

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Sovereign investors well-positioned to deal with low oil prices

Investment management firm Invesco's Global Sovereign Asset Management Study expects the fall in global oil prices to reduce available funding and increase withdrawal risks from sovereign wealth funds (SWFs). It noted that not all sovereign investors feel equally exposed to the effects of lower oil prices, with regional differences depending on the level of oil exposure, as well as on governance, risk and liquidity management factors. It said that sovereign investors consist of SWFs, government pension funds and central banks. The survey shows that 80% of sovereign investors in North America expect funding to decrease, relative to 42% of oil-funded sovereign investors in the rest of the world. It noted that sovereign investors that are not dependent on oil continue to have a positive outlook on new funding, with only 5% of such sovereigns expecting funding to decrease. Further, the survey indicated that 67% of sovereign investors outside North America with a high dependency on oil expect asset withdrawals if oil prices drop below \$40 per barrel and stay at that level for two years, relative to 20% of sovereigns in North America. However, it noted that sovereign investors are better placed to manage these challenges than they were prior to the global financial crisis of 2008 due to greater recognition of liquidity objectives across the board, a better risk management and governance framework to cope with liquidity and funding shocks, improved management information on liquidity and an understanding of best methods to liquidate assets.

Source: *Invesco*

MENA

Rule of law in the region lags global trends

The World Justice Project's Rule of Law Index for 2015 shows that the average score for the seven countries of the MENA region included in the survey reached 0.52 points relative to an average score of 0.53 points in the 2014 survey, and was lower than the global average score of 0.57 points. The region's average score came below those of the European Union, the European Free Trade Association & North America (0.73 points) and East Asia & the Pacific region (0.61 points). However, it exceeded the average scores of Eastern Europe & Central Asia and Latin America & the Caribbean (0.51 points each), Sub-Saharan Africa (0.48 points) and South Asia (0.45 points). In parallel, the UAE was the region's top-ranked country and came in 27th place globally, followed by Jordan (41st place), Tunisia (43rd), Morocco (55th), Lebanon (68th), Egypt (86th) and Iran (88th). The rankings of six MENA countries regressed and one improved from the 2014 survey based on the same number of countries year-on-year, while the scores of four countries dropped and three improved. In parallel, the UAE ranked first among MENA countries on the Absence of Corruption, the Order & Security, the Regulatory Enforcement, the Civil Justice and the Criminal Justice factors. Also, Tunisia came in first place on the Constraints on Government Powers and the Open Government factors, while Lebanon ranked first on the Fundamental Rights factor.

Source: *World Justice Project, Byblos Research*

Income growth insufficiently reflected in population well-being

The Boston Consulting Group indicated that 17 out of the 20 MENA countries included in its 2015 Sustainable Economic Development Assessment (SEDA) delivered a lower level of well-being than what would be expected given their GDP per capita level. The BCG's wealth-to-well-being coefficient indicates how well a country has converted its wealth into well-being for its population. Countries with a wealth-to-well-being coefficient below the value of one have delivered lower levels of well-being than would be expected given their GDP levels. Morocco has the highest wealth-to-well-being coefficient in the MENA region at 1.18 points, followed by Tunisia (1.13 points) and Jordan (1.1 points), constituting the only three countries to deliver higher levels of well-being than would be expected. In contrast, Mauritania (0.67 points), Iraq and Libya (0.52 points each) posted the lowest coefficients. In parallel, BCG's SEDA measures a country's current level of well-being through 10 dimensions divided into three fundamental elements that consist of Economics, Investments and Sustainability. It assigns a score to each country from zero to 100, with 100 reflecting the highest level of well-being. The MENA region had a median score of 42.9 points, lower than the global median score of 43.1 points and the UMICs' median of 43.6 points. Also, Arab countries had a median score of 39.3 points relative to a median of 68.8 points for Gulf Cooperation Council (GCC) countries, and a median of 37.7 points for non-GCC Arab countries.

Source: *Boston Consulting Group, Byblos Research*

QATAR

Economic impact of World Cup loss to be small

Merrill Lynch considered that the potential loss of the right to host the World Cup 2022 would have a small direct impact on the Qatari economy. It said the World Cup provides visibility to medium-term capital expenditures in the pipeline and stimulates non-hydrocarbon activity. But it noted that the direct World Cup-related spending, mainly on stadiums and hotels, is small at about \$16bn, equivalent to 7.5% of GDP on a cumulative basis, and at about 1% to 1.5% of GDP annually. However, it pointed out that additional infrastructure spending, which became a priority after winning the hosting rights, is much larger. It estimated capital spending at about \$100bn over the coming five years, in addition to \$50bn from quasi-government entities. It said that such spending is equivalent to 88% of GDP, or 12.5% of GDP annually. It anticipated that these projects would likely be delayed if Qatar loses its hosting rights. However, it considered that authorities would still implement the projects in the pipeline, given that most of them are infrastructure-related and that some megaprojects were planned independently of the World Cup. Overall, Merrill Lynch considered that losing the World Cup hosting rights would result in lower fiscal spending and more efficient use of capital.

Source: *Merrill Lynch*

OUTLOOK

MENA

Lower oil prices leading to policy challenges

The World Bank projected real GDP growth in the developing countries of the Middle East & North Africa at 2.2% in 2015, down from a January forecast of 2.5%, and relative to growth rates of 4.4% for developing nations and 2.8% for the global economy. The Fund indicated that lower oil prices have been a setback to developing oil-exporting countries that are already struggling with security risks, while they failed to significantly improve the prospects in oil-importing economies that are already facing several challenges. It expected the region's developing oil-exporters to grow by 1.1% in 2015 compared to a growth rate of 1.9% in 2014, and projected real GDP growth in developing oil-importers at 3.9% in 2015 relative to 2.8% in 2014. The Bank's growth forecast for the MENA geographic region becomes 3% in 2015 when including GCC economies. It projected economic growth in GCC countries at 3.8% in 2015, unchanged from the previous year. Further, the Bank expected the fiscal deficit in the region's developing oil-exporters to widen to 8.2% of GDP in 2015 despite efforts to restrain spending. It projected the deficit in developing oil-importers to narrow to 8.7% of GDP in 2015 due to lower cost of fuel subsidies. Overall, it expected the fiscal deficit in the region's developing countries to widen from 7.2% of GDP in 2014 to 8.3% of GDP in 2015.

The Bank indicated that key risks to the outlook consist of an escalation of violence and oil price volatility. It said that violence could intensify in affected countries and may spread to neighboring states. It noted that this would disrupt trade routes between countries, negatively affect tourism activity and weaken investor sentiment. It considered that damages to oil installations and disruptions to oil production from the intensification of violence would lead to a surge in global oil prices for an extended period of time. It estimated the economic disruption from worsening security conditions to outweigh the benefit from higher oil prices for the MENA region. In contrast, it said that additional declines in oil prices would intensify the external and fiscal pressures that oil-exporters currently face, while structural weaknesses would continue to hold back growth in oil importers.

Source: World Bank

GCC

Banks to face new risks from low oil prices

Standard & Poor's considered that banks in the Gulf Cooperation Council (GCC) countries are well-positioned to face the emerging risks from lower global oil prices. First, it expected deposit growth at GCC banks to decelerate as weaker oil prices would result in lower public-sector deposits, given that GCC sovereigns and their related entities are key depositors. Also, it forecast the cost of attracting deposits in certain Gulf markets to increase. But the agency noted that the banks can accommodate some gradual weakness in deposit growth, and that some GCC sovereigns could inject additional liquidity in local markets.

Second, S&P expected credit growth in GCC economies to decelerate from 9.8% in 2014 to about 8.5% or 9% in 2015 and 2016 due to a modest slowdown in oil-related projects, and as banks become more selective about financing long-term projects. It forecast domestic credit in the GCC to grow from \$1 trillion at the end of 2014 to \$1.2 trillion by the end of 2016. It projected annual credit growth in Qatar to decelerate from 13% in 2014 to around 10% during 2015-16, and for credit to the private sector in Saudi Arabia to remain in high single digits during the 2015-16 period. It projected domestic credit growth in the UAE at about 8% in 2015 and 2016, as neither Dubai nor Abu Dhabi announced major cutbacks to infrastructure projects. It noted that lending would rise by about 7% to 8% in Oman over the next two years and forecast credit growth in Bahrain in the low single digits in 2015 and 2016.

Third, S&P expected the non-performing loans ratio at GCC banks to gradually increase in 2015 and 2016, reflecting continued volatility in the equity markets, the weakening real estate market and a slowdown in economic activity. But it noted that GCC banks have significantly increased their loan loss coverage in the past few years, and expected them to continue to build up additional cushions in coming years. It added that most banks have substantial levels of high-quality capital, which strengthens their loss-absorption capacity. Fourth, it projected the banks' profitability to decline during the 2015-16 period as the squeeze on margins continues and as credit losses begin to gradually increase from their current levels.

Source: Standard & Poor's

EGYPT

Economic activity to pick-up, risks persist

The Institute of International Finance projected Egypt's real GDP growth rate to accelerate from 4% in the fiscal year that will end in June 2015 to 4.5% in FY2015/16. It noted that economic activity would be supported by major infrastructure projects, as well as by an expected increase in FDI inflows from 2.3% of GDP in FY2014/15 to 2.7% of GDP in 2015/16. Also, it forecast the exports of goods and services to rise, reflecting the gradual recovery in the Eurozone. It projected the inflation rate to average 10% in FY2015/16, mainly due to the increase in fuel prices and the introduction of the value-added tax, which will both come into effect in July 2015. The IIF indicated that the main downside risks include a deterioration in security conditions that could hamper the recovery in tourism and FDI inflows, and discourage private investment. It said that other risks include delays in the implementation of announced reforms. It estimated that the Egyptian economy needs to grow by at least 5% a year and that growth needs to be inclusive in order to significantly reduce the high unemployment rate that it projects at 12.5% for FY2015/16. It noted that the country requires substantial investment to repair its decaying infrastructure, reduce its energy supply bottlenecks and modernize its industry.

In parallel, the IIF forecast the fiscal deficit to narrow from 11.9% of GDP in FY2014/15 to 10.8% of GDP in 2015/16, due to budgetary savings from lower fuel subsidies and additional revenues from the introduction of a VAT system. It anticipated the public debt level to regress from 92.2% of GDP in FY2014/15 to a still elevated level of 90.5% of GDP in FY2015/16. Further, it projected the current account deficit, excluding grants, at 4% of GDP in FY2015/16, unchanged from the preceding year. It forecast foreign currency reserves to cover 3.8 months of imports in FY2015/16 relative to 3.5 months of imports in FY2014/15.

Source: Institute of International Finance



ECONOMY & TRADE

IRAQ

Economy to grow by 0.5% in 2015, fiscal deficit to widen to 17% of GDP

The International Monetary Fund announced that it has reached a staff-level agreement with the Iraqi authorities for an IMF emergency assistance of about \$833m under the Rapid Financing Instrument. It said that the Fund would assist Iraq in its effort to address the economic impact of the decline in global oil prices and the conflict with the Islamic State militants. It noted that the armed conflict has strained the country's resources and has had a substantial humanitarian impact with an estimated three million internally displaced Iraqis. It added that the unrest has created extensive damage to infrastructure and private-sector assets. The IMF estimated Iraq's real GDP to have contracted by 2.1% in 2014, and expected it to be limited to 0.5% in 2015 due to the armed conflicts despite the solid growth in the hydrocarbon sector. It projected the current account balance to post a deficit of 8% of GDP in 2015 due to lower export receipts from the drop in oil prices. It indicated that the country's foreign assets declined to \$67bn in 2014 and expected them to further drop this year. In parallel, it forecast the fiscal deficit to widen from 5% of GDP in 2014 to about 17% of GDP in 2015, reflecting elevated conflict-related spending and weak oil prices. It noted that the deficit would widen this year despite the non-oil tax measures planned in the 2015 budget and the strict control over public expenditures.

Source: *International Monetary Fund*

BAHRAIN

Sovereign ratings downgraded on deteriorating fiscal position, outlook 'stable'

Fitch Ratings downgraded Bahrain's long-term foreign currency Issuer Default Rating (IDR) to 'BBB-' from 'BBB' and its long-term local currency IDR to 'BBB' from 'BBB+', with a 'stable' outlook. Also, it lowered Bahrain's senior unsecured foreign- and local-currency bonds to 'BBB-' from 'BBB' and to 'BBB' from 'BBB+', respectively. Further, the agency affirmed Bahrain's Country Ceiling at 'BBB+' and short-term foreign currency IDR at 'F3'. It attributed the downgrade to a widening fiscal deficit, elevated fiscal breakeven oil price and rising government debt burden. It projected the fiscal deficit to widen from 5.5% of GDP in 2014 to 10.9% of GDP in 2015 due to lower oil prices. It estimated the fiscal breakeven oil price at about \$130 per barrel in 2015 relative to an average Brent oil price of \$65 per barrel for the year, which reflects the fiscal challenges facing the country. It noted that the policy response has been modest, with the authorities taking a cautious approach due to social and competitiveness considerations. Also, it said that the government's debt level reached 45.1% of GDP in 2014, above the 41.1% of GDP median ratio of 'BBB'-rated sovereigns, and projected it to rise to 54.2% of GDP in 2015 and 58.6% of GDP in 2016. Further, the agency indicated that Bahrain's 'BBB-' IDR reflects its higher-than-peers growth rates, which have been unaffected by the drop in oil prices, as well as its stronger external position than similarly-rated peers. Also, the IDR reflects the country's financing flexibility, GDP per capita level, and business environment indicators that are better than similarly-rated peers.

Source: *Fitch Ratings*

ANGOLA

Current account to remain in deficit in coming years

BMI Research projected Angola's current account balance to shift from a surplus of 0.7% of GDP in 2014 to a deficit of 7.2% of GDP in 2015, which would constitute the first such deficit in six years. It said that the deficit would reflect lower global oil prices and the lack of non-hydrocarbon productive capacity, but noted that rising oil production would partly offset the impact of lower oil prices. It projected oil production to rise by 4.5% to 1.9 million barrels per day in 2015 as several key projects come online. It anticipated that the lack of economic diversification and the heavy reliance on imports would keep the current account balance in deficit in coming years. It expected the current account deficit to gradually narrow to 6.8% of GDP in 2016 and reach 2.8% of GDP in 2018. Further, BMI forecast total exports to reach \$42bn in 2015 and \$44bn in 2016, well below the \$60bn annual average during the past five years. It said that this reflects lower hydrocarbon receipts and subdued non-hydrocarbon exports. It anticipated that elevated public investment in infrastructure, the exploitation of the country's pre-salt oil fields and an expanding consumer base would keep demand for imports high. It said that the import quotas on food and beverages, which will come into force by July 1, are unlikely to strengthen domestic production given the lack of investment and the challenging business environment. It added that import quotas would not reduce the import bill as they only apply to low-cost goods. It considered that the erosion of Angola's external buffers would leave it more vulnerable to external shocks.

Source: *BMI Research*

NIGERIA

Economic outlook to remain challenging

Merrill Lynch indicated that Nigeria's economic outlook is challenging with rising inflation levels, a slowdown in economic activity and elevated pressure on government revenues. It projected real GDP growth at 3.5%, the fiscal deficit at 3.4% of GDP and the average inflation rate at 11.8% in 2015. It noted that the Nigerian naira has lost 22% of its value over the past 12 months, and is expected to lose another 10% to NGN220 per US dollar this year. It considered that removing the fuel subsidy would save about 0.5% of GDP per year, which, combined with the ending of the Niger Delta amnesty payments, could ease the pressure on public finances over the short term. Further, it anticipated that tackling corruption in Nigeria would be the new administration's top priority given its potential economic benefits. It considered that increasing efficiency and reducing government waste could in part offset the drop in oil revenues and allow for additional social security spending. It indicated that the country's main problems center on the hydrocarbon sector. It said that Nigeria produces about two million barrels per day, of which about 100,000 to 150,000 barrels per day is stolen, equivalent to between \$3bn and \$8bn per year in lost revenues. Also, it noted that the Nigerian National Petroleum Corporation (NNPC) failed to remit about \$10.8bn to federations accounts over the past years. It considered that NNPC reforms would enhance accountability and increase revenues, while reforming the military could have positive effects on the oil producing regions.

Source: *Merrill Lynch*



BANKING

WORLD

Foreign banks to reconsider exposure to Russia and Ukraine

Standard & Poor's anticipated that Western European and other foreign banks could reconsider their exposure to Russia and the Commonwealth of Independent States region, and scale back the operations of their subsidiaries in Russia and Ukraine, due to the deterioration in market conditions in these markets. It said that these markets are no longer attractive for investors as they offer low returns with high risk. It said that the Ukrainian banking sector has been under severe stress for several years and the situation is unlikely to improve rapidly. It expected that a sovereign default in Ukraine would worsen the already tight liquidity in the sector and would trigger further deposit withdrawals. Further, S&P indicated that the expected subdued economic growth in Russia would lead to weak new business generation and increased exchange rate volatility, as well as a worsening of the Russian banks' asset quality and a deterioration in their profitability and capital levels. The agency considered that it will take a long time for the Ukrainian banking sector to stabilize and for the Russian banking industry to recover. It noted that the opportunities for banking sector growth, asset quality improvements and profitability growth are poor in Russia and are much worse in Ukraine. It expected Western banks to attempt to exit from Ukraine and to scale back their operations in Russia. But it considered that an actual exit from Ukraine would be difficult in the next few years because of the lack of interested buyers. Overall, it noted that foreign banks' investments in Ukraine are not sizeable enough to threaten the financial position of parent banks.

Source: Standard & Poor's

EGYPT

Banks' exposure to government debt up 25% year-on-year in March 2015

Figures issued by the Central Bank of Egypt show that total assets of banks operating in Egypt reached EGP2,154.8bn, equivalent to \$283bn at the end of March 2015, constituting an increase of 9.5% from the end of 2014 and a rise of 21.4% from end-March 2014. Lending to the private sector reached EGP619.2bn, or \$81.3bn, and rose by 7.2% in the first quarter of 2015 and by 19% year-on-year. Banks' exposure to government securities totaled EGP900bn, equivalent to \$118.2bn, and rose by 6.8% from end-2014 and by 24.8% from a year earlier. Banks' sovereign exposure in local currency stood at EGP809.3bn and increased by 6.7% in the first quarter of 2015 and by 26.7% year-on-year; while their exposure in foreign currency reached EGP90.8bn and rose by 7.6% from the end of 2014 and by 10.6% from a year earlier. In US dollar terms, banks' sovereign exposure in local currency stood at \$106.3bn, while their exposure in foreign currency reached \$11.9bn. Further, total deposits reached EGP1,663.8bn or \$218.5bn, constituting an increase of 6.7% in the first quarter of 2015 and a rise of 22.2% from a year earlier. Private sector deposits totaled EGP1,420bn, or \$186.4bn at end-March 2015, and rose by 5.9% from end-2014 and by 19.1% year-on-year. Also, private sector deposits in foreign currency grew by 14.5% year-on-year to EGP262.5bn or \$34.5bn, at the end of March 2015; while those in local currency rose by 20.3% from end-March 2014 to EGP1,157.4bn or \$152bn. The dollar-

ization rate of private sector deposits reached 18.5% at the end of March 2015 relative to 19.2% a year earlier. The private sector loans-to-deposits ratio was 43.6% at end-March 2015 relative to 43.7% a year earlier.

Source: Central Bank of Egypt, Byblos Research

SAUDI ARABIA

Low banking industry risks

Standard & Poor's classified Saudi Arabia's banking sector in 'Group 2' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '3' and an industry risk score of '2'. 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' consisting of the least risky banking systems. It noted that other countries in BICRA's 'Group 2' include Canada, Norway, Singapore, Switzerland and the United States. S&P indicated that Saudi Arabia's economic risk score reflects its "intermediate risks" in economic resilience and in credit risks in the economy, and "low risks" in economic imbalances. It said that the economy is highly vulnerable to fluctuations in oil prices and elevated geopolitical risks. But it expected the country's sizable financial assets to help authorities defend the peg with the US dollar and to provide banks with abundant and stable deposits. Further, it forecast banks' lending growth to stay in high single digits over the 2015-16 period, mainly driven by government infrastructure programs and mortgage lending. But it expected the banks' concentration risk to remain high, given the limited number of large corporate clients and the narrow economic diversification. Further, it pointed out that the industry score reflects the country's "low risks" in its institutional framework, its competitive dynamics and its system-wide funding. It added that the banking sector has high profitability metrics despite the drop in oil prices, driven in part by low cost of funding, high efficiency and a supportive tax regime. It indicated that the trend for economic and industry risks is "stable".

Source: Moody's Investors Service

UAE

Banking sector liquidity tightens

Figures issued by the Central Bank of the UAE show that total assets of banks operating in the UAE reached AED2,382.2bn, equivalent to \$649.1bn at the end of April 2015, constituting a rise of 3.4% from the end of 2014, and a growth of 8% from end-April 2014. Total loans amounted to AED1,421.5bn, or \$387.3bn, and rose by 3.1% in the first quarter of 2015 and by 8.4% year-on-year. Also, personal lending grew by 8.3% from the end of April 2014 to AED313.9bn, or \$85.5bn, at end-April 2015. In parallel, aggregate deposits reached AED1,441.2bn at the end of April 2015, or \$392.7bn, and increased by 1.4% from end-2014 and by 7.2% year-on-year. Resident deposits increased by 5.7% annually to AED1,294.5bn at end-April 2015 and accounted for 89.8% of total deposits; while non-resident deposits rose by 22.1% year-on-year to AED146.7bn and represented the balance of 10.2%. The loans-to-deposits ratio was 98.6% at end-April 2015, relative to 97% at end-2014 and 97.5% at end-April 2014. Total investments by banks reached AED229.4bn at the end of April 2015 and posted an 11.2% growth year-on-year.

Source: Central Bank of the UAE



ENERGY / COMMODITIES

Oil prices to remain weak in second half of 2015

North Sea Brent crude oil prices are forecast to average \$59 per barrel (p/b) in 2015, below Bloomberg's consensus price of \$61.7 p/b; while WTI crude oil prices are projected to average \$52 p/b, below Bloomberg's consensus of \$55.1 p/b. Downside pressures on oil prices include higher-than-expected production from U.S. shale producers, and the Organization of the Petroleum Exporting Countries' decision to keep its production quota unchanged at 30 million barrels per day. The oversupply in the oil market points to renewed price weakness in the second half of 2015. In addition, the expected agreement between Iran and the UN Security Council's permanent members plus Germany (P5+1) on Tehran's nuclear program at the end of June would further weigh on prices. In contrast, stronger than expected oil demand from China would provide support to oil prices during the second half of 2015, as the country accelerates plans to increase its strategic oil storage capacity. Also, upside pressures to the price outlook include a breakdown of the Iranian nuclear negotiations, a moderation of the US dollar rally, and a slowdown in U.S. oil output.

Source: BMI Research

KRG receives about half of entitled budget payment from Iraq in May 2015

Baghdad indicated that it transferred \$430m to the Kurdistan Regional Government (KRG) in May 2015 as part of Kurdistan's legal monthly entitlement from the Iraqi budget. The KRG noted that the transferred amount is about half of what it is entitled to receive in the 2015 budget, and threatened to sell more oil independently. The transfer of funds is part of the December 2014 bilateral oil export and revenue-sharing agreement, which stipulates that the KRG would export 550,000 barrels per day of oil through Iraq's State Oil Marketing Organization and, in return, the Iraqi central government would transfer 17% of the budget to Erbil.

Source: Thomson Reuters

Ethiopia to expand electricity generation capacity

Ethiopia plans to launch a hydropower plant and other renewable energy projects as part of its Growth and Transformation Plan that extends until 2020. Under the multi-phase plan, Ethiopia aims to increase its electricity generation capacity to about 15,000 megawatts (MW) by 2020, which would constitute a rise of 6.3 times from about 2,400 MW currently. The new capacity would include hydropower energy with 11,000 MW or 73.3% of total capacity, followed by wind energy with 1,500 MW (10%), geothermal energy with 1,200 MW (8%), co-generation with 600 MW (4%) and solar energy with 300 MW (2%). The plan is expected to be partly funded by the government, as well as via grants, soft and hard loans, among other sources of financing. Ethiopia currently exports electricity to parts of Kenya, Sudan and Djibouti.

Source: Thomson Reuters, Byblos Research

OPEC's oil basket price up 9% in May 2015

The Organization of the Petroleum Exporting Countries' oil reference basket price reached \$62.2 per barrel (p/b) in May 2015, constituting a rise of 8.5% from \$57.3 p/b in the preceding month. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at \$66.18 p/b in May, followed by Angola's Girassol at \$65.51 p/b and Nigeria's Bonny Light at \$65.31 p/b. All prices included in the OPEC reference basket posted monthly increases between 7.2% and 11.3% in May 2015.

Source: OPEC, Byblos Research

Base Metals: Copper prices to drop by 12% in 2015

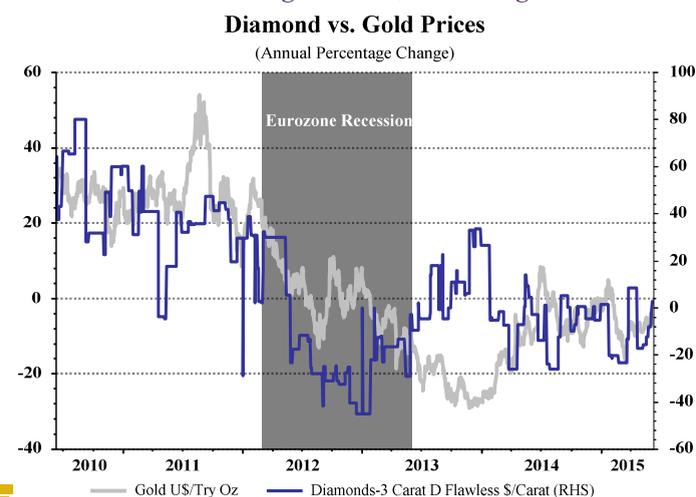
Copper prices are forecast to remain subdued during the second half 2015, mainly due to a relatively stronger US dollar and to lower global oil prices. The latter would encourage mining companies to increase production but would place downward pressure on the metal's price. A slowdown in China's economic activity, along with stagnant economic growth in Europe and Japan, are expected to curtail global demand for copper. On the supply side, copper mine output is projected to grow by about 5% in 2015 as new mines are brought on stream. As such, the copper market is projected to remain oversupplied in 2015. The metal's average price was \$5,833.2 per metric ton in the first quarter and is expected to average \$6,144 a ton in the second quarter, \$6,094.3 per ton in the third quarter and \$6,099.7 a metric ton in the fourth quarter of 2015. Overall, copper prices are forecast to average \$6,042.8 a ton in 2015, which would reflect a decrease of 12% from \$6,863.4 a ton in 2014. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index dropped by 7.7% in May and by 5.8% in the first five months of 2015, while the Copper Sub-Index regressed by 5.5% last month and by 3.5% from end-2014.

Source: Sueden Financial, International Monetary Fund, Bloomberg Indexes, Byblos Research

Precious Metals: Gold prices to drop by 5% in 2015

The average price of gold is expected to decrease by 4.6% to \$1,207 a troy ounce in 2015. The drivers behind the projected drop in prices include a stronger US dollar, an increase in U.S. long term yields, as well as subdued inflationary pressures in developed economies amid a low oil price environment. The metal's price is forecast to average \$1,200 a troy ounce in the second quarter, \$1,210 a troy ounce in the third quarter and \$1,200 a troy ounce in the fourth quarter of 2015. Gold prices are forecast to strengthen slightly from 2016 onwards as supply tightens, jewelry demand remains robust and investment stabilizes. The metal's price volatility is projected to persist during the second half of 2015, with wide short-term fluctuations determined by rapidly changing over-the-counter investor demand. However, persistent geopolitical tensions and global market uncertainty have maintained the attractiveness of gold as a safe haven asset. In parallel, the Bloomberg Precious Metals Total Return Sub-Index increased by 1.3% in May and by 1.7% in the first five months of 2015, while the Gold Sub-Index rose marginally by 0.5% last month and by 0.2% from end-2014.

Source: Economist Intelligence Unit, Bloomberg Indexes



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	03-Jun-15	No change	16-July-15
UK	Bank Rate	0.50	04-Jun-15	No change	09-July-15
Japan	O/N Call Rate	0.00-0.10	22-May-15	No change	19-Jun-15
Australia	Cash Rate	2.00	02-Jun-15	No change	16-Jun-15
New Zealand	Cash Rate	3.25	11-Jun-15	Cut 25 bps	23-July-15
Switzerland	3 month Libor target	-1.25(-0.25)	19-Mar-15	No change	18-Jun-15
Canada	Overnight rate	0.75	27-May-15	No change	15-July-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	1.50	11-Jun-15	Cut 25bps	09-July-15
Malaysia	O/N Policy Rate	3.25	05-Mar-15	No change	09-July-15
Thailand	1D Repo	1.50	10-Jun-15	No change	05-Aug-15
India	Reverse repo rate	7.25	02-Jun-15	Cut 25bps	04-Aug-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	11-Jun-15	No change	17-July-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	10.00	09-Jun-15	Raised 150bps	N/A
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	04-Jun-15	No change	23-July-15
Brazil	Selic Rate	13.75	03-Jun-15	Raised 50bps	29-July-15
Armenia	Refi Rate	10.50	10-Feb-15	Raised 100bps	N/A
Romania	Policy Rate	1.75	6-May-15	Cut 25bps	04-Aug-15
Bulgaria	Base Interest	0.02	03-Jun-15	Raised 1bp	01-July-15
Kazakhstan	Refi Rate	5.50	04-Jan-13	No change	N/A
Ukraine	Discount Rate	30.0	28-May-15	No change	25-Jun-15
Russia	Refi Rate	12.50	30-Apr-15	Cut 150bps	15-Jun-15



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