

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Corporate speculative-grade default rate at 1.05% in 2014

Standard & Poor's indicated that a total of 15 corporate debt issuers in emerging markets (EM) defaulted in 2014, relative to 16 issuers in 2013 and 24 issuers in 2012. It said that defaults in emerging markets accounted for around 25% of global defaulters last year, constituting the fifth time that this share exceeds 20% in 18 years. It noted that only eight out of the 15 defaulting corporates were actively rated at the beginning of 2014, as three corporates defaulted after the ratings were withdrawn, another three had their first rating assigned in 2014, and one issuer defaulted twice in 2014. It added that all defaulting corporates had speculative grade ratings. Further, it pointed out that the Emerging Europe, the Middle East & Africa region accounted for seven corporate defaults, or 46.7% of the total last year, followed by Latin America & the Caribbean with five defaults (33.3%), and Emerging Asia with three defaults (20%). Also, it said that five out of the 15 emerging market defaulters were from commodity-linked sectors, four were in energy & natural resources, and one in forest products. In addition, S&P indicated that missed interest or principal payment were the main reason for the default of 53% of EM corporate issuers last year, followed by bankruptcy (27%) and distressed exchanges (13%). In parallel, S&P said that the EM corporate speculative-grade default rate fell to 1.05% in 2014 from 2% in 2013 relative to a global rate of 1.42%.

Source: Standard & Poor's

MENA

Capital inflows to drop by 4% to \$95bn in 2015

The Institute of International Finance projected total net private capital inflows to the Middle East & Africa region at \$94.9bn in 2015, which would constitute a decline of 3.6% from \$98.5bn in 2014. The IIF anticipated that net private capital flows to the region would account for 9.7% of total net private inflows to emerging markets in 2015 compared to a share of 9.4% last year. It forecast net direct investment to increase from \$40.1bn in 2014 to \$42.2bn in 2015, while it projected inflows from portfolio investment to rise from \$12.4bn last year to \$15.4bn this year. Further, it forecast net commercial bank lending to reach \$22.2bn this year relative to \$27.8bn in 2014, while it estimated net non-bank private lending to drop from \$18.1bn in 2014 to \$15.1bn in 2015. In parallel, it forecast total net private capital inflows to the UAE, Saudi Arabia, Egypt, Morocco and Lebanon at \$69.6bn in 2015, which would constitute a rise of 5.1% from \$66.2bn in 2014. It attributed the increase in capital inflows to the five Arab countries to expectations of higher FDI inflows and foreign loans to Egypt, and to a significant rise in portfolio investment in Saudi Arabia. It noted that FDI inflows remain the largest component of private inflows to the five Arab countries, accounting for more than half of the total. It expected the UAE to attract \$30.9bn, or 44.5% of total private capital inflows to the five countries, followed by Saudi Arabia at \$18bn (25.9%), Egypt at \$8.9bn (12.8%), Lebanon at \$6.7bn (9.6%) and Morocco at \$5bn (7.3%).

Source: Institute of International Finance, Byblos Research

Equity markets up 5% in first five months of 2015

Arab stock markets increased by 4.6% and GCC markets rose by 7.5% in the first five months of 2015 compared to increases of 16.6% and 16.7%, respectively, in the same period of 2014. Arab and GCC stock markets regressed by 2% and 2.2%, respectively, in May from April 2015. Activity on the Saudi Arabia stock exchange grew by 16.3% in the first five months of 2015 and posted the best performance among Arab markets in the covered period. It was followed by the Tunis equity market with a 10.9% rise, the Dubai financial market with a 4% increase, the Beirut stock exchange with a 1.3% growth, the Casablanca equity market with a 0.9% rise, the Oman bourse with a 0.8% increase and the Amman securities exchange with a 0.5% improvement. In parallel, activity on the Khartoum bourse regressed by 7.9% and posted the weakest performance among Arab markets in the first five months of 2015. It was followed by the Palestine stock exchange with a 6.4% drop, the Damascus securities exchange with a 5.1% decline, the Iraqi financial market and the Bahrain bourse with a 4.4% drop each, the Kuwait equity market with a 3.7% decline, the Qatar bourse with a 1.9% drop and the Egypt stock market with a 0.2% decrease; while activity on the Abu Dhabi securities exchange was nearly unchanged in the covered period. In comparison, global equities rose by 4.6%, while emerging market equities grew by 5.7% in the first five months of 2015.

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

UAE

Up to 50% of ADIA's portfolio invested in North America, 20-year returns at 7.4%

The Abu Dhabi Investment Authority (ADIA), the emirate's sovereign wealth fund, indicated that its global investment portfolio is diversified across more than 24 asset classes and sub-categories that include indexed funds, listed equities, fixed income, real estate, private equity, alternatives and infrastructure. It said that approximately 65% of its assets are managed by external fund managers whose activities are closely monitored, and that nearly 55% of its assets are invested in index-replicating strategies. ADIA noted that the 20-year and 30-year annualized rates of return in US dollar terms for its portfolio were 7.4% and 8.4%, respectively, at end-2014 compared to 7.2% and 8.3%, respectively at end-2013. ADIA said that North America represents between 35% and 50% of its portfolio, followed by Europe with a 20% to 35% range, emerging markets with a range of 15% to 25%, and Developed Asia with a 10% to 20% range. Further, developed markets' equities account for between 32% to 42% of its portfolio; followed by emerging markets equities and government bonds (10% to 20% each); credit, alternatives and real estate (5% to 10% each); private equity (2% to 8%); infrastructure and small cap equities (1% to 5% each); and cash for up to 10%. In parallel, ADIA stated that it takes its investment decisions independently and without reference to the government of the Emirate of Abu Dhabi. It added that it is not involved with, nor has any visibility about the spending requirements of the Abu Dhabi government and its related entities. It noted that its assets are not classified as international reserves.

Source: Abu Dhabi Investment Authority

POLITICAL RISK OVERVIEW - May 2015

EGYPT

The government resumed its crackdown on Muslim Brotherhood (MB) members during the month. An Egyptian court sentenced former President and MB leader Mohammed Morsi, as well as 106 other MB members to death for their involvement in a mass jail break in 2011. An Egyptian court sentenced human rights activist Mahinour el-Masry and two others to 15 months in prison on charges of attacking a police station. The government reopened its Rafah crossing point for two days to allow stranded Palestinians to return to Gaza. Military clashes with Islamic State militants persisted in the northern Sinai Peninsula.

IRAN

Iran and the UN Security Council's permanent members plus Germany (P5+1) continued to draft a final nuclear agreement. U.S. President Barack Obama signed the Iran Nuclear Review Act of 2015 on May 22nd, after it passed in the U.S. House of Representatives and in the U.S. Senate with large majorities. Iran agreed to grant UN inspectors "managed access" to military sites as part of a future deal over Tehran's contested nuclear program. Tehran continued to provide support to anti-Islamic State forces in Iraq and Syria. An Iranian cargo ship reportedly carrying 2,500 tons of humanitarian aid for Yemen unloaded its cargo in the port of Djibouti after being denied entry to Yemeni ports.

IRAQ

Islamic State (IS) militants seized control of government buildings in the western city of Ramadi in mid-May. Iraqi forces launched a major military operation led by Iran-backed Shiite "popular mobilization" militias to liberate the city of Ramadi. The U.S. announced that it is "expediting" weapon shipments to Iraq in light of the IS advances in Ramadi, with increased airstrikes against the extremist group. At least 17 troops were reportedly killed by IS suicide attacks in the Anbar province. Around 40 inmates broke out from a prison after deadly clashes with prison guards in the northern town of Al-Khalis. Violence and acts of terrorism in May led to 1,031 deaths and to at least 1,684 injuries.

DEM REP CONGO

Clashes between government forces and the Allied Democratic Forces (ADF) intensified in the northern city of Beni, following the detainment of ADF's leader Jamil Mukulu by the Tanzanian authorities. Confrontations between minority Pygmies and majority Bantus militiamen escalated in the south east. UN Secretary General Ban Ki-moon has strongly condemned the killing of two UN peacekeepers and the wounding of 13 others, following an ambush in the North Kivu region. The UN Security Council reiterated its deep concern regarding the security crisis in eastern DRC due to ongoing destabilizing activities of foreign and domestic armed groups. President Joseph Kabila's initiative for political dialogue was rejected by various opposition parties.

LIBYA

Fighting continued as UN-led attempts to broker an agreement about a national unity government for Libya reached a standstill. The Special Representative of the Secretary-General for Libya, Bernardino León, warned that Libya is on the verge of economic collapse as rival factions continue to disagree over the proposed political framework. Factions within the Tripoli-based General National Congress refused to comment on the proposal and called for León's dismissal as lead negotiator, while the Misrata-based factions requested an overhaul of the proposed framework and pushed for establishing a presidential council and a national unity government. The UN is expected to present a new draft of a political deal in early June. Violence and armed clashes continued, with Islamic State militants claiming responsibility for a series of suicide bombings in the cities of al-Qubba, Sirte and Misrata.

SOUTH SUDAN

Fighting escalated between the Sudan People's Liberation Army (SPLA) and the Sudan Peoples' Liberation Movement-In-Opposition (SPLM-IO) in the Unity and Upper Nile states. The SPLA regained control of Malakal, capital of the oil-rich Upper Nile state and base of the UN mission. Peace talks between President Salva Kiir and SPLM-IO leader former Vice President Riek Machar remained stalled. The UN extended the mandate of the UN Mission in South Sudan until November 30, 2015.

SUDAN

The National Dialogue Committee, which consists of the government, its allies and the "7+7" opposition groups, met for the first time after the re-election of President Omar al-Bashir. Military operations against the Sudan People's Liberation Movement-North continued in the Blue Nile region. The UN resident coordinator expressed concerns about significant civilian displacement, including forced relocations in the country.

SYRIA

At least 6,657 people, including more than 1,285 civilians, have been killed in Syria in May 2015, making it the bloodiest month this year. The Islamic State (IS) seized full control of the ancient city of Palmyra in central Syria. Rebels, including al-Qaeda affiliate Jabhat al-Nusra (JN) and Ahrar al-Sham, captured Mastouma village, the Syrian regime's largest remaining military base in the Idlib province. The rebel coalition Jaish al-Fatah seized control of the city of Ariha in the northwest. Fighting between Syrian regime forces and rebels erupted in the town of Maydaa, a key supply route into the eastern suburb of Ghouta. Clashes between government forces and IS militants began in the city of Deir al-Zour. IS militants captured Al-Tanf crossing border between Syria and Iraq.

TUNISIA

Social discontent continued to rise in the southern part of the country as the "Mouvement du peuple et des citoyens", a group launched by former President Moncef Marzouki in December 2014, continued to gain popularity. Four towns in Tunisia's main phosphate-producing region began a general strike to protest against the lack of employment opportunities. Prime Minister Habib Essid reiterated the government's decision to cut down the salaries of public sector employees on strike. The Army killed four suspected Jihadists in the Jebel Semmama area. The Parliament passed a controversial law to set up a judicial oversight body, but was rejected by judges who claimed that it would undermine their independence.

YEMEN

Yemen's former President, Ali Abdullah Saleh, formally announced an alliance with Huthi fighters, after the Saudi-led coalition launched two air strikes on his home in the capital Sanaa. Huthi-affiliated tribes launched cross-border attacks into Saudi Arabia, with the latter responding with intense air raids. The Huthis gained territory throughout the month despite the air campaign and blockade, especially in the cities of Aden, Taiz and Shebwa. An Iranian ship reportedly loaded with humanitarian supplies attempted to break the Saudi Arabia-imposed naval blockade, sparking war of words with Saudi Arabia. Tensions eased when the UN announced the inspection of the ship in Djibouti. A five-day ceasefire was held in mid-May, but Saudi-led airstrikes resumed following repeated Huthi truce violations. UN talks were postponed as Yemen's exiled President Abdu Rabbu Mansour Hadi insisted that the Huthis should withdraw from captured territories as a precondition for the talks. The World Health Organization estimated that at least 1,942 people were killed in Yemen between March 19 and May 22, 2015.

Source: *International Crisis Watch, Newswires*



OUTLOOK

JORDAN

Favorable short-term outlook, risks persist

The World Bank projected Jordan's real GDP growth to accelerate from 3.1% in 2014 to 3.5% in 2015, reflecting the implementation of reforms and adjustments to regional spillovers. It added that lower global oil prices would improve production costs, as well as public finances and private consumption. It noted that the growth forecast assumes that regional security challenges do not worsen, gas continues to flow from Egypt, authorities maintain fiscal consolidation, and oil prices remain at low levels. It said that geopolitical risks constitute the main risk to the outlook, as an intensification of security risks related to Syria, Iraq or the Islamic State could severely undermine growth prospects and development efforts. Further, it said that a rebound in oil prices would weigh on Jordan's fiscal and current account deficits, but it noted that the impact on both deficits would become more muted over time given the diversification of gas supply. In contrast, it pointed out that sustained low oil prices over the medium term would lead to lower financial support from oil-exporting economies that is usually channeled to capital expenditures, as well as to lower remittance inflows from the Diaspora in oil-producing countries.

The World Bank projected the fiscal deficit to narrow from 14.1% of GDP in 2014 to 5.4% of GDP in 2015 when excluding grants, and to shrink from 9.2% of GDP in 2014 to 2.8% of GDP in 2015 when including grants. It forecast foreign grants at 2.6% of GDP in 2015 compared to 4.9% of GDP in 2014. It anticipated that continued fiscal consolidation and a steady pick-up in economic activity would reverse the deterioration in debt dynamics of the past six year. It expected the debt level to regress from 89.6% of GDP in 2014 to 88.6% of GDP in 2015 and to reach 83.5% of GDP by 2017. Further, it forecast the current account deficit to narrow from 7.1% of GDP in 2014 to 5.7% of GDP in 2015 due to a tighter trade balance from lower oil prices, and a drop in current transfers. It forecast foreign currency reserves to rise from 6.8 months of imports at the end of 2014 to 7.8 months at end-2015.

Source: World Bank

NIGERIA

New administration to miss most of its electoral commitments

Credit Suisse indicated that President Muhammadu Buhari and the new All Progressives Congress (APC)-led government face some immediate challenges that include a widening fiscal deficit, substantial debt maturities, oil-sector problems, and instability in the north of the country. It considered that the new administration is unlikely to deliver many of its major campaign promises in the near term as it deals with last year's macroeconomic shocks.

Credit Suisse assigned a low probability that the new administration would achieve its commitments of economic growth, job creation, socioeconomic development, and to improve public finances, economic infrastructure and food security. First, it projected Nigeria's real GDP growth to decelerate from 6.2% in 2014 to 4.9% in 2015, which means that the government would miss its 10% average annual growth target. It considered that the APC

would target economic stabilization rather than acceleration over the near term. Second, it pointed out that authorities are unlikely to create at least one million jobs in 2015, given that the private sector's ability to hire would remain constrained in the context of weaker economic environment, and as the 2015 budget aims to freeze the public-sector wage bill. Third, it considered that the APC would put on hold its socioeconomic targets as it deals with the major budgetary challenges it faces over the near term. It noted that the new administration will inherit a significant amount of outstanding payments in federal salaries, oil subsidies and debt-servicing costs, adding that the federal savings had been largely depleted. Fourth, it projected the fiscal deficit to widen from 0.7% of GDP in 2014 to 1.3% of GDP in 2015. It estimated that authorities would continue to issue debt to finance the deficit, but it considered that the use of debt to finance recurrent expenditures and debt-servicing costs is unsustainable. Fifth, it pointed out that the new administration would be unable to resolve the power crisis in the short term, given the extent of the crisis and the lack of domestic funding for investment in the near term.

In parallel, it assigned a high probability for the new administration to meet its security, corruption and governance promises, and an even probability to meet its democratization target.

Source: Credit Suisse

CÔTE D'IVOIRE

Economic growth at 7.7% in 2015 and 7.8% in 2016, net FDI at 2.9% of GDP

The International Monetary Fund projected Côte d'Ivoire's real GDP to grow at 7.7% in 2015 and at 7.8% in 2016 compared to a growth rate of 7.5% in 2014. In parallel, it forecast growth at 4.5% in 2015 and 5.1% in 2016 for Sub-Saharan Africa (SSA), and at 6% in 2015 and 6.2% in 2016 for the West African Economic and Monetary Union, to which Côte d'Ivoire belongs. It forecast the country's annual average inflation rate at 1.2% in 2015 and 1.5% in 2016. It projected Côte d'Ivoire's real per capita GDP to grow by 5% in each of 2015 and 2016, relative to a growth rate of 4.8% in 2014. It forecast net FDI at 2.9% of GDP in 2015 and 3.4% of GDP in 2016, up from 2.7% of GDP in 2014. Further, it anticipated broad money to expand by 16.7% in 2015 and by 14.4% in 2016. It added that claims on the non-financial private sector grew by 23% in 2014 and by 21.7% in 2013.

In parallel, the Fund projected the government's fiscal deficit to widen from 4.6% of GDP in 2014 to 5.2% of GDP in 2015 and 5.1% of GDP in 2016, when excluding grants; and to deteriorate from 2.3% of GDP in 2014 to 3.2% of GDP in 2015 and 3.1% of GDP in 2016, when including grants. It forecast government revenues, excluding grants, at 17.5% of GDP in 2015 and 17.8% of GDP in 2016, and total government expenditures at 22.7% of GDP in 2015 and 22.9% of GDP in 2016. The IMF projected the country's external debt to official creditors to regress from 14.3% of GDP in 2014 to 12.6% of GDP in 2015 and 10.2% of GDP in 2016. Further, it expected the current account deficit to narrow from 3.3% of GDP in 2014 to 2.3% of GDP in 2015 and 1.7% of GDP in 2016. It noted that the country's gross official reserves covered 3.5 months of imports at end-2013 and 4.1 months of imports at end-2014.

Source: International Monetary Fund



ECONOMY & TRADE

SAUDI ARABIA

Low oil prices to affect growth in 2016

The International Monetary Fund indicated that the impact of low global oil prices on Saudi Arabia's economic activity has been limited so far, despite substantially lower export and fiscal revenues. It projected real GDP growth at 3.5% in 2015, unchanged from the preceding year, supported by rising oil production and sustained government spending. However, it expected real GDP growth to decelerate to 2.7% in 2016 as government spending starts to adjust to the lower oil price environment, and forecast economic growth at about 2% over the medium term. The Fund projected Saudi Arabia's fiscal deficit at about 20% of GDP in 2015 due to strong government spending and declining hydrocarbon revenues. It noted that government deposits at the Saudi Arabian Monetary Agency have declined in recent months to finance the deficit and to smooth the pace of the fiscal adjustment. But it expected the decline in government deposits to decelerate in coming years as the government starts to issue debt instruments to finance the deficit. The IMF considered that authorities need to implement sizeable fiscal consolidation over the next few years in order to narrow the fiscal deficit. It called on authorities to improve spending efficiency, to implement comprehensive energy reforms, and to expand non-hydrocarbon revenues. Also, it called for more economic diversification by strengthening the business environment and by encouraging the private sector to focus more on tradable production in the non-oil sector. In parallel, the Fund noted that government debt issuance would help establish a benchmark yield curve and develop the debt market.

Source: International Monetary Fund

TURKEY

Sovereign ratings affirmed, outlook 'stable'

Capital Intelligence affirmed Turkey's long-term foreign currency and local currency ratings at 'BB+' with a 'stable' outlook. It said that the ratings are supported by Turkey's large and diversified economy, its adequate fiscal performance and its relatively stable macroeconomic policy that improved the economy's resilience to adverse events. It forecast real GDP growth to accelerate from 2.9% in 2014 to an average of 3.3% during the 2015-16 period, but to remain below its 5% potential growth rate. It noted that the weak recovery of major European trading partners and escalating geopolitical risks constrain economic activity. Further, it projected the public debt level to regress from 37.6% of GDP in 2012 to about 27.5% of GDP in 2016, reflecting sustained primary surpluses and favorable debt dynamics. It forecast the government's gross financing needs at about 7.4% of GDP in 2015, adding that the government has secured part of its external financing needs for the year. However, CI indicated that the rating remains constrained by significant external vulnerabilities, low national savings and increased geopolitical risks. It said that the economy is mainly vulnerable to shifts in investor sentiment due to high external financing requirements of over 26% of GDP in 2015. It noted that the economy's external financing needs reflect a wide current account deficit of 7.7% of GDP in 2015 and the reliance on short-term borrowings. It added that Turkey's reserve adequacy is below the levels considered to be prudent, with foreign currency reserves at \$131bn at end-2014, covering about 65% of the country's gross external financing needs for 2015.

Source: Capital Intelligence

ETHIOPIA

Strong growth prospects and low debt burden to support ratings

Moody's Investors Service indicated that Ethiopia's 'B1' government bond rating is supported by the country's strong growth prospects, prudent fiscal management, and large and stable donor inflows. It noted that the rating is constrained by the country's relatively small economy, low per capita income, weak institutions and susceptibility to event risks, mainly geopolitical events. The agency expected real GDP growth to average 10% in the coming two years, supported by public investment, mainly in healthcare, education, agriculture and transportation. But it cautioned from external risks, from constraints to the financing of investment projects, and from a prolonged period of low commodity prices. Further, it said that the fiscal deficit has narrowed and stabilized due to spending controls and efforts to increase public revenues. But it noted that tax collection remains weak, with tax revenues equivalent to about 14% of GDP, well below the average ratio among B-rated regional peers of 23% of GDP. It indicated that debt relief has supported the government's financial profile by keeping the debt burden and servicing costs at low levels. It noted that debt servicing absorbed 2.4% of revenues in 2014 relative to 1.9% in 2012. The agency cautioned that a rapid accumulation of unproductive external debt and difficulties in securing concessional external financing would weigh on the country's already low foreign currency reserves. It noted that Ethiopia is Africa's largest foreign aid recipient.

Source: Moody's Investors Service

DEM REP CONGO

Economic outlook favorable over the medium term

The International Monetary Fund projected the Democratic Republic of Congo's real GDP growth rate at 9.2% in 2015, unchanged from 2014, constituting one of the highest growth rates in the world. It anticipated economic activity to be supported by mining production, especially copper and gold. It indicated that the country's medium-term outlook continues to be promising with low inflation and high economic growth, to be supported by resilient mining sector activity and a growing services sector. The Fund pointed out that the authorities face several challenges in coming years that include addressing the growing pressures on the limited budget resources during 2015-16, given the need to finance the elections. It said that other challenges consist of increasing the policy space to protect the economy from possible external and domestic shocks, and eliminating bottlenecks to private sector activity. It considered that preserving macroeconomic stability is critical in the context of low commodity prices and delays in the implementation of key structural reforms. It expressed concerns about the private sector's "wait-and-see" attitude in the run up to the elections. In parallel, the IMF called on authorities to refrain from financing the fiscal deficit through the Banque Centrale du Congo (BCC) over the medium term, and encouraged them to tap the country's large tax potential. It called on the government to reform the tax administration, including improvements in tax collection, better control of the value-added tax and strengthening the customs administration. It urged authorities to recapitalize the BCC and to ratify the legal framework that makes it autonomous, accountable and credible.

Source: International Monetary Fund



BANKING

EMERGING MARKETS

Balance-of-payments pressure and Central Banks' intervention cause foreign reserves to drop

Fitch Ratings indicated that emerging-markets' (EM) official foreign currency reserves fell by \$524bn between June 2014 and March 2015, equivalent to an average monthly decline of \$58bn during the period. It said that the current fall in foreign currency reserves and the drop in reserves during the 2008-09 global financial crisis were the only episodes during which EM reserves significantly fell since the 1997 Asian crisis. But it noted that the current decline in foreign reserves is different from the drop during the 2008-09 global financial crisis. First, it indicated that the overall drop in foreign reserves significantly exceeded the fall of \$358bn between September 2008 and April 2009. Second, it pointed out that the current decline in reserves includes China, unlike the 2008-09 episode when Chinese reserves increased steadily. It noted that foreign currency reserves would have dropped by \$260bn between June 2014 and March 2015, when excluding China. Third, it said that the current drop was not preceded by a run-up in reserves, as EM reserves were largely flat outside China and the Middle East & Africa region from 2012 to mid-2014. The agency noted that the drop in foreign currency reserves indicates balance-of-payments pressures and/or Central Bank interventions to reduce currency depreciations. It added that the drop in reserves reflects valuation changes, especially a strong US dollar, lower commodity prices and capital outflows. Fitch expected the decline in EM foreign reserves to continue in coming months, as most EM are still affected by weak commodity prices, and given the prospect of further adjustments in global capital flows when the U.S. tightens its monetary policy.

Source: Fitch Ratings

TUNISIA

Bank ratings affirmed on government support

Moody's Investors Service affirmed at 'Ba3' the long-term local currency deposit rating of Arab Tunisian Bank, Banque De Tunisie and Banque Internationale Arabe de Tunisie, and at 'B1' that of Amen Bank and Société Tunisienne de Banque (STB). Also, it maintained the five banks' long-term foreign currency deposit ratings at 'B1'. The agency kept the 'negative' outlook on STB's ratings due to risks related to the bank's expected recapitalization, adding that the bank continues to operate with negative equity under regulatory forbearance. It said that the recapitalization of the bank is still pending Parliament's approval, which is a condition for the stabilization of the bank's credit profile and to the implementation of a restructuring plan. In contrast, it revised the outlook to 'stable' from 'negative' on the remaining banks' ratings due to the government's improving capacity to support the banks in case of need. Also, it expected the challenges in the operating environment to ease over time, which would help stabilize the sector's performance and would reduce existing asset and liquidity risks. Further, Moody's expected the five banks' credit profiles, including their asset-quality metrics and loss-absorption buffers, to remain broadly stable and at weak levels over the next 12 to 18 months. It noted that this reflects the challenging operating environment, including relatively poor credit conditions and a tight funding base with limited liquidity buffers.

Source: Moody's Investors Service

JORDAN

Capital adequacy ratio at 19%, NPLs at 6%

Preliminary figures released by the International Monetary Fund indicate that the risk-weighted capital adequacy ratio of banks operating in Jordan reached 18.6% at the end of 2014, relative to 18.4% at end-2013 and 19% at end-2012. The sector's liquidity ratio stood at 152.4% at end-2014 compared to 149.1% at end-2013 and 143.5% at end-2012; while the sector's loans-to-deposits ratio regressed to 63.7% at end-2014 from 68.6% at end-2013 and 71.4% at end-2012. Also, the loans-to-GDP ratio was 76% at the end of 2014, down from 79.4% at end-2013 and 81.2% at end-2012. In parallel, foreign currency deposits represented 20.6% of total deposits at the end of 2014 relative to 23.9% at end-2013 and 29.1% at end-2012; while foreign currency loans accounted for 13.3% of total loans at the end of 2014, down from 14.1% at end-2013 and up from 12.9% at end-2012. Also, the sector's non-performing loans (NPLs) ratio regressed to 5.6% at end-2014 from 7% at the end of 2013 and 7.7% at the end of 2012. Further, the sector's provisions-to-NPLs ratio stood at 84.5% at the end of 2014 compared to 77% at end-2013 and 69.4% at end-2012. In parallel, the banks' return on assets reached 1.4% in 2014 compared to 1.2% in 2013 and 1.1% in 2012; while their return on equity reached 11.4% in 2014 relative to 9.9% in 2013 and 8.6% in 2012. The IMF indicated that the improvement in Jordan's banking sector indicators in 2014 is encouraging, given that banks are operating in a difficult region and that they have fully provisioned their entire exposure to conflict countries.

Source: International Monetary Fund

AFRICA

Banks have strong regional growth prospects

Moody's Investors Service expected Sub-Saharan Africa's banking systems to sustain their strong expansion over the next 12 to 18 months, supported by robust economic activity and deeper banking penetration. It noted that investors are increasingly interested in SSA banks, with the latter's assets growing by more than 15% annually over the past four years. However, the agency anticipated that SSA banking systems would develop unevenly, with varying degrees of volatility in credit quality. It said that the development of SSA banking sectors would depend on the operating environment in each country, especially the authorities' ability to address volatility in capital flows and growth. It noted that other factors include the integration of a banking system in a successful trading bloc, such as the East African Community; whether an economy is dependent on commodity exports, such as Nigeria and Angola; and the extent to which the local government is positioned to support the economy during periods of low commodity prices. Also, it said that the banks' ability to leverage mobile banking would support rapid banking sector growth and would deepen financial inclusion. Further, Moody's indicated that SSA banks face several challenges that authorities are not able to directly address, such as fiscal vulnerability, security risks, corruption, high poverty rates and infrastructure bottlenecks. It anticipated that the banks' high capital buffers and strong earnings generation capacity would support financial stability and provide room to support growth and loss-absorption.

Source: Moody's Investors Service



ENERGY / COMMODITIES

Brent oil prices to average \$59 p/b in 2015

The global oil market is expected to remain oversupplied during the 2015-16 period, despite continued slowdown in U.S. oil production. Global oil supply is forecast to grow by 2.2% in 2015 relative to a growth rate of 1.3% for global oil consumption. The Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC oil producers are expected to raise their production and exports in 2015 and 2016. The OPEC's output quota is projected to remain unchanged following the June 5, 2015 meeting as there is consensus among GCC OPEC countries to keep their oil output policy unchanged. North Sea Brent crude oil prices are forecast to average \$59 per barrel (p/b) in 2015, below Bloomberg's consensus price of \$60 p/b, while WTI oil prices are projected to average \$52 p/b, below Bloomberg's consensus of \$55 p/b. Upside pressures on the price outlook include the potential for a stronger rise in demand in response to low prices. In parallel, Brent crude oil prices rose by 15.1% in the first five months of 2015, while WTI oil prices rose by 12.7% from end-2014.

Source: BMI Research, Byblos Research

Middle East's bar and coin demand down 38% year-on-year in first quarter of 2015

The Middle East region's demand for bars & coins reached 18.9 tons in the first quarter of 2015, reflecting a rise of 68.8% from 11.2 tons in the preceding quarter and a drop of 38% from 30.5 tons in the first quarter of 2014. The region accounted for 7.5% of global bar and coin demand. Iran's bar and coin consumption totaled 8.3 tons in the covered quarter and accounted for 44% of the region's total demand. It was followed by Saudi Arabia with 5 tons (26.5%), the UAE with 3.3 tons (17.5%), Egypt with one ton (5.3%) and Kuwait with 0.2 tons (1.1%); while demand in other Middle Eastern countries was one ton or 5.3% of the total.

Source: World Gold Council, Byblos Research

KRG oil exports on track to fulfill deal with Iraq

The Kurdistan Regional Government (KRG) indicated that its crude oil exports averaged 577,621 barrels per day (b/d) in May 2015, of which 70.5% were extracted from fields operated by the KRG and 29.5% from fields operated by the North Oil Company. It noted that all of its oil exports were shipped through the Kurdistan pipeline to the port of Ceyhan in Turkey. The KRG pointed out that it supplied Iraq's State Organization for Marketing of Oil (SOMO) in Ceyhan an average of 448,889 b/d. It said that it remains on track to meet its oil export commitments with Iraq under the December 2014 bilateral oil export and revenue sharing agreement. The deal stipulates that the KRG exports 550,000 b/d of oil through SOMO and, in return, the Iraqi central government would transfer 17% of the national budget to Erbil.

Source: KRG Ministry of Natural Resources, Byblos Research

OPEC's oil output up 2% in May 2015

The Organization of the Petroleum Exporting Countries' (OPEC) crude oil production reached 31.58 million barrels per day (b/d) in May 2015 and rose by 67,000 b/d or 2.2% from the preceding month. Crude oil output from OPEC members has exceeded the 30 million b/d quota for the 12th consecutive month, with Saudi Arabia increasing production to its highest level of 10.25 million b/d in May. Iraq and Angola were the main contributors to output growth last month, while Libya's oil production dropped by 115,000 b/d in May due to persistent political instability.

Source: Bloomberg, Emirates NBD

COUNTRY RISK WEEKLY BULLETIN

Base Metals: Aluminum prices to drop by 1% in 2015

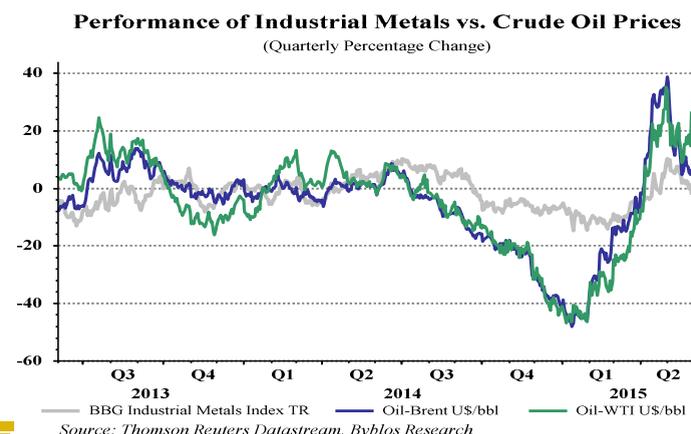
Aluminum prices fell by 7% in the first five months of 2015 to close at \$1,701 per ton on May 29, 2015 due to weaker demand and higher exports from China, and despite falling London Metal Exchange inventories. Aluminum prices have continued their downward trend from the September 2014 peak of \$2,089 per ton, with prices falling to a low of \$1,699 per ton in May 2015. The market outside China has been in deficit, or undersupplied, for some time due to a number of smelter closures. But China's smelting capacity continues to expand and has created a global surplus. Aluminum demand remains broadly robust due to its diversified use in multiple sectors, mainly transport, construction, packaging, electrical and machinery, and to recent strong demand outside of China. The aluminum market is forecast to nearly balance in 2015, with global aluminum production rising by 5.6% year-on-year and global demand increasing by 6% to 56.8 million tons. Aluminum prices are forecast to average \$1,850 a ton in 2015, which would reflect a drop of 0.9% from an average of \$1,867 a ton in 2014.

Source: World Bank, Sucden Financial, Byblos Research

Precious Metals: Platinum output to rise by 10% in 2015 due to recovery in South African mine supply

Global platinum supply is expected to reach 7.97 million ounces in 2015, which would reflect a rise of 9.6% from 7.3 million ounces in 2014. Mine supply is projected to grow by 12% year-on-year to 5.9 million ounces in 2015, and to account for 73.5% of total production. The rise in total supply in 2015 is mainly due to the recovery of South African production from the unprecedented five-month labor strike in 2014 and to the increase in overall recycling collection. In addition, autocatalyst recycling is projected to continue to grow robustly this year (+10%) and would more than offset the decline in jewelry recycling (-6%) that is expected to result from lower prices and flat jewelry sales in China. Refined platinum production from South Africa is expected to increase by 30.3% year-on-year to 4.1 million ounces in 2015, and to account for 69.3% of global refined output. In parallel, global demand of the metal is projected to grow by 2.7% to 8.2 million ounces this year as growth in autocatalyst (+3.5%), jewelry (+3.2%) and industrial demand (+5.1%) exceeds the decline in investment demand (-63%). The metal's market balance is projected to remain undersupplied and to narrow from 670,000 ounces in 2014 to 190,000 ounces this year.

Source: World Platinum Investment Council, SFA Oxford



June 4, 2015

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	-12.9	13.6	2.0	5.7	1.2	-	-15.7	-
Angola	B+	Ba2	BB-	-	BB	-4.7	47.5	27.0*	56.0	15.4	57.6	-6.3	-0.2
Egypt	B-	B3	B	B-	CCC	-11.8	90.5	14.6	124.6	8.2	467.5	-3.3	-1.3
Ethiopia	B	B1	B	-	CCC	-2.9	21.7	25.4*	135.9	4.4	591.0	-6.6	2.4
Ghana	B-	B3	B	-	B	-6.3	69.6	36.4*	77.3	4.5	376.2	-7.0	7.5
Ivory Coast	-	B1	B	-	B	-3.2	37.4	12.6*	-	9.4	198.2	-2.3	2.9
Libya	-	-	B	-	B	-68.2	43.9	16.3	-	7.5	-	-52.8	-
Dem Rep Congo	B-	B3	-	-	-	1.6	20.5	12.4*	32.0	2.3	5.5	-10.7	4.5
Morocco	BBB-	Ba1	BBB-	-	B	-4.3	65.5	33.2	96.6	11.7	249.1	-4.2	2.7
Nigeria	B+	Ba3	BB-	-	B	-2.0	11.5	2.0*	11.1	0.4	43.8	0.7	0.4
Sudan	-	-	-	-	C	-1.5	78.5	63.2	-	-	-	-4.0	3.3
Tunisia	-	Ba3	BB-	-	CCC	-5.1	53.8	61.3	100.9	8.5	367.9	-6.4	3.7
Burkina Faso	B	-	-	-	-	-2.6	30.6	21.6*	-	-	-	-8.1	1.1
Rwanda	B+	-	B	-	-	-2.0	29.1	23.5*	-	11.8	-	-10.5	2.9
Middle East													
Bahrain	BBB-	Baa3	BBB	BBB	BB	-9.9	54.0	158.3	-	17.5	721.6	-2.1	0.4
Iran	-	-	-	B	CCC	-2.7	11.9	2.5	-	-	-	0.8	-
Iraq	-	-	-	-	CCC	-10.0	55.6	33.6	-	-	-	-9.6	-
Jordan	BB-	B1	-	BB-	CCC	-2.9	90.7	32.7	-	9.6	205.3	-7.6	5.3
Kuwait	AA	Aa2	AA	AA-	A	6.2	4.4	26.2	-	1.2	87.5	15.7	-6.1
Lebanon	B-	B2	B	B	CCC	-9.1	131.8	161.4	-	17.7	160.8	-22.2	7.7
Oman	A-	A1	-	A	A	-14.8	8.6	13.6	-	3.7	81.8	-15.0	0.4
Qatar	AA	Aa2	AA	AA-	AA	5.6	28.9	79.1	-	18.0	360.3	8.4	-2.4
Saudi Arabia	AA-	Aa3	AA	AA-	A	-14.2	1.8	13.0	-	4.7	13.7	-1.0	1.0
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	BB	-3.0	14.7	51.5	-	4.2	488.6	5.3	1.8
Yemen	-	-	-	-	CC	-5.3	53.7	14.6	-	-	-	-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+	-	-	-4.5	53.1	92.6	298.8	21.9	431.8	-8.6	4.1
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-1.9	43.5	10.2	-	2.7	25.1	3.2	1.5
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-7.2	62.6	23.6	101.9	5.6	158.2	-1.3	1.1
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BB	-3.3	14.3	72.9	195.4	17.3	787.9	-4.1	3.6
	Stable	Positive	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BB	-3.0	28.9	90.0	122.3	20.2	261.1	0.2	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	B	-1.8	40.5	54.7	132.5	19.4	249.2	-1.1	2.1
	Stable	Negative	Stable	-	Stable								
Russia	BB+	Baa3	BBB-	-	BBB	-3.7	18.8	52.7	133.7	29.1	195.0	5.4	-1.2
	Negative	-	Negative	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-1.8	33.4	55.8	181.2	23.2	376.5	-4.2	1.7
	Negative	Negative	Stable	Stable	Stable								
Ukraine	CCC	Caa3	CCC	-	CC	-4.2	94.1	158.4	189.9	32.0	978.3	-1.4	2.5
	Negative	Negative	-	-	Stable								

*to official creditors

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	3-Jun-15	No change	16-Jul-15
UK	Bank Rate	0.50	11-May-15	No change	4-Jun-15
Japan	O/N Call Rate	0.00-0.10	22-May-15	No change	19-Jun-15
Australia	Cash Rate	2.00	2-Jun-15	No change	16-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
Emerging Markets					
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	15-May-15	No change	11-Jun-15
Malaysia	O/N Policy Rate	3.25	5-Mar-15	No change	09-Jul-15
Thailand	1D Repo	1.50	29-Apr-15	Cut 25bps	10-Jun-15
India	Reverse repo rate	7.50	7-Apr-15	No change	2-Jun-15
UAE	Overnight repo rate	1.00	19-Dec-08	Cut 25bps	N/A
Saudi Arabia	Repo rate	2.00	16-June-09	No change	N/A
Egypt	Overnight Deposit	8.75	23-Apr-15	No change	11-Jun-15
Turkey	Base Rate	7.50	20-May-15	No change	23-Jun-15
South Africa	Repo rate	5.75	21-May-15	No change	23-July-15
Kenya	Central Bank Rate	8.50	6-May-15	No change	9-Jun-15
Nigeria	Monetary Policy Rate	13.00	19-May-15	No change	21-July-15
Ghana	Prime Rate	22.00	13-May-15	Raised 100bps	15-July-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	6-May-15	Cut 25bps	N/A
Bulgaria	Base Interest	0.02	1-Jun-15	Raised 1bp	N/A
Kazakhstan	Refi Rate	5.50	04-Jan-13	No change	N/A
Ukraine	Discount Rate	30.0	3-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

