

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### Trading in Credit Default Swaps down 6% to \$383bn in first quarter of 2015

Trading in emerging markets Credit Default Swaps (CDS) reached \$383bn in the first quarter of 2015, constituting a decline of 1% from \$385bn in the preceding quarter and a drop of 6% from \$409bn in the same quarter of 2014. Overall CDS activity was nearly unchanged in the first quarter of 2015 despite the sharp drop and recovery in global oil prices and the strengthening of the US dollar. The most frequently-traded sovereign CDS contracts in the first quarter of 2015 were those of Brazil at \$69bn, followed by Russia at \$55bn and Turkey at \$53bn. The most frequently-traded corporate CDS contracts in the covered quarter were those of Brazil's Petrobras at \$3.5bn, followed by Russia's Gazprom at \$3.3bn and Mexico's Pemex at over \$2bn in the first quarter of 2015. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers from 13 major international banks and broker-dealers.

Source: EMTA

##### Strategies of emerging market insurers differ from those in developed markets

Insurance-rating agency A.M. Best's assessment of 1,900 insurers across developed and developing economies for the 2007-12 period shows that insurers in emerging markets (EMs) compete in all segments and business lines regardless of their size, while small insurers in developed markets tend to focus on specific niches. It pointed out that reinsurance plays a key role in the profitability of insurers in EMs. It said that small insurance firms in emerging economies have a low retention rate, which helps them improve their technical profitability, given that they operate at a disadvantage in terms of cost efficiencies. It noted that, unlike counterparts in developed markets, their broader strategic focus results in higher operating expenses, which can only be offset by significant reinsurance commissions. In parallel, A.M. Best indicated that investment yields remain a key source of income for insurers in EMs. It noted that the global financial crisis resulted in significant de-risking of investment portfolios of insurers in emerging economies, especially among smaller competitors, which has caused investment yields to converge among all market segments. In addition, it said that insurers' balance sheets in EMs are characterized by higher operating leverage than their counterparts in developed markets. It noted that the balance sheets of larger insurance companies in EMs are more leveraged than those of their smaller competitors. In parallel, it pointed out that small, medium and large insurers in emerging and developed markets share several similarities. It said that smaller insurers post faster premium growth across all markets, even though their gross written premiums remain relatively low. It noted that they have a single-digit growth rate in all markets, but are the main drivers of premium growth in their markets.

Source: A.M. Best

##### Lending conditions tighten in first quarter of 2015

The Emerging Markets Lending Conditions Index decreased to 48.1 in the first quarter of 2015 from 49.8 in the preceding quarter, representing its lowest level since the fourth quarter of 2011 and the sharp tightening in overall lending conditions. Also, the index remained below the 50 mark for the third consecutive quarter. The global Trade Finance Index dropped to 49.6 in the first quarter of 2015 from 50.2 in the preceding quarter, while the Demand for Loans Index decreased to 48 in the first quarter from 53.1 in the previous quarter. The Non-Performing Loans Index regressed to 48.2 in the first quarter of 2015 from 48.3 in the fourth quarter of 2014, with banks expecting NPLs to continue increasing in the second quarter of 2015. Further, the Credit Standards Index regressed to 46.9 in the first quarter of 2015 from 47.5 in the preceding quarter, while the Funding Conditions Index was unchanged at 49. The Lending Conditions Index in the Sub-Saharan Africa region was the highest globally at 51.2 compared to 51.6 in the fourth quarter of 2014, while it regressed in the MENA region to 50.9 from 52.7 in the preceding quarter. In contrast, the Lending Conditions Index for Emerging Europe dropped from 51.5 in the fourth quarter of 2014 to 49.6 in the first quarter of 2015; that for Latin America decreased to 45.7 in the first quarter of 2015 from 48.7 in the preceding quarter and that for Emerging Asia decreased to 46 in the first quarter from 46.8 in the fourth quarter of 2014.

Source: Institute of International Finance

#### MENA

##### Competitiveness of travel and tourism sector below global level

The World Economic Forum's Travel & Tourism Competitiveness Index for 2015 indicated that the competitiveness of the travel and tourism industry in the Arab world is below global standards, as the region's average score reached 3.51 points compared to the global average of 3.74 points. The Arab region's travel and tourism competitiveness level came below Europe's average of 4.3 points, Asia Pacific (3.92 points), and the Americas (3.76 points), but above Sub-Saharan Africa's average of 3.11 points. The Index measures the set of factors and policies that enable the sustainable development of the Travel & Tourism (T&T) sector. The UAE ranked in first place on the Index among 14 Arab countries included in the survey and in 24th place globally. It was followed by Qatar (43rd), Bahrain (60th) and Morocco (62nd). In contrast, Kuwait (103rd), Algeria (123rd), Mauritania (137th) and Yemen (138th) had the least competitive tourism sectors in the region. In parallel, Qatar (6th), the UAE (16th) and Bahrain (32nd) were the top ranked Arab countries on the Enabling Environment Sub-Index. Further, Jordan (45th), Tunisia (50th) and the UAE (52nd) led Arab countries on the T&T Policy and Enabling Conditions Sub-Index. Finally, the UAE (8th), Bahrain (33th) and Qatar (34th) were the top ranked Arab countries on the Infrastructure Sub-Index; while Morocco (45th), Egypt (65th) and Saudi Arabia (69th) led Arab countries on the Natural & Cultural Resources Sub-Index.

Source: World Economic Forum, Byblos Research

# OUTLOOK

## MENA

### Economic activity in oil exporters to decelerate to 2.4% in 2015

The International Monetary Fund projected real GDP growth in the oil-exporting economies of the Middle East & North Africa region at 2.4% in 2015, down from a January forecast of 3% and an October forecast of 3.9%. It attributed the level of economic activity in 2015 to the fact that some countries have used their substantial financial buffers to cushion the impact of lower global oil prices on their economies, while gradually undertaking the needed fiscal adjustments over the medium term. It revised downward its projections for growth in Gulf Cooperation Council countries to 3.4% in 2015 from an October forecast of 4.5%, as lower oil prices have reduced the authorities' spending capacity, a key driver of non-hydrocarbon growth in recent years. Also, it lowered its growth figure for non-GCC oil exporters by 1.9 percentage points to 1.2% in 2015, as unstable security conditions continue to disrupt oil production in Libya and Yemen, and because of international sanctions on Iran.

The Fund expected most oil exporters, except for Kuwait and Qatar, to post a fiscal deficit in 2015, given that their fiscal breakeven oil price significantly exceeds the projected average oil price of \$58 per barrel this year. It forecast the GCC's aggregate fiscal balance to shift from a surplus of 4.6% of GDP in 2014 to deficits of 7.9% of GDP in 2015 and 1% of GDP over the medium term. Also, it expected the fiscal deficit in non-GCC oil exporters to widen from 4.8% of GDP in 2014 to 9% of GDP in 2015, and to stabilize at 2.5% of GDP over the medium term. It forecast the GCC's aggregate current account surplus to narrow from \$271.8bn, or 16.5% of GDP, in 2014 to \$40.2bn or 5.4% of GDP in 2015. It expected the current account deficit in non-GCC oil exporters to widen from \$14.7bn or 1.6% of GDP in 2014 to \$62bn or 7.4% of GDP in 2015.

*Source: International Monetary Fund*

## UAE

### UAE to withstand low oil prices

The Institute of International Finance projected real GDP growth in the UAE to slow down to 3.6% in 2015 from 4.1% in 2014 due to lower oil prices that led to weaker market sentiment and a slowdown in public spending, as well as to some loss in competitiveness from a strong US dollar. It forecast hydrocarbon output to expand by 1.5% in 2015 compared to a growth rate of 1.8% last year, and for non-hydrocarbon growth to decelerate from 5.2% in 2014 to 4.6% in 2015. It anticipated that major projects and the preparations to host World Expo 2020 would support a real GDP growth rate of 4.8% in Dubai. The IIF said that downside risks to the UAE's outlook include low oil prices over a long period of time or a further drop in prices, tighter-than-expected U.S. monetary policy, and continued large infrastructure spending. It forecast the inflation rate at 2.6% at the end of 2015 relative to 3% at end-2014.

The IIF projected the UAE's fiscal balance to shift from a surplus of 7.1% of GDP in 2014 to a deficit of 3.6% of GDP in 2015, under the assumption of an average oil price of \$60 per barrel (p/b) for the year. It expected the UAE's consolidated public

spending to expand by 3% in 2015 relative to an average annual increase of 15% during the 2005-14 period. It forecast subsidies and transfers in Abu Dhabi to regress from 3.3% of GDP in 2014 to 2.2% of GDP in 2015 due to an increase in electricity and water tariffs. It projected growth in government spending in Abu Dhabi to decelerate from 5.2% in 2014 to 1.5% in 2015, while it forecast growth spending in Dubai to expand by 8% with a balanced budget this year. It projected the UAE's fiscal breakeven oil price to rise from \$71 p/b in 2014 to \$73 p/b in 2015, reflecting continued growth in spending and a broadly flat oil production. Further, it expected the current account surplus to narrow from 12.1% of GDP in 2014 to 3.6% of GDP in 2015; and for net external assets to increase from \$536.5bn, or 132.7% of GDP, in 2014 to \$548.6bn, or 149% of GDP, in 2015. The IIF considered that the UAE would be able to finance the fiscal deficit, even if it lasted for several years, through its substantial foreign assets and low public debt level. It said that authorities could introduce a low value-added tax rate and further reduce water and electricity subsidies in order to improve their fiscal position.

*Source: Institute of International Finance*

## SUDAN

### Real GDP growth to accelerate to 3.5% in 2015, challenges and risks persist

BMI Research projected Sudan's real GDP growth to accelerate from an estimated 2.6% in 2014 to 3.5% in 2015 and 4.3% in 2016 due to easing inflationary pressures, exchange rate stability and lower global oil prices. It added that strong agricultural production and continued robust gold output would support economic activity. However, it anticipated economic conditions to remain highly challenging due to persistent insecurity and an uncertain political environment, which would also restrain investment activity.

BMI forecast private consumption to increase by 3.3% in real terms in 2015 compared to an estimated growth rate of 2.6% in 2014. It said that the expected easing in inflationary pressure this year would provide some support to consumers and projected the average inflation rate at 21.5% in 2015 relative to 37.4% in 2014. However, it pointed out that the growth in private consumption remains well below historical trends due to the highly challenging environment. It added that domestic conflicts would continue to disrupt normal economic activity and the ability of households to maintain their income levels. Further, it anticipated government spending to expand by 3% in real terms in 2015 compared to an estimated growth rate of 2% in 2014. It said that spending pressures remain significant due to rising living costs and social dissatisfaction.

In parallel, BMI forecast investment spending to increase by 3% in real terms in 2015 compared to an estimated growth rate of 2% in 2014, reflecting the elevated security risks and the uncertain and fragile political environment. It said that Western sanctions are unlikely to be removed anytime soon, which would keep Western companies away from the country, while Sudan's adverse business environment would deter more risk-averse investors. It noted that the government would continue to accommodate investors in the oil, mining, and agricultural sectors, mainly from China and the Middle East.

*Source: BMI Research*



# ECONOMY & TRADE

## IRAQ

### Fiscal crisis is obstacle to KRG's economic independence

Information provider IHS Global Insight anticipated that the Kurdistan Regional Government's (KRG) aspirations of economic independence from Iraq are unlikely to materialize in 2015 due to the KRG's fiscal crisis. It said that low global oil prices are weighing on the KRG's public finances, as hydrocarbon revenues account for 95% of its annual budget. As such, it noted that the sharp drop in oil prices is slowing the momentum for Kurdistan's economic self-sufficiency. Further, it said that the KRG is unable to fully pay overseas oil operators for past oil exports due to the Iraqi central government's inability to pay the KRG \$1bn per month under the December oil deal. It noted that payment delinquency has damaged investor confidence in the KRG and could threaten its planned increase in oil production. As such, it pointed out that the KRG needs to overcome several challenges in order to achieve its production goals of 750,000 per day by the end of 2015 and of one million barrels per day by early 2016. It noted that the KRG would face obstacles to sell its oil, even if it manages to increase production, in the context of a legal campaign by the central government in Baghdad that targets oil buyers, traders and other components of the purchasing chain for Kurdish oil. It considered that economic self-sufficiency from Baghdad largely depends on increased oil production and the ability to export oil without the threat of legal action from Baghdad. It added that this would require diversification from oil, increased foreign investment, and the creation of independent financial institutions through which the KRG could secure international loans.

Source: IHS Global Insight

## TURKEY

### Local-currency sovereign ratings downgraded

Standard & Poor's downgraded Turkey's local currency sovereign credit ratings to 'BBB-/A-3' from 'BBB/A-2' with a 'negative' outlook. It attributed the downward revision to a decrease in the operational independence of the Central Bank of Turkey (CBoT), which would limit its ability to credibly fulfill its price stability mandate and reduce the impact of exchange rate volatility on the economy's growth prospects. It pointed out that the CBoT's challenged credibility, including weak monetary transmission channels, has diminished the status of the Turkish lira as a reliable transactional currency, which poses greater risks to the refinancing of the country's substantial external debt stock. It considered Turkey's complex monetary framework to be ineffective, given the high pass-through of exchange rate depreciation to prices. In parallel, the agency affirmed the foreign currency sovereign credit ratings at 'BB+/B' with a 'negative' outlook. It said that the Turkish economy continues to have higher external debt levels and lower foreign currency reserves than similarly-rated peers. It estimated the country's usable reserves excluding government deposits at \$40.8bn, or 2.4 months of imports by end-February 2015, which provides a limited buffer against additional pressure on the exchange rate. S&P indicated that external and monetary risks to Turkey's economic prospects persist and include a wide current account deficit of 4.6% of GDP, or 16% of current account receipts at end-2015; an average inflation rate of 7% for the year and the depreciation of the lira.

Source: Standard & Poor's

## ETHIOPIA

### Sovereign ratings affirmed, outlook 'stable'

Standard & Poor's affirmed Ethiopia's long- and short-term foreign and local currency sovereign credit ratings at 'B' with a 'stable' outlook. It said that the ratings are constrained by a low GDP per capita, large public-sector contingent liabilities and a lack of monetary policy flexibility. It noted that the ratings are supported by strong economic growth, and reflect moderate levels of government debt and external and fiscal deficits. It projected the current account deficit at about 7% of GDP between 2015 and 2018. It expected non-traditional exports, such as electricity, to support the current account position, given that revenues from traditional exports, such as coffee and gold, would be constrained by lower commodity prices. It anticipated import growth to moderate due to lower oil prices and the completion of some large infrastructure projects. It said that Ethiopia benefits from large service exports and remittance inflows that are equivalent to about 10% of GDP per year. S&P forecast the country's gross external financing needs to average about 130% of current account receipts and usable reserves during the 2015-18 period. It said that Ethiopia's foreign reserves are low and cover about two months of imports. Further, the agency projected the fiscal deficit to average about 2.5% of GDP during the 2015-18 period, but it expected the government's debt level to rise by an annual average of 4.5% of GDP during the covered period due to off-budgetary spending. It anticipated contingent liabilities to remain moderate due to the large public sector and state-owned financial institutions.

Source: Standard & Poor's

## IRAN

### Lifting of sanctions to have limited impact on mining sector

BMI Research indicated that the long-term prospects of Iran's mining sector are positive due to continuing government support, the expansion of domestic infrastructure projects, as well as holdings of 7% of global mineral reserves. It considered that the lifting of international sanctions on Iran will have a limited impact on the growth of the country's mining sector, and that the expansion of the industry will only materialize three to five years after the removal of sanctions. It forecast the size of Iran's mining industry to grow from \$79.4bn in 2015 to \$95.5bn in 2019, equivalent to an average annual growth rate of 0.5% during the 2015-19 period. It said that the mining sector's development will be capped by several factors. First, it indicated that Iran's appeal to investors will be limited due to widespread corruption and an inefficient bureaucracy. Second, it noted that most mining firms operate at just 50% or 60% of their capacity due to low levels of investment and aging infrastructure. It added that the sector is highly consolidated and consists primarily of domestic and state-owned miners, which would deter new miners from entering the market. Third, it said that the protracted lifting of banking sanctions and the current weak mineral price climate would limit new foreign investments, and would force miners in the country to scale down their operations and stop new greenfield projects. In parallel, BMI expected steel imports to increase, as domestic production would be unable to meet the growing demand from solid growth in the construction sector.

Source: BMI Research



# BANKING

## JORDAN

### Resident private sector lending nearly unchanged in first quarter of 2015

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD45.5bn or \$64.2bn at the end of March 2015, constituting a rise of 1.4% from the end of 2014 and an increase of 5% from end-March 2014. Resident private sector claims dropped by 0.3% from end-2014 to JD17.8bn, while credit facilities to the non-resident private sector rose by 3.7% to JD499.6m, leading to a marginal decrease of 0.2% in overall private sector credit facilities in the first quarter of 2015. Lending to the resident private sector accounted for 39% of total assets at end-March 2015 relative to 40% at end-March 2014. In parallel, resident private sector deposits reached JD24.4bn, constituting an increase of 1.7% from the end of 2014 and a rise of 7.8% from a year earlier. Also, deposits of non-bank financial institutions rose by 13.6% from end-2014 to JD409.5m. The government's deposits totaled JD1.5bn, up 5.2% from end-2014, while those of public non-financial institutions increased by 19.1% to JD293m. Further, claims on the public sector rose by 5.7% to JD11.6bn in the first quarter of 2015, with claims on the central government accounting for 96.7% of lending to the public sector. Claims on the public sector accounted for 25.6% of total assets at end-March 2015 compared to 24.6% a year earlier. Further, the banks' reserves at the Central Bank of Jordan totaled JD6.8bn, down 1.3% from JD6.9bn at end-2014; while capital accounts and allowances were unchanged from end-2014 at JD6.8bn. Deposits with foreign banks reached JD3.4bn at the end of March 2015, up 3.4% from end-2014, while the sector's foreign liabilities grew marginally by 0.3% to JD6.8bn.

Source: Central Bank of Jordan, Byblos Research

## MOROCCO

### Banks' expansion in Africa raises risks

The International Monetary Fund indicated that the expansion of Moroccan banks across Sub-Saharan Africa (SSA) offers opportunities and benefits for Morocco, as well as for the host countries. It said that the presence of Moroccan banks in SSA countries brings new business opportunities, as international cross-border activities generate about 21% of the banking sector's revenues. However, it pointed out that the rise of Pan-African banks opens new channels for transmission of macro-financial risks and other spillovers across home and host countries. It noted that risks could build up undetected due to the lack of data on cross-border banks. Further, the Fund indicated that expansion in SSA increases supervisory challenges for Moroccan authorities. It said that Bank Al-Maghreb (BAM) imposes high supervisory standards, but noted that compliance with high international supervisory standards varies widely among African host countries and is generally lower than in the rest of the world. It added that the three Moroccan banks that have expanded in SSA are systemically important at home and abroad, which poses additional challenges to BAM. As such, it called on authorities to maintain close monitoring, implement preventive measures, simplify complex corporate structures inherited from international acquisitions, strengthen the surveillance of systemic risks, and ratify the new banking law.

Source: International Monetary Fund

## UAE

### Banking sector has adequate buffers

The Institute of International Finance expected UAE banks to remain sound due to their strong initial financing position and a resilient local economy. It noted that UAE banks posted double-digit growth in net profits in 2014, maintained healthy capital adequacy ratios and have high provisions on bad loans. It forecast the risk-weighted capital adequacy ratio (CAR) of banks operating in the UAE at 18.2% at the end of 2015 and their Tier-One capital ratio at 16.2%, both unchanged from a year earlier. It expected the increase in public infrastructure spending to continue to support the banks' credit and profitability. But it anticipated liquidity to tighten as government deposits in the banking system, which are derived from hydrocarbon revenues, decline. It forecast the sector's loan-to-deposit ratio to increase from 97% at the end of 2014 to 98% at the end of 2015. It noted that the sector's non-performing loans (NPL) ratio is high and projected it to rise from 6.3% at the end of 2014 to 6.5% at end-2015. But it added that total provisions cover NPLs in full. It cautioned that the banks' asset quality would deteriorate and their profits would be squeezed if real estate prices and the equity market further decline. The IIF forecast the banks' return on assets to regress from 1.9% in 2014 to 1.7% this year, and their return on equity to decline from 13.8% last year to 13% in 2015. It indicated that financial stability risks are contained, given the adequate liquidity level, high provisioning on NPLs and prudent regulations.

Source: Institute of International Finance

## NIGERIA

### Rise in oil prices to support foreign reserves and import cover

Credit Suisse anticipated that the level of Nigeria's foreign currency reserves and import coverage would improve if the recent increase in global oil prices continues. Credit Suisse's baseline scenario assumes that oil prices bottomed out in the first quarter of 2015 and would continue to increase through 2016. Under this scenario, it expected oil prices to average \$60 per barrel (p/b) in 2015 and for Nigeria's crude oil exports to reach an average of 1.64 million barrels per day (p/d) during the year. As such, it forecast foreign currency reserves at \$14.5bn at the end of 2015, equivalent to 2.4 months of import coverage. It estimated that if oil prices average \$70 p/b at an export level of 1.64 million b/d in 2015, then foreign reserves would reach \$21.1bn or 3.5 months of imports at the end of 2015, while, at an average oil price of \$40 p/b, reserves would drop to \$9.1bn or 1.5 months of imports. Under a scenario where oil prices continue to average \$60 p/b, foreign currency reserves would fall to \$9.3bn and cover 1.6 months of imports at end-2015 if exports drop to 1.4 million b/d; while they would stand at \$5bn or 0.8 months of import cover if exports decrease to 1.2 million b/d. In parallel, if oil prices averaged \$70 p/b, then foreign reserves would reach \$14.9bn or 2.5 months of imports at the end of 2015 at an export level of 1.4 million b/d, while they would fall to \$9.8bn or 1.6 months of imports at an export level of 1.2 million b/d. Further, assuming that oil prices average \$50 p/b in 2015 and oil exports were at 1.4 million b/d, then foreign reserves would reach \$4.7bn or 0.8 months of imports at the end of 2015.

Source: Credit Suisse



# ENERGY / COMMODITIES

## Brent oil prices to drop by 39% in 2015

North Sea Brent crude oil prices averaged \$60 per barrel (p/b) in April 2015, reflecting a \$4 p/b increase from the preceding month and the highest monthly price average so far in 2015. Several factors have contributed to higher oil prices in April, including higher global oil demand, expectations of a drop in U.S. shale oil production in the coming months, and the growing risks of unplanned supply outages in the Middle East & North Africa region. Brent crude oil prices increased in April despite rising global oil inventories. The latter grew by more than two million b/d for the second consecutive month in April, compared to an average build-up of 0.8 million b/d in March and April of 2014. But inventory build-ups are projected to moderate in the coming months. Brent crude oil prices are expected to average \$60.8 p/b in 2015, which would reflect a drop of 38.5% from 2014, with prices rising from an average of \$54 p/b in the first quarter to an average of \$63 p/b for the rest of the year. But various factors could cause oil prices to deviate from current projections, given the high level of uncertainty in the oil market. These include the potential lifting of sanctions against Iran if a comprehensive nuclear agreement with western countries is reached.

Source: U.S. Energy Information Administration

## DRC's copper and gold production up significantly in first quarter of 2015

Copper and gold production in the Democratic Republic of Congo (DRC) rose substantially in the first quarter of 2015, despite continuing uncertainty about a proposed revision of the 2002 mining code. The DRC mined 279,573 tons of copper during the first quarter of 2015, up by 13.7% from 245,868 tons in the same quarter of 2014. Also, the country's gold output reached 8,457 kilograms (kg) in the first quarter, reflecting a surge of 70.1% from 4,972 kg in the same quarter of 2014. The country intends to become one of Africa's largest gold producers. The DRC holds vast reserves of cobalt, diamonds, tin and tantalum, and its mining sector accounts for about 10% of GDP.

Source: Banque Centrale du Congo, Thomson Reuters

## China overtakes U.S. as world's top oil importer

China's crude oil imports reached a record-high of about 7.4 million barrels per day (b/d) in April 2015, overtaking the U.S. as the world's top importer of crude oil. The rise in Chinese oil demand was partly due to lower oil prices and to higher imports from Iran. China's oil imports are not expected to consistently surpass those of the U.S. until the second half of 2015. But Chinese oil purchases are projected to remain strong in the near term.

Source: Financial Times

## OPEC's oil basket price up 9% in April 2015

The Organization of the Petroleum Exporting Countries' oil reference basket price reached \$57.3 per barrel (p/b) in April 2015, reflecting a rise of 9.2% from \$52.46 p/b in the preceding month. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at \$61.66 p/b in April, followed by Angola's Girassol at \$61.12 p/b and Nigeria's Bonny Light at \$60.65 p/b. All prices included in the OPEC reference basket posted monthly increases between 5% and 10.6% in April 2015.

Source: OPEC, Byblos Research

## Base Metals: Nickel prices to recover in second half of 2015 as inventories drop and demand picks up

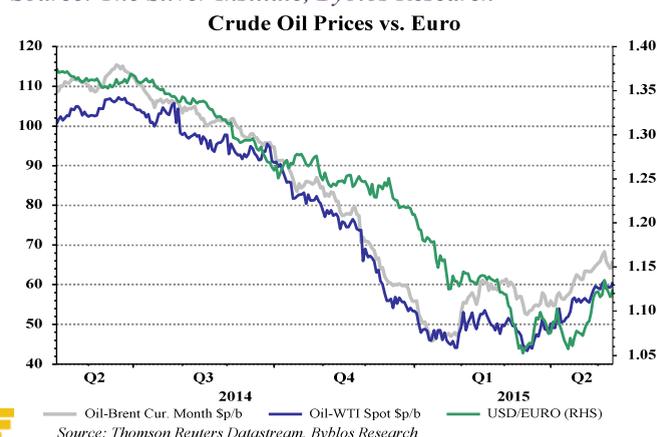
Nickel prices have decreased by more than 5% since the end of 2014 to \$14,014 a metric ton on May 13th, mainly driven by large inventory build-ups and lower demand for the metal. Following Indonesia's ban on ore exports in January 2014, speculative funds led nickel prices to rise significantly to near \$20,000 a ton. But a combination of factors since late 2014 caused prices to drop to levels reached prior to the Indonesian ore export ban. These included large inventory build-ups of Indonesian nickel ore and a surge of lower grade ore exports from the Philippines. Indeed, the build-up in LME nickel inventory increased by more than 27,500 tons since the end of 2014 to 440,034 tons on May 12, 2015. However, nickel prices are expected to recover going into the second half of 2015 due to declining nickel pig iron production, stronger demand from the European stainless steel market and reduced nickel ore availability, along with expectations of a substantial drawdown in LME inventory. LME nickel prices averaged \$14,400 per ton in the first quarter of 2015, and are forecast at \$14,300 a ton in the second quarter, \$16,000 a ton in the third quarter and \$17,520 per ton in the fourth quarter.

Source: Citi Research, Platts, Byblos Research

## Precious Metals: Silver prices down 20% in 2014

Silver prices averaged \$19.1 a troy ounce in 2014, down by 19.8% from 2013 due to China's economic slowdown, investors' shift from commodities to other asset classes, and a stronger US dollar. Global physical silver demand reached 1,066.7 million ounces in 2014, the fourth highest level since 1990, but dropped by 4.1% from 1,112.4 million ounces in 2013. The decrease was mainly due to the fall in coin & bar demand from a record-high level in 2013. Industrial fabrication, the largest component of physical silver consumption, decreased by 0.5% to 595 million ounces in 2014 and accounted for 55.8% of total physical silver demand. It was followed by jewelry (20.2%) and coins & bars (18.4%). On a regional basis, a modest rise in industrial consumption in developing countries, led by China and Taiwan, was offset by weaker demand in advanced countries in 2014. In parallel, silver mine production grew by 5% to 877.5 million ounces last year. Primary silver mine production grew by 8%, and accounted for 31% of global silver mine supply. Mexico was the world's leading silver producer in 2014, followed by Peru, China, Australia and Chile. The metal's scrap supply dropped by 13% to 168.8 million ounces last year, reflecting the lowest level since 1996 and the third consecutive year of decline.

Source: The Silver Institute, 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								
<b>Africa</b>													
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
<b>Middle East</b>													
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								
<b>Asia</b>													
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								
<b>Central &amp; Eastern Europe</b>													
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	22-May-15
Australia	Cash Rate	2.00	05-May-15	Cut 25bps	2-Jun-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
<b>Emerging Markets</b>					
China	One-year lending rate	5.10	10-May-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	09-July-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	06-May-15	No change	N/A
Nigeria	Monetary Policy Rate	13.00	24-Mar-15	No change	19-May-15
Ghana	Prime Rate	22.00	13-May-15	Raised 100bps	N/A
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



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