at 2.91 million b/d (11.6%), the UAE at 2.74 million b/d (10.9%) and Oman at 0.99 million b/d (3.9%).

Source: International Monetary Fund, Byblos Research

Iraqi oil exports reaches 30-year high in April 2015

Iraqi crude oil exports averaged 3.077 million barrels per day (b/d) in April 2015, up by 3.3% from 2.98 million b/d in the preceding month. Preliminary statistics issued by the Iraqi State Organization for Marketing of Oil showed that the level of crude oil exports in April was the highest since the 1980s. The country sold its crude oil for an average price of \$51.7 per barrel, generating \$4.8bn in revenues in April 2015. In parallel, oil supplies from the Organization of the Petroleum Exporting Countries rose to more than a two-year high at 31.04 million b/d in April, driven by higher production from Iraq and Saudi Arabia.

Source: Thomson Reuters, CNBC

ME&A's oil demand to rise by 3% in 2015

Crude oil consumption in the Middle East & Africa region is expected to average 12.17 million barrels per day (b/d) in 2015, which would reflect a rise of 2.8% from 11.84 million b/d in 2014. The region's demand for oil would account for about 13.2% of global consumption this year. Demand for oil in the ME&A region is forecast to reach 12 million b/d in the second quarter, 12.46 million b/d in the third quarter and 12 million b/d in the fourth quarter of 2015. In parallel, the region's non-OPEC oil supply is forecast at 3.66 million b/d in 2015, which would reflect a drop of 2.7% from 2014. The ME&A's non-OPEC oil production would account for 6.7% of global non-OPEC oil supply in 2015 and would cover 30% of the ME&A's crude oil consumption.

Source: OPEC, Byblos Research

Base Metals: Aluminium prices to ease in 2015

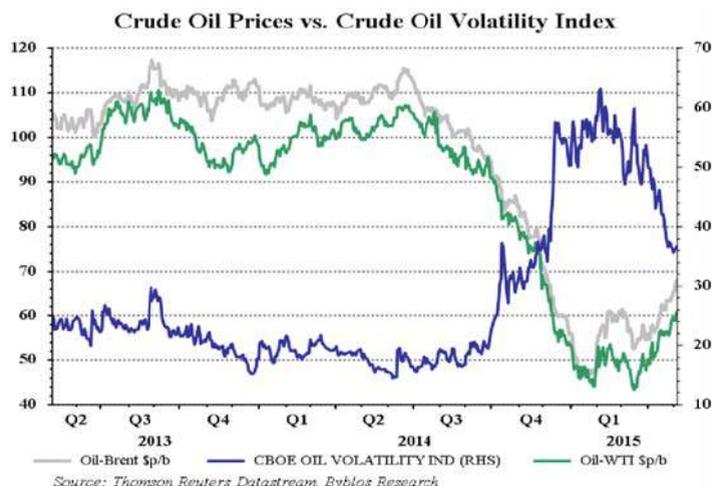
LME Aluminium cash price was nearly unchanged from the end of 2014 and increased by 2.2% month-on-month to close at \$1,805 per ton on April 30, 2015. The global aluminium market is expected to remain in surplus this year due to stronger Chinese production and exports. In addition, market expectations of a hike in U.S. interest rates before the end of 2015 could place downward pressure on aluminium prices in the short term. In turn, the metal's LME prices could decrease to below \$1,700 per ton during the second quarter of the year. The average LME aluminium price was \$1,813 per ton in the first quarter, and is forecast at \$1,780 per ton in the second quarter, \$1,820 a ton in the third quarter and \$1,830 per ton in the fourth quarter of 2015. Overall, aluminium prices are forecast to average \$1,810 a ton in 2015, which would reflect a decline of 4.4% from \$1,893 per ton in 2014.

Source: Citi Research, Byblos Research

Precious Metals: Gold prices to drop by 6% in 2015

Gold prices decreased by 0.5% in the first four months of 2015 to close at \$1,180.7 a troy ounce on April 30, 2015. Despite an immediate price increase following the Saudi Arabia-led airstrikes in Yemen, the resultant gains in gold spot prices were short-lived as the nature of the unrest was insignificant to sustain the rise in prices. Gold prices are likely to recover in the medium term as the substantial money-printing and currency depreciation of the past few years could eventually begin to feed into inflation, once the oil-price fall has completed its effect. Also, the price recovery largely depends on how long the strength of the US dollar persists. The price of gold bullion is forecast to average \$1,200 a troy ounce in the second quarter, \$1,180 an ounce in the third quarter and \$1,170 a troy ounce in the fourth quarter of 2015. Gold prices are forecast to average \$1,190 a troy ounce in 2015, which would reflect a decrease of 6% from \$1,266 an ounce in 2014. Prices are forecast to improve modestly in 2016 to an average of \$1,210 an ounce as the impact of lower oil prices dissipate and as demand in Asia, especially China, picks up. In parallel, global gold mine production is expected to remain nearly flat in 2015, and is forecast to contract in 2016 and 2017, mainly due to a low price environment. In addition, the metal's scrap supply is unlikely to recover over the next two to three years to levels seen in 2013.

Source: Citi Research, 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	-	-15.7	-
Angola	B+	Ba2	BB-	-	BB	-4.2	38.8	27.0	56.0	15.4	57.6	-6.3	-4.7
Egypt	B-	B3	B	B-	CCC	-8.5	92.6	17.3	124.6	8.2	467.5	-3.3	-1.3
Ethiopia	B	B1	B	-	CCC	-2.9	54.3	28.9	135.9	4.4	591.0	-6.6	-3.1
Ghana	B-	B3	B	-	B	-9.2	67.2	33.8	77.3	4.5	376.2	-7.0	7.5
Ivory Coast	-	B1	B	-	B	-2.7	50.3	29.2	-	9.4	198.2	-2.3	2.6
Libya	-	-	B	-	B	-14.9	6.2	9.9	-	7.5	-	-52.8	-
Dem Rep Congo	B-	B3	-	-	-	-1.7	21.7	29.2	32.0	2.3	5.5	-10.7	6.9
Morocco	BBB-	Ba1	BBB-	-	B	-4.3	68.0	32.9	96.6	11.7	249.1	-3.4	2.7
Nigeria	B+	Ba3	BB-	-	B	-2.8	20.2	3.4	11.1	0.4	43.8	0.7	2.0
Sudan	-	-	-	-	C	-1.2	87.6	77.9	-	-	-	-4.2	3.3
Tunisia	-	Ba3	BB-	-	CCC	-3.3	49.9	55.1	100.9	8.5	367.9	-6.4	3.7
Burkina Faso	B	-	-	-	-	-3.1	21.9	21.9	-	-	-	-8.1	-
Rwanda	B+	-	B	-	-	-4.2	33.5	30.9	-	11.8	-	-10.5	2.9
Middle East													
Bahrain	BBB-	Baa3	BBB	BBB	BB	-12.5	60.8	118.6	-	17.5	721.6	-2.1	0.4
Iran	-	-	-	B	CCC	-3.1	12.5	1.7	-	-	-	0.8	-
Iraq	-	-	-	-	CCC	-8.7	-	-	-	-	-	-9.6	-
Jordan	BB-	B1	-	BB-	CCC	-3.2	90.7	73.3	-	9.6	205.3	-7.6	5.3
Kuwait	AA	Aa2	AA	AA-	A	8.8	8.4	20.0	-	1.2	87.5	15.7	-6.1
Lebanon	B-	B2	B	B	CCC	-8.1	143.2	110.7	-	17.7	160.8	-22.2	7.7
Oman	A-	A1	-	A	A	-13.1	9.5	17.6	-	3.7	81.8	-15	0.4
Qatar	AA	Aa2	AA	AA-	AA	1.4	24.4	64.2	-	18.0	360.3	8.4	-2.4
Saudi Arabia	AA-	Aa3	AA	AA-	A	-14.2	8.9	12.4	-	4.7	13.7	-1.0	1.0
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	BB	-4.3	25.0	26.8	-	4.2	488.6	5.3	1.8
Yemen	-	-	-	-	CC	-5.0	47.4	13.2	-	-	-	-2.2	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	-8.6	4.1
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-2.0	41.9	10.2	-	2.7	25.1	3.2	1.5
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-4.1	62.6	23.6	101.9	5.6	158.2	-1.3	1.1
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BB	4.1	14.3	74.3	195.4	17.3	787.9	-4.1	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	0.2	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	5.4	-1.2
	Negative	-	Negative	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-1.7	32.4	49.0	181.2	23.2	376.5	-4.2	1.7
	Negative	Negative	Stable	Stable	Stable								
Ukraine	CCC	Caa3	CCC	-	CC	-7.5	70.6	114.6	189.9	32.0	978.3	-1.4	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	29-Apr-15	No change	17-Jun-15
Eurozone	Refi Rate	0.05	15-Apr-15	No change	03-Jun-15
UK	Bank Rate	0.50	09-Apr-15	No change	11-May-15
Japan	O/N Call Rate	0.00-0.10	30-Apr-15	No change	21-May-15
Australia	Cash Rate	2.00	05-May-15	Cut 25bps	27-May-15
New Zealand	Cash Rate	3.50	30-Apr-15	No change	11-Jun-15
Switzerland	3 month Libor target	-1.25-(-0.25)	19-Mar-15	No change	18-Jun-15
Canada	Overnight rate	0.75	15-Apr-15	No change	27-May-15
Emerging Markets					
China	One-year lending rate	5.35	01-Mar-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.50	29-Apr-15	No change	17-Jun-15
Taiwan	Discount Rate	1.875	26-Mar-15	No change	30-Jun-15
South Korea	Base Rate	1.75	09-Apr-15	No change	15-May-15
Malaysia	O/N Policy Rate	3.25	05-Mar-15	No change	07-May-15
Thailand	1D Repo	1.50	29-Apr-15	Cut 25bps	10-Jun-15
India	Reverse repo rate	7.50	07-Apr-15	No change	02-Jun-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	23-Apr-15	No change	11-Jun-15
Turkey	Base Rate	7.50	22-Apr-15	No change	20-May-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	06-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	30-Apr-15	No change	4-Jun-15
Brazil	Selic Rate	13.25	29-Apr-15	Raised 50bps	3-Jun-15
Armenia	Refi Rate	10.50	10-Feb-15	Raised 100bps	N/A
Romania	Policy Rate	1.75	06-May-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	28-May-15
Russia	Refi Rate	12.50	30-Apr-15	Cut 150bps	15-Jun-15



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

The Country Risk Weekly Bulletin is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from the Country Risk Weekly Bulletin may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.



BYBLOS BANK GROUP

LEBANON

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

SYRIA

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

IRAQ

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

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

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

UNITED ARAB EMIRATES

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

ARMENIA

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

CYPRUS

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

SUDAN

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

NIGERIA

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

DEMOCRATIC REPUBLIC OF CONGO

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

ADIR INSURANCE

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

