

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global merchandise trade down 13% to \$4 trillion in first quarter of 2015

Figures released by the World Trade Organization indicate that global merchandise trade reached \$4,043bn in the first quarter of 2015, constituting a decrease of 13% from the fourth quarter of 2014 and of 12.4% from the same quarter last year. World exports dropped by 12.2% year-on-year to \$4,013bn and imports fell by 12.6% to \$4,072bn. Exports from Europe totaled \$1,457bn and regressed by 15.1% year-on-year in the covered quarter, while exports from Asia dropped by 3.1% to \$1,438bn, those from North America fell by 5.3% to \$565.9bn, exports from South & Central America declined by 14.7% to \$139.1bn and those from the Commonwealth of Independent States (CIS) decreased by 29.5% to \$128.3bn. Also, exports from other regions, including the Middle East & Africa, fell by 33% to \$284.4bn. In parallel, imports to Europe totaled \$1,457bn and dropped by 15.4% year-on-year in the first quarter of 2015, imports to Asia regressed by 14.5% to \$1,329bn, those to North America fell by 1.5% to \$754.4bn, imports to South & Central America decreased by 9.5% to \$157.8bn and those to the CIS declined by 32.7% to \$79.7bn, while imports to other regions dropped by 9.1% to \$294.9bn. In parallel, the WTO indicated that, on a seasonally adjusted basis, the volume of global merchandise trade increased by 0.7% quarter-on-quarter and by 3.9% year-on-year in the first quarter of 2015. The volume of world exports grew by 0.4% quarter-on-quarter and by 4% year-on-year, while that of imported merchandise improved by 0.9% quarter-on-quarter and by 3.8% year-on-year in the first quarter of 2015.

Source: World Trade Organization

MENA

Equity markets up 1.5% in first half of 2015

Arab stock markets increased by 1.5% and GCC markets rose by 3.6% in the first half of 2015 compared to increases of 8.2% in both markets in the same half of 2014. Arab and GCC stock markets regressed by 2.9% and 3.7%, respectively, in June from May 2015. Activity on the Tunis equity market grew by 12.4% in the first half of 2015 and posted the best performance among Arab markets in the covered period. It was followed by the Saudi Arabia stock exchange with a 9% rise, the Dubai financial market with an 8% increase, the Iraqi stock market with a 5.3% growth, the Abu Dhabi equity market with a 4.3% improvement, the Beirut stock exchange with a 1.5% rise and the Oman bourse with a 1.3% increase. In parallel, activity on the Khartoum bourse regressed by 14.3% and posted the weakest performance among Arab markets in the first half of 2015. It was followed by the Palestine stock exchange with a 6.5% drop, the Egyptian equity market with a 6.2% decrease, the Damascus securities exchange with a 5.6% decline, the Kuwait stock market with a 5.1% contraction, the Bahrain bourse with a 4.1% drop, the Amman securities exchange with a 2.3% decrease, the Qatar bourse with a 0.7% decline and the Casablanca equity market with a 0.4% drop. In comparison, global equities rose by 1.9%, while emerging market equities grew by 2.1% in the first half of 2015.

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

FDI in Arab world down 8% to \$44bn in 2014

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Arab economies totaled \$43.8bn in 2014, constituting a decline of 7.7% from \$47.4bn in 2013. FDI inflows to Arab countries accounted for 6.4% of total FDI in developing countries and for 3.6% of global foreign direct investment in 2014. Five Arab countries saw an increase in FDI and 13 posted a decline in inflows last year. The UAE was the largest recipient of FDI in the region with \$10.1bn, or 23% of total FDI in Arab countries, followed by Saudi Arabia with \$8bn (18.3%) and Egypt with \$4.8bn (10.9%). The smallest recipients of inflows were Djibouti with \$153m and Palestine with \$124m (0.3% each), and Libya with \$50m (0.1%), while Yemen recorded negative inflows of -\$577.6m. FDI in Egypt rose by 14.1% in 2014, followed by Morocco (+8.6%) and Lebanon (+6.6%); while inflows to Libya fell by 93% in 2014, the steepest decline among Arab countries, followed by Kuwait (-66%) and Mauritania (-56.3%). FDI inflows to Qatar shifted from -\$840m in 2013 to \$1bn in 2014. Further, FDI inflows to Arab countries were equivalent to 1.6% of aggregate Arab GDP in 2014. FDI inflows to Mauritania were equivalent to 9.7% of its GDP last year, followed by Djibouti (9.6% of GDP) and Lebanon (6.2% of GDP). In parallel, FDI outflows from Arab countries reached \$33.3bn in 2014, constituting a decline of 12.4% from \$38.1bn in 2013. Kuwait was the largest source of outflows among Arab countries with \$13.1bn or 39.3% of total FDI outflows, followed by Qatar with \$6.7bn (20.2%) and Saudi Arabia with \$5.4bn (16.2%).

Source: UNCTAD, International Monetary Fund, Byblos Research

Insurance premiums up 12% to \$32bn in 2014

Swiss Re's annual survey of the global insurance market indicated that the premiums generated in 11 Arab markets included in the survey totaled \$31.6bn in 2014, constituting a nominal increase of 11.8% from \$28.2bn in 2013. The region's aggregate premiums accounted for 0.7% of global premiums in 2014 and for 3.8% of premiums in emerging markets. Insurance firms in the UAE accounted for 29% of aggregate premiums in Arab markets last year, followed by Saudi Arabia (25.8%), Morocco (10.8%), Qatar (6.9%), Egypt (6.2%), Algeria (5.1%), Lebanon (4.8%), Oman (3.3%), Kuwait (3.2%), Tunisia (2.8%), and Jordan (2.3%). Further, Arab markets generated \$25.9bn in non-life premiums last year, up 12% from \$23.2bn in 2013. Non-life premiums produced in the Arab world accounted for 1.2% of global non-life premiums and for 6.2% of non-life premiums in emerging markets. Also, aggregate life premiums generated in Arab markets stood at \$5.6bn in 2014, constituting a rise of 10.9% from \$5bn in 2013. In parallel, insurance penetration in Arab markets, or premiums relative to the size of the economy, stood at 1.3% of GDP in 2014 relative to penetration rates of 6.2% of GDP and 2.7% of GDP, respectively, for global and emerging markets. Further, insurance density in Arab markets, or premiums per capita, reached \$136.5 in 2014 compared to \$662 and \$135.6, respectively, for global and emerging markets.

Source: Swiss Re, Byblos Research

OUTLOOK

AFRICA

Growth potential contingent on reforms

Credit Suisse's assessment of the medium-term economic outlook and potential for 44 countries in Sub-Saharan Africa (SSA) shows that Rwanda, Liberia, Sierra Leone, the Republic of Congo, Zambia, Angola, Nigeria, Kenya, Tanzania, Ghana, Burundi, Togo and Ethiopia have good prospects to outperform other SSA economies over the medium term. But it noted that it could downgrade the outlook for Liberia and Sierra Leone because of the Ebola crisis, and that for Burundi as a result of political instability. In contrast, it expected South Africa, Madagascar, Eritrea, Guinea-Bissau, Equatorial Guinea, Chad, Senegal, Guinea, The Gambia, Mali and Namibia to underperform in the medium term. It assessed the 44 economies on three categories that are the drivers of potential growth, governance and the macroeconomic outlook.

Credit Suisse indicated that the implementation of reforms and improvements in governance would lead to better macroeconomic performance in Nigeria and the Republic of Congo, given their high performance in terms of potential GDP growth and moderate governance indicators. It added that structural reforms and better governance in Rwanda would improve its general macroeconomic outlook, such as per capita growth, inflation and public finances. Further, it pointed out that Guinea, The Gambia, Senegal, Mali, Guinea-Bissau and South Africa rank last on the direction of fundamentals that consist of governance indicators and potential growth drivers, but they rank relatively well on the macroeconomic outlook category. As such, it noted that these countries could underperform in the medium term if further structural reforms and improvements in governance are slow.

In parallel, it said that SSA countries that performed well on the direction of fundamentals have been successful in attracting foreign investments in the past decade. It noted that these countries are Sierra Leone, Rwanda, Burundi, Kenya, Zambia, the Republic of Congo and Ghana. In contrast, it said that Madagascar, The Gambia and Mali, which perform poorly on the direction of fundamentals, failed to attract substantial investment flows.

Source: Credit Suisse

JORDAN

Reforms and regional developments to determine economic prospects

The International Monetary Fund projected Jordan's real GDP growth at about 3.5% in 2015, supported by a gradual increase in confidence. It indicated that Jordan's macroeconomic policies have stabilized the economy and helped it weather severe external shocks. It said that economic growth is gradually picking up, inflation is contained and the current account deficit is narrowing. It forecast the current account deficit, including grants, at 7.6% of GDP in 2015, reflecting mainly a decline in oil imports. Further, it pointed out that budgetary measures, including fuel subsidy reforms, as well as reforms to the energy and water sector contributed to a substantial decline in fiscal imbalances. It projected the fiscal deficit at 3.5% of GDP in 2015, which would help stabilize the public debt level this year before declining in 2016. It said that monetary policy complemented the fiscal meas-

ures, which helped restore confidence, rebuild foreign currency reserves and reduce interest rates to stimulate growth. It forecast foreign currency reserves to cover seven months of imports at the end of 2015. The Fund cautioned that economic growth could be limited to about 3% this year if the recovery in confidence and tourism takes longer than expected.

In parallel, the IMF expected Jordan's economy to further strengthen over the medium term, as it projected real GDP growth to accelerate to 4.5% and for the inflation rate to remain at about 2%. It forecast the current account deficit, excluding grants, to narrow from about 11% of GDP in 2015 to about 9% of GDP by 2020, reflecting fiscal consolidation, further savings from the energy import bill and a pickup in tourism and exports. However, it noted that uncertainties to the outlook remain considerable and are mostly related to the conflicts in Syria and Iraq, which would adversely affect growth and the current account balance. The Fund indicated that the government is committed to fiscal consolidation and aims to reduce the public debt level to about 70% of GDP by 2020.

Source: International Monetary Fund

EGYPT

Outlook dependent on international support

Barclays Capital projected Egypt's real GDP to accelerate to 4.7% in fiscal year 2015/16 that ends in June 2016 from 4% FY2014/15, driven by a pickup in investment. But it cautioned from increasing downside risks related to a deceleration in net exports growth. It noted that export growth weakened in the first quarter of 2015 due to the loss of external competitiveness and a sustained contraction in petroleum exports.

Barclays forecast the current account deficit to widen from 2.4% of GDP in FY2014/15 to 3.3% of GDP in FY2015/16, and expected it to remain in a deficit of between 3% and 4% of GDP over the short term. It noted that this reflects the government's investment-led growth strategy that implies higher imports, and the fact that Egypt is becoming a net energy importer. It said that this would require funding sources beyond the anticipated FDI flows. As such, it expected authorities to continue to seek financial support from GCC countries, but it noted that the aid would be anchored within a multilateral framework of donor support as of 2016. It projected GCC economies to disburse \$6bn, which should limit further pressure on foreign currency reserves until early 2016. It forecast foreign currency reserves to increase from \$17.5bn in FY2014/15 to \$18.3bn in FY2015/16. Further, it anticipated the country's external financing needs to remain large at about \$12bn to \$14bn in FY2015/16. It expected the Central Bank of Egypt to allow the pound to depreciate in the fourth quarter of 2015 as the US dollar continues to strengthen.

Barclays projected the fiscal deficit to narrow from 11% of GDP in FY2014/15 to 10.5% of GDP in FY2015/16. It expected the primary budget deficit to widen from 1.5% of GDP in FY2014/15 to 2% of GDP FY2015/16, and forecast the public debt at about 93.8% of GDP at end-June 2016. It said that the budget for FY2015/16 includes the introduction of the value added tax and increases in energy and petroleum prices, but it noted that they could be delayed until after the Parliamentary elections.

Source: Barclays Capital



ECONOMY & TRADE

IRAQ

Implied foreign currency rating at 'B-'

Citi estimated the Kurdistan Regional Government's (KRG) implied long-term foreign currency rating at 'B-', based on Standard & Poor's rating scale and criteria, which is six notches below investment grade. It attributed the KRG's weak creditworthiness to the uncertainty about its fiscal revenues, given the ability and the propensity of the Iraqi federal government to intervene negatively in the KRG's economic and fiscal affairs. S&P's methodology is based on the assessment of institutional, economic, external, fiscal and monetary factors that determine a sovereign's creditworthiness. First, Citi said that its assessment of the institutional category, which captures political risks, reflects the risks of negative intervention by the Iraqi federal government and the KRG's potential inability to monetize its oil despite relative domestic stability. It added that the KRG's political institutions are not able to protect creditors from revenue uncertainty that would result from the ongoing dispute with Baghdad over oil exports. Second, Citi noted in its economic assessment that the KRG's real GDP growth is highly volatile due to unpredictable oil production and exports, which outweighs its relative wealth. Third, Citi pointed out in its external assessment that the KRG is exposed to risks of a marked deterioration in financing conditions, to significant volatility in the terms of trade, has a limited ability to borrow externally and suffers from data inconsistencies. Fourth, in terms of fiscal assessment, Citi said that the KRG's fiscal position is highly volatile, with the fiscal deficit widening from 6% of GDP in 2013 to 26% of GDP in 2014 as the federal government cut off fiscal transfers. It added that the public debt level rose from 16% of GDP 2013 to 42% of GDP in 2014 and the KRG financed the deficit through borrowing. The KRG's implied rating is one notch below that for Egypt, Lebanon and Pakistan.

Source: Citi

SUDAN

Progress towards economic stabilization

The International Monetary Fund indicated that Sudan has made significant progress towards restoring macroeconomic stability and strengthening economic growth following South Sudan's independence. It said that fiscal consolidation and tight monetary policy supported real GDP growth of 3.7% in 2014, narrowed the current account deficit and reduced the inflation rate to below 20% in May 2015. The Fund welcomed the authorities' commitment to maintain the momentum of reforms for the coming years. However, it noted that the country's outlook remains challenging as lower global oil prices and the conflict in South Sudan are adversely affecting oil-related revenues, which would result in fiscal and external financing gaps. It added that the difficulties with international financial transactions continue to weigh on growth. Also, it said that expansionary policies in support of agriculture have injected substantial liquidity in the economy, which could negatively affect the inflation and exchange rates. As such, the IMF called on authorities to focus on macroeconomic stability through prudent fiscal policies. It encouraged Sudanese officials to limit the growth of liquidity and to make it consistent with low inflation levels, as well as to allow greater exchange rate flexibility and to implement structural reforms that would improve the business environment.

Source: International Monetary Fund

ARMENIA

External developments affecting growth prospects

The International Monetary Fund indicated that Armenia's economy is facing external pressure from the slowdown in Russia's economic activity, lower remittance inflows, reduced copper prices and subdued global and European economic growth. It noted that regional tensions are affecting investment activity in Armenia, as they lead to high financial risk premium and weigh on investor confidence. It pointed out that Armenia's growth drivers have changed over the past five years, with the agriculture sector attracting investment in production and processing, the tourism and services sectors growing, and the mining sector posting a solid performance. But it noted that the emergence of the new growth drivers has been gradual, and that economic activity is currently significantly below the 8.5% annual average growth rate of the past decade. It expected Armenia's real GDP to contract this year, to be flat or slightly positive in 2016 and to reach 3.5% over the medium term. It considered that such growth levels would make it challenging to create jobs, improve living standards and reduce the public debt level. It noted that the economy faces challenges such as low Internet access and high Internet prices, and losses in the energy sector due to inefficient management. As such, the Fund called on authorities to implement reforms in order to make the economy more efficient, dynamic and connected with the region and the global economy.

Source: International Monetary Fund

GHANA

Fiscal consolidation on track, more efforts required

The International Monetary Fund projected Ghana's real GDP at 3.5% in 2015, as rising hydrocarbon output would be offset in part by low cocoa and gold production. It noted that the inflation rate remains higher than expected due to a larger-than-anticipated depreciation of the Ghanaian cedi and rising global oil prices. The Fund welcomed the authorities' commitment to the ambitious fiscal consolidation and structural reforms program, especially in addressing payroll irregularities, strengthening public finance management and transparency, and liberalizing the oil distribution sector. It said that fiscal consolidation is on track as of April 2015, reflecting good revenue performance and the containment of the wage bill and other spending. It noted that the government paid past arrears as planned and did not accumulate new ones. It expected the fiscal deficit to be narrower than the target deficit for 2015, as higher-than-budgeted oil revenues would help cover additional spending related to the flooding and the larger arrear clearance. But it noted that authorities need to further enhance tax administration and eliminate tax exemptions in order to improve revenues over the medium term. In addition, the Fund welcomed the authorities' efforts to address the electricity shortages through the establishment of new private-financed power plants in coming months. It considered that this would support a rebound in economic growth, given that electricity shortages have been weighing on economic activity. In parallel, the IMF said that budget support from development partners, the new Eurobond issuance, and the gradual switch to gas in electricity production should reduce the pressure on the foreign currency market and allow the Bank of Ghana to increase its reserves.

Source: International Monetary Fund



BANKING

EMERGING MARKETS

Concerns about U.S. monetary tightening overdone

Fitch Ratings anticipated that higher U.S. interest rates would raise the cost of financing for emerging markets (EMs) and contribute to capital outflows from EMs due to higher yields in the United States. It noted that investors would monitor EMs with large external financing requirements as the tightening of U.S. monetary policy approaches. It noted that this would be accompanied by greater volatility as markets adjust to the change in EMs' external financing conditions. However, it did not expect broad stresses across EMs sovereigns. First, it said that neither the U.S. balance-of-payments nor the U.S. international investment position point to a reversal from EMs of significant U.S. capital funded by quantitative easing programs. Second, it indicated that EMs are better placed than in previous U.S. rate cycles given their improved macro and sovereign credit fundamentals. It noted that EMs' vulnerability to changes in market sentiment decreased due to their narrower fiscal and external imbalances, and because of their flexible exchange rates and higher foreign currency reserves. But it cautioned that the potential for higher government and external debt presents risks. It said that persistent current account deficits could increase gross external financing requirements, while sustained fiscal deficits would lead to higher government debt levels. Third, it expected the external funding costs of EMs that rely more heavily on international capital markets to increase more rapidly than the median cost of external funding of EMs in general, in case long-term rates respond to higher policy rates. But it noted that overall EMs' funding costs should increase at a slower pace if long-term rates do not increase in line with higher policy rates.

Source: Fitch Ratings

MENA

Tier One capital up 7% to \$268bn in 2014

The *Banker* magazine's annual survey of the Top 1000 Banks in the world by Tier One capital included 92 banks from the Middle East region in its 2015 list. The aggregate Tier One capital of Middle Eastern banks stood at \$268bn at the end of 2014, up by 7.2% from \$250bn at the end of 2013, and accounted for 3.9% of the aggregate Tier One capital of the world's top 1000 banks in 2014. The survey noted that 21 banks from the GCC were among the largest 25 banks in the Middle East, and included eight banks from each of Saudi Arabia and the UAE, two banks from each of Qatar and Kuwait, and one bank from Bahrain. Also, Israel had three banks among the largest 25 banks in the region and Jordan had one bank. Saudi Arabia's National Commercial Bank remained the largest bank in the region and ranked in 106th place globally with a Tier One capital of \$12.3bn, followed by Qatar National Bank (107th place) with \$12.1bn and Saudi Arabia's Al Rajhi Bank (115th) with \$11.2bn. Saudi Arabia's Bank Albilad's Tier One capital rose by 34.8% in 2014, posting the largest increase among all Middle Eastern banks, followed by Bahrain's Al Salam Bank (+34.18%) and Saudi Arabia's Al Rajhi Bank (+34.17%). In parallel, the capital-to-assets ratio for banks in the Middle East was 10.83% in 2014, lower than only the ratio of 11.15% for banks in Central Asia.

Source: The Banker, Byblos Research

UAE

Banking sector unaffected by lower oil prices

NBK Capital anticipated that the drop in global oil prices would not have a significant impact on the asset growth of banks in the UAE, due to solid non-hydrocarbon growth and sustained government spending. It noted that the banking sector's total loans grew by 4% in the first five months of 2015 and by 8% year-on-year. It added that personal loans grew by 8% annually in April 2015, which implies that consumption was unaffected by lower oil prices. As such, it forecast total lending to grow by 8% in each of 2015 and 2016. Further, it said that bank deposits grew by 2% in the first five months of 2015 and by 5% annually, constituting the first time in many years that lending growth exceeded the increase in deposits. It expected the tightening in liquidity to continue due to a possible drawdown of government and public sector deposits, which represent about 25% of the banking sector's total deposits. Also, it noted that tighter liquidity conditions reflect lower deposits from the corporate sector. As such, it forecast the loans-to-deposits ratio to gradually increase to about 100%. Further, NBK Capital did not expect asset quality to significantly weaken, given that continued government spending, economic diversification and healthy corporate cash flow would cushion any negative impact from declining oil revenues. In parallel, it anticipated that the banks' net interest margins would start increasing in the second half of 2016, assuming that the U.S. Federal Reserve increases its rates towards the end of 2015. It noted that banks with a higher share of low-cost deposits and a larger portion of corporate loans would benefit the most from a rising interest rate environment.

Source: NBK Capital

SAUDI ARABIA

Private sector lending increases by 10% year-on-year in May 2015

Figures issued by the Saudi Arabia Monetary Agency (SAMA) show that total assets of commercial banks reached SAR2,201.5bn, equivalent to \$587.1bn at the end of May 2015, constituting a growth of 3.2% from end-2014 and a rise of 8.3% from May 2014. Loans to the private sector reached SAR1,309.4bn, equivalent to \$349.2bn at the end of May 2015 and increased by 4.2% from the end of 2014 and by 9.5% year-on-year. Loans to the private sector increased by 1.3% month-on-month in May 2015, while public sector credit remained nearly unchanged from the preceding month. In parallel, aggregate deposits reached SAR1,646bn, or \$438.9bn, at the end of May 2015, reflecting a rise of 4.5% from end-2014 and a growth of 10.1% from May 2014. Foreign currency deposits accounted for 9.8% of total deposits in May 2015 relative to 10% in December 2014 and 11.4% in May 2014. Demand deposits accounted for 65.9% of total deposits in May 2015 compared to 62.8% in December 2014 and to 62.7% in May 2014. The loan-to-deposit ratio stood at 79% at end-May 2015, unchanged year-on-year. In parallel, the sector's aggregate profits totaled SAR18.8bn, or \$5bn, in the first five months of 2015 and rose by 3.6% from the same period of 2014.

Source: Saudi Arabia Monetary Agency



Oversupply to weigh on crude oil prices in second half of 2015

Brent oil prices are forecast to drop from an average of \$63.7 per barrel (p/b) in the second quarter of 2015 to \$60 p/b in the third quarter and \$62.5 p/b in the fourth quarter, while WTI oil prices are projected to decline from an average of \$57.8 p/b in the second quarter of the year to \$55 p/b in the third quarter and \$57.5 p/b in the following quarter. The drop in prices is due to an expected global market oversupply of 0.9 million b/d in the second half of the 2015. Oil supply by non-members of the Organization of the Petroleum Exporting Countries (OPEC) is projected to increase by 1.3% to 58 million b/d in 2015, driven by a 6.7% growth in production in the United States. In parallel, global oil demand is forecast to average 93.9 million barrels per day (b/d) in 2015, constituting an increase of 1.4% from 2014. In addition, oversupply in the oil market is projected to persist over the first quarter of 2016 if neither U.S. oil producers nor OPEC reduce their production targets. The escalation of geopolitical tensions in Libya and Yemen, and the outcome of Iran's nuclear program negotiations, could also place further risk on oil prices in 2015.

Source: Deutsche Bank, Byblos Research

OPEC's oil production reaches three-year high

The Organization of Petroleum Exporting Countries' (OPEC) crude oil production averaged 32.1 million barrels per day (b/d) in June 2015, up by 2.4% from 31.4 million b/d in May, and constituting its highest level since August 2012. The increase in oil supply was due to record output levels of 4.4 million b/d from Iraq and of 10.5 million b/d from Saudi Arabia, and despite supply disruptions in Libya. Also, the anticipated nuclear agreement between Iran and the UN Security Council's permanent members plus Germany (P5+1) would further increase output levels.

Source: Bloomberg, Byblos Research

Middle East accounts for 17% of world's natural gas production

The Middle East region's total natural gas production reached 601 billion cubic meters (bcm) in 2014, up by 3.5% from the previous year, and equivalent to 17.4% of the world's natural gas supply. Qatar's production reached 177.2 bcm, or 29.5% of the region's total output last year, followed by Iran with 173 bcm (28.7%), Saudi Arabia with 108 bcm (18%), the UAE with 58 bcm (9.6%), Oman with 29 bcm (4.8%), Bahrain with 17 bcm (2.8%), Kuwait with 16 bcm (2.7%), Yemen with 10 bcm (1.6%), Syria with 4 bcm (0.7%) and Iraq with 1 bcm (0.2%); while other Middle Eastern countries' natural gas supply was 8 bcm (1.3%).

Source: BP, Byblos Research

Middle East's oil demand at 10 million b/d by 2024

The Middle East region's crude oil production is forecast to grow by 14.7% from an average of 27.4 million barrels per day (b/d) in 2014 to 31.5 million b/d by 2024. Middle Eastern producers, including Kuwait, Saudi Arabia, the UAE and Iraq, are targeting an increase in their oil supply and upstream expansion plans, supported by low production costs. In parallel, the region's oil consumption is projected at 10 million b/d in 2024, reflecting a rise of 26.2% from 7.9 million b/d in 2014. Demand for oil would be supported by sustained fuel subsidies and rising refining capacity. Also, strong oil consumption is forecast to limit the growth in oil exports from the Middle East during the 2014-24 period.

Source: BMI Research, Byblos Research

Base Metals: Steel production down 2% in first five months of 2015

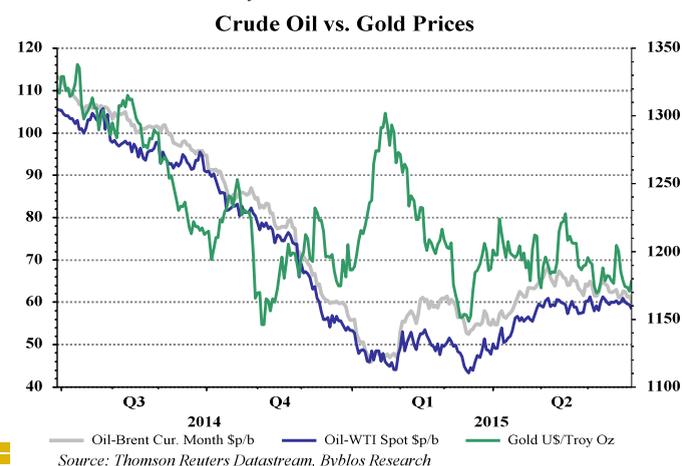
Global crude steel output reached 675.6 million tons in the first five months of 2015, down by 1.9% from 689 million tons in the same period last year. China's crude steel production totaled 340.2 million tons, or 50.3% of global crude steel output in the covered period, reflecting a decrease of 1.6% from the first five months of 2014. It was followed by Japan at 44.1 million tons (6.5%), India at 37.7 million tons (5.6%), the U.S. at 33.1 million tons (4.9%) and Russia at 30.3 million tons (4.5%). On a regional basis, steel output in Oceania posted a growth of 5.6% in the first five months of 2015, while the Middle East region's production grew by 2.4%. In contrast, the metal's production in Africa regressed by 7.7% in the covered period, followed by North America (-7.2%), the Commonwealth of Independent States (-5.6%), Other European countries (-4.7%), Asia (-1.4%), South America (-0.2%) and the European Union (-0.1%). The average LME steel cash price was \$292.89 per ton in May 2015, down by 1.6% from \$297.75 per ton in the previous month. Steel prices traded at a low of \$280 per ton and at a high of \$300 per ton in May 2015.

Source: World Steel Association, London Metal Exchange

Precious Metals: Gold prices to drop to \$1,100 an ounce over the next 12 months

Gold prices have traded in a narrow range of \$150 per ounce in the first half of 2015 with volatility approaching historical lows, despite increased economic uncertainty in Greece and delayed policy rate hikes by the U.S. Federal Reserve. Gold prices are forecast to average \$1,150 an ounce in the coming three months and to decline to an average of \$1,100 an ounce in the coming 12 months. The uncertainty in Greece is not expected to affect the global gold market as investors believe that the Eurozone and its banks can contain the crisis. However, a spillover to other heavily indebted European countries could trigger broad based safe-haven demand and provide lasting support for gold prices. In addition, the ongoing U.S. economic recovery, the expected increase in U.S. interest rates and a muted inflation outlook are projected to weigh on Western investors' demand for safe-haven assets and to reduce their willingness to purchase gold as insurance. The metal's demand in China is anticipated to remain subdued as gold's weak performance discourages local investors from purchasing the metal, while Indian gold imports are forecast to gradually ease over the coming months following the end of the country's festive season.

Source: Julius Baer, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Africa													
Algeria	-	-	-	-	BB	-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	17-Jun-15	No change	29-July-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	19-Jun-15	No change	15-July-15
Australia	Cash Rate	2.00	16-Jun-15	No change	07-July-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)	18-Jun-15	No change	17-Sep-15
Canada	Overnight rate	0.75	27-May-15	No change	15-July-15
Emerging Markets					
China	One-year lending rate	4.85	27-Jun-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.50	17-Jun-15	No change	N/A
Taiwan	Discount Rate	1.875	25-Jun-15	No change	N/A
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	23-Jun-15	No change	23-July-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	9.75	29-Jun-15	Raised 50bps	28-July-15
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	06-May-15	Cut 25bps	04-Aug-15
Bulgaria	Base Interest	0.02	01-July-15	Raised 1bp	31-July-15
Kazakhstan	Refi Rate	5.50	04-Jan-13	No change	N/A
Ukraine	Discount Rate	30.0	25-Jun-15	No change	30-July-15
Russia	Refi Rate	11.50	15-Jun-15	Cut 100bps	31-July-15



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