

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Real estate funds raise \$60bn in first half of 2015

Figures released by research provider Preqin indicate that private real estate investment funds raised \$60bn in the first half of 2015, up by 17.6% from \$51bn in the first half of 2014 and reflecting the second highest semi-annual level since the global financial crisis. On a quarterly basis, 37 private real estate funds raised \$34bn in the first quarter and 47 funds raised \$26bn in the second quarter of 2015. Overall, a total of 84 funds closed in the first half 2015 compared to 106 funds in the same period last year. The average size per fund reached \$714m in the first half of 2015 relative to \$481m in the first six months of 2014. Further, 22 North American-focused funds secured \$10.3bn in the second quarter of 2015, followed by 11 European-focused funds (\$12.8bn), and 11 Asian-focused funds (\$2.5bn). Also, Preqin indicated that nearly 62% of closed private real estate funds exceeded their target size in the second quarter of 2015 compared to 55% and 60% of closed funds in 2013 and 2014, respectively. It added that funds in the covered quarter required an average of 21 months to reach a final close, up from 19 months for funds closed in 2014, which indicates that fundraising is a long process for many firms. Further, it noted that there are currently 416 private real estate funds in the market that are competing for a combined \$149bn in capital from institutional investors.

Source: Preqin

Global M&A activity up 40% to \$2,240bn in first half of 2015

Figures issued by Thomson Reuters indicated that the value of announced merger and acquisition (M&A) deals worldwide reached \$2,240bn in the first half of 2015, the highest level since 2007, and constituting an increase of 40.4% from \$1,596bn in the first half of 2014. There were 20,475 announced deals in the first half of the year, up 3.1% from 19,852 deals in the same period last year. The surge in the value of M&A transactions reflects a 48% annual increase in the number of deals of more than \$5bn each in the first half of 2015. There were 62 deals announced with a value greater than \$5bn in the covered period, which accounted for half of the total value of announced deals. On a regional basis, there were 6,798 announced deals in the Americas in the first half of 2015 with a total value of \$1,102bn, followed by the Asia-Pacific region with 5,639 deals worth \$575.7bn, Europe with 6,798 deals (\$510bn), Japan with 1,155 deals (\$28.2bn), and the Middle East & Africa region with 624 deals (\$23.8m). The value of announced M&A deals in the energy & power sector reached \$362bn and accounted for 16.2% of the total in the first half of 2015, followed by the healthcare sector with \$338.3bn (15.1%), the high technology sector with \$237.4bn (10.6%), the real estate sector with \$220.1bn (9.8%), and the financial sector with \$174.5bn (7.8%). In parallel, completed M&A deals totaled \$1,487bn in the first half of 2015, up by 33% from \$1,118bn in the first half of 2014. There were 14,751 completed deals in the first half of 2015, up by 2.1% from 15,059 deals in the same period last year.

Source: Thomson Reuters

Tier One capital up 4% to \$6,908bn in 2014

The *Banker* magazine's annual survey of the Top 1000 Banks in the world in terms of Tier One capital showed that the banks' aggregate Tier One capital stood at \$6,908bn at the end of 2014, up by 4.3% from \$6,624bn at the end of 2013. The Tier One capital of banks in the Asia-Pacific region stood at \$2,669bn and accounted for 38.6% of the aggregate Tier One capital of the world's top 1000 banks in 2014. It was followed by banks in Europe with \$2,114bn (30.6%), North America with \$1,453bn (21%), the Middle East with \$268bn (3.9%), Latin America & the Caribbean with \$221.1bn (3.2%), Central & Eastern Europe with \$107.1bn (1.6%), Africa with \$68.1bn (1%) and Central Asia with \$8.2bn (0.1%). In parallel, the capital-to-assets ratio of the Top 1000 Banks was 6.1% at end-2014. The ratio for banks in Central Asia was 11.2%, followed by banks in the Middle East (10.8%), Central & Eastern Europe (8.7%), North America (7.9%), Africa (7.8%), Latin America & the Caribbean (7.6%), Asia Pacific (6.1%) and Europe (4.9%). In addition, the return-on-capital ratio for the Top 1000 Banks was 14.37% in 2014 relative to 13.89% in 2013. The ratio for banks in Latin America was 25.6%, followed by those in Africa (24%), Asia (18.9%), the Middle East (15.6%), North America (15.5%), Europe (8.9%) and Central & Eastern Europe (7.8%). Also, the return on capital ratio for banks in the Eurozone stood at 4.6% in 2014.

Source: *The Banker*, Byblos Research

GCC

Wide gap between expectations of employers and job seekers

A survey about the labor market in the GCC shows that about 60% of employers prefer to hire nationals because of their knowledge of the local market and due to their connections and networking, which expatriates are unable to match. However, it said that new recruits often lack the skills and behaviors that would enable them to build long and successful careers in the private sector. It added that the biggest challenge is high salary expectations, with 70% of GCC private sector employers finding that young nationals are tempted away by competitive public sector salaries and remuneration. Also, 53% of employers said that nationals lack work experience, while about one third of employers noted that nationals lack behavioral attributes, such as communication skills, discipline, commitment and proper attitude towards employment, which makes it difficult to retain them. In addition, 23% of employers cited the lack of required skills or qualifications as a challenge for employing nationals, which reflects a shortage of technical training for young people. In parallel, the survey showed that students in the GCC cited salary and benefits as the most important factor for choosing a job, followed by job security and the approval of the family, while the level of challenge offered by a job was the second least important factor in their decision. As a result, it suggested to align the education curricula with employers' needs; develop the workforce through experience and training; provide information about careers; and encourage a culture of employment, innovation and entrepreneurship.

Source: EY

POLITICAL RISK OVERVIEW - June 2015

EGYPT

An Egyptian court confirmed on June 16 the death sentences of ousted President Mohammed Morsi, as well as 90 other Muslim Brotherhood members, on charges of plotting jail breaks and attacks on police in 2011. President Abdel Fattah al-Sisi vowed to amend and strengthen Egypt's anti-terror laws after the country's top public prosecutor was killed in a car bomb attack in Cairo on June 29th. The government appointed Mr. Hazem Khairat as the country's first ambassador to Israel since 2012. It reopened its Rafah crossing point for two days to allow Palestinians and humanitarian aid into Gaza. Violence and acts of terrorism persisted in the Sinai Peninsula.

IRAN

Iran and the UN Security Council's permanent members plus Germany (P5+1) extended until July 10, 2015 the deadline for a final agreement over Tehran's controversial nuclear program. The drafting of the Joint Comprehensive Plan of Action continued throughout the month but at a slower pace due to loopholes in the Lausanne Framework.

IRAQ

Iraqi soldiers, militias and Kurdish forces, backed by U.S.-led airstrikes, continued to fight Islamic State (IS) militants throughout the month. More than 40 Iraqi soldiers were killed by IS suicide attacks near the western city of Ramadi, while at least 12 were killed in a series of bombings in commercial areas in Baghdad. U.S. President Barack Obama approved the deployment of 450 additional U.S. troops to Iraq in order to train and assist Iraqi forces. Prime Minister Haider al-Abadi considered that Iraqi forces made an "unauthorized" withdrawal from Ramadi in May 2015, while he ordered the retirement of the Army's Chief of Staff General Babaker Zebari at the end of June. The U.S. Senate voted down a bipartisan amendment to the National Defense Authorization Act that would have authorized the U.S. to send weapons to Kurdish fighters without the approval of Baghdad. Violence and acts of terrorism in June led to 1,466 deaths and to at least 1,687 injuries.

DEM REP CONGO

A militia group attacked the airport in the eastern city of Goma in an overnight raid that killed at least four government soldiers and three suspected assailants. The Electoral Commission proceeded with the preparations to the October 2015 provincial elections. President Joseph Kabila continued his consultations for a national dialogue during the month, while major opposition parties refused to participate. The joint operations between the Congolese army and the United Nations peacekeeping mission in the DRC have weakened the "Patriotic Force of Resistance in Ituri", one of the most active rebel groups in the country.

LIBYA

The UN Special Representative for Libya, Bernardino León, unveiled the fourth draft of a proposed political agreement aimed at forming a national unity government. The Tripoli-based General National Congress (GNC) delegation welcomed the proposal as it allows for former GNC members to be part of the proposed unity government. The Tobruk-based House of Representatives (HoR) voted to continue its participation in peace talks and agreed on the amendments of the UN-proposed draft. The United Kingdom, France, Spain and the U.S. supported the UN Security Council in imposing a global travel ban and asset freeze on Abdul Rahman al-Swehli and Othman Mlektka, affiliated with pro-GNC and pro-HoR blocs, respectively, for obstructing the UN-led talks in forming a national unity government. Jihadi groups affiliated with Islamic State militants expanded in the city of Sirte, while they suffered major setbacks in the Derna region.

SOUTH SUDAN

Peace talks failed between President Salva Kiir and Sudan Peoples' Liberation Movement-In-Opposition's (SPLM-IO) leader Riek Machar. The Intergovernmental Authority on Development (IGAD) noted that peace talks between the two parties will resume in Addis Ababa in July. Former Malian President Alpha Oumar Konaré was appointed as the African Union's high representative for South Sudan. A five-member delegation from a group of former political detainees, or G10, vowed to reunify the ruling party of the Sudan Peoples' Liberation Movement (SPLM) and save the country from "collapse". The SPLM reinstated former political detainee Pagan Amum as Secretary General of the party on June 23 in another step towards reunification of the SPLM.

SUDAN

President Omar al-Bashir formed a new government composed primarily of military and security figures, and excluded several key figures from the Islamic Movement. The government, backed by the Rapid Support Forces, continued the "Decisive Summer" campaign against rebel groups in Darfur, South Kordofan and Blue Nile. The opposition "Sudan Call" forces launched on June 13 the "Leave to Stop the War" campaign and called for immediate international intervention to stop aerial bombings on civilians and end the war in South Kordofan, Blue Nile and Darfur. The UN Security Council decided to extend the mandate of the African Union-United Nations Hybrid Operation (UNAMID) in the western region of Sudan until June 30, 2016.

SYRIA

The Kurdish People's Protection Unit (YPG), backed by the U.S. led coalition airstrikes and rebel allies, seized control of the town of Tal Abyad on the Turkish border, cutting off a major supply route for the Islamic State (IS) militants to its capital al-Raqqah. In return, IS militants conducted major offensives in al-Raqqah and al-Hasakah provinces, and renewed their attacks on the Kurdish city of Kobani. IS militants attacked historic Muslim shrines in the ancient city of Palmyra and planted mines in the city. Government airstrikes continued in the provinces of Damascus and Idlib, while clashes persisted in the Aleppo province.

TUNISIA

At least 37 people were killed in an Islamic State-led gun attack on a tourist resort in the eastern coast of Port el-Kantaoui. Clashes erupted between government forces and protesters in the city of Douz, after a month of strikes over employment in the governorate of Gafsa. Police members were injured by shots fired by protesters during tribal clashes in the towns of Djemna and Galaa. The 10 members of Tunisia's diplomatic staff that were kidnapped in Libya were freed and returned to Tunisia on June 19th, while the Tunisian government shut down its consular operations in Tripoli. A Tunisian court started the trial of 24 persons linked to the 2013 assassination of prominent Tunisian opposition figure Chokri Belaid.

YEMEN

Yemen's exiled government and Houthi rebels failed to agree on a temporary ceasefire as they wrapped up U.N.-brokered talks aimed at ending a conflict that has killed over 1,000 civilians and displaced more than one million persons since March 2015. The leader of al-Qaeda in the Arabian Peninsula Nasser al-Wuhayshi was killed in a U.S. air strike, while his deputy Qassim al-Rimi was announced as the new leader. Houthi rebels fired scud missiles into Saudi Arabia and continued their advance in Yemen, capturing the capital of al-Jawf province. A branch of the Islamic State in Yemen claimed responsibility for a series of car bombings in the capital Sana'a, killing at least 30 people.

Source: *International Crisis Watch, Newswires*



OUTLOOK

EMERGING MARKETS

Economic growth to decelerate to 4.2% in 2015, downside risks persist

The International Monetary Fund projected real GDP growth in emerging markets and developing economies at 4.2% in 2015, nearly unchanged from its April forecast of 4.3% and relative to a growth rate of 4.6% in 2014. It attributed the expected deceleration in activity this year to the adverse impact of lower global oil prices on oil-exporting economies, tighter external financial conditions, a slowdown in the Chinese economy, structural bottlenecks in several emerging economies, and economic distress related to geopolitical factors. The Fund projected economic growth in Emerging & Developing Asia at 6.6% in 2015, unchanged from its April forecast, and kept its forecast for Emerging & Developing Europe at 2.9% for 2015. It reduced its projection to 4.4% in 2015 from 4.5% for Sub-Saharan Africa, lowered its forecast to 2.6% from 2.9% for the MENA, Pakistan and Afghanistan region and downgraded its growth figure to 0.5% from 0.9% for Latin America & the Caribbean. Also, it expected economic activity in CIS countries to contract by 2.2% in 2015 relative to an earlier forecast of a 2.6% contraction.

In parallel, the IMF considered that risks to the near-term outlook for global growth are broadly unchanged from April, and are slightly tilted to the downside. It pointed out that risks include disruptive asset-price shifts that could reverse capital flows in emerging economies, as well as an increase in financial market volatility. It said that developments in Greece have not resulted so far in any significant contagion, but it noted that timely policy actions should contain any spillovers. In addition, it indicated that the appreciation of the US dollar poses risks for dollar debtors, especially in some emerging economies. It said that other risks include greater difficulties in China's transition to a new growth model, and spillovers to economic activity from increased political tensions in several emerging markets.

Source: International Monetary Fund

GCC

Low oil prices to weigh on fiscal and external balances, signs of economic slowdown emerging

Barclays Capital projected real GDP growth in the economies of the Gulf Cooperation Council (GCC) at 3.7% in 2015, nearly unchanged from a growth rate of 3.8% in 2014. It forecast hydrocarbon output to grow by 0.1% this year relative to a growth rate of 1.2% last year, and for the non-hydrocarbon sector to expand by 5.5% in 2015, unchanged from 2014. It said that some GCC economies are showing signs of slowing activity due to lower oil revenues and export receipts. It added that spillovers from lower oil prices on economic activity have affected project planning and execution in all GCC countries, except in Qatar and Kuwait. But it noted that the impact on credit growth has remained contained so far. It projected real hydrocarbon GDP in Saudi Arabia to contract by 0.5% in 2015, while it expected it to grow by 2% in Bahrain, by 1.5% in the UAE and by 0.5% in Oman. Also, it forecast real hydrocarbon GDP to grow by 0.5% in Qatar and to remain unchanged in Kuwait in the fiscal year ending in March 2016. It projected non-hydrocarbon GDP to grow by 5.8% in the UAE in 2015, by 5.3% in Saudi Arabia, by 5.2% in Oman and

by 3.6% in Bahrain. Also, it anticipated non-hydrocarbon output at 9.5% in Qatar and at 4% in Kuwait in FY2015/16.

In parallel, Barclays indicated that current account surpluses across GCC economies are eroding, while lower hydrocarbon revenues are starting to affect spending decisions and government deposits in the banking system. It noted that foreign currency reserves in most GCC countries have been declining, reflecting a gradual erosion of current account surpluses and widening balance-of-payment deficits. It forecast the region's current account balance to shift from a surplus of 16.7% of GDP in 2014 to a deficit of 0.7% of GDP in 2015. It projected all GCC countries to post current account deficits this year, except for the UAE and Kuwait. Further, it expected the region's fiscal balance to shift from a surplus of 3.6% of GDP in 2014 to a deficit of 8% of GDP in 2015. It forecast all GCC economies to post a fiscal deficit this year, with the exception of Kuwait.

Source: Barclays Capital

EGYPT

Medium-term outlook dependent on reforms

The Institute of International Finance indicated that the substantial financial support from GCC countries and increased interest from global investors would not be enough to put Egypt's economic growth rate on a higher sustainable path. It said that the government needs to undertake deep structural reforms to reduce supply bottlenecks and to provide appropriate incentives for private sector investment. It noted that the reforms' momentum has been slow, while the government has continued to rely on large public sector projects to stimulate economic activity. It added that the government's ongoing reliance on domestic banks to finance the wide fiscal deficit would limit the availability of credit to the private sector. Also, it said that the private sector has been affected by the decline in foreign exchange liquidity following the introduction of caps on foreign currency deposits.

Further, the IIF expected the fiscal deficit to significantly exceed the government's target deficit of 9.9% of GDP for fiscal year ending in June 2016, as real GDP growth would fall short of the projected 5% rate and because of the delays in the planned fiscal reforms, including the second increase in fuel prices and the introduction of the value-added tax. It considered that repeated terrorist attacks would obstruct the recovery in tourism activity and in FDI inflows, and would weaken market sentiment. It added that the lack of commitment to reforms to reduce the burden of bureaucracy and red tape could weaken the growth momentum.

In parallel, regional investment bank EFG Hermes expects the slowdown in consumption to weigh on investment growth. It anticipated that investment growth would pick up towards the second half of the fiscal year, as more infrastructure projects enter the execution phase. But it expected private consumption growth to decelerate due to the planned introduction of the value-added tax and a significant moderation in public wage growth. It added that the tourism sector faces downside risks from the recent deterioration in the domestic and regional security environment. It projected the fiscal deficit at 11.1% of GDP in FY2015/16, nearly unchanged from 11% of GDP in FY2014/15.

Source: EFG Hermes, Institute of International Finance



ECONOMY & TRADE

EMERGING MARKETS

Turkish and Kazakh firms most vulnerable to foreign exchange risks

Fitch Ratings considered that corporates in emerging Europe, the Middle East & Africa (EMEA) are currently more vulnerable to foreign exchange risks from rising interest rates and weakening currencies than they have been for the past few years. It said that this reflects the depreciation of currencies and subdued economic activity in EMEA countries, which have reduced their financial flexibility. It expected corporate leverage to gradually improve in 2015 and 2016, in line with the steady improvements in economic conditions, but it anticipated it to remain weaker than in 2011. In parallel, Fitch said that Turkish corporates are the most exposed among EMEA emerging markets to the risks of a rise in U.S. interest rates and a strengthening US dollar, due to their large unhedged foreign currency exposures. It added that issuers in Kazakhstan are the second most exposed, while Russian, Ukrainian and South African companies are generally better hedged. The agency pointed out that more than 85% of Turkish corporate debt is denominated in US dollars, while the majority of their revenues is in Turkish lira. It said that this exposure can lead to a rapid deterioration in financial ratios as the local currency weakens. It noted that risks are intensified by the presence of bullet loan repayments, given that companies would need to quickly raise significant amounts of hard currency.

Source: Fitch Ratings

QATAR

World Cup loss to have negative impact on economic growth

Barclays Capital indicated that the risk of Qatar losing the right to host the World Cup in 2022 has cast further uncertainty about the country's medium- to long-term macroeconomic outlook. Barclays said that Qatar announced a \$200bn spending program associated with the preparations to host the event in 2022. But it estimated expenditures directly associated with the World Cup, such as stadiums, hotels and athletics-related facilities, at up to 10% of GDP over the next five to six years. It noted that losing the rights to host the World Cup could affect key infrastructure projects that are planned or underway, especially in the transport sector. It estimated that the cancellation or delays of these projects would reduce new investments by the equivalence of two percentage points of GDP, which would bring down the country's overall GDP growth trajectory by at least 1.5 percentage points of GDP per year. Under this scenario, Barclays projected Qatar's real GDP to average 4.5% annually over the coming five years. However, it considered that losing the World Cup's hosting rights would significantly improve Qatar's fiscal and credit outlook. First, it said that losing the rights would restrain the already expanding import bill and would consolidate the country's external position, given the eroding current account surplus and a more challenging outlook of the liquefied natural gas market. Second, it pointed out that the loss of the hosting rights would reduce the drag on the country's fiscal position by containing large investment projects. Third, it noted that the loss of the rights could ease the potential liquidity squeeze that Qatari banks are facing, as the government's deposits drawdown continues.

Source: Barclays Capital

SAUDI ARABIA

Oil and non-oil sectors support overall activity

Regional investment bank EFG Hermes indicated that Saudi Arabia's real GDP growth of 2.4% in the first quarter of 2015 reflects higher oil production and sustained government spending. It said that economic activity in the first quarter accelerated from 1.6% in the fourth quarter of 2014 and was supported by a 1.8% growth in the hydrocarbon sector and a 3.3% expansion of the non-hydrocarbon sector. It noted that the public sector grew by 3.1% and the private sector expanded by 3.3% in the first quarter of the year. It added that the construction sector grew by 7.1% in the covered quarter and posted the highest growth rate, followed by trade, restaurants & hotels (+4%), and transport & communication (+3.9%). It noted that private sector growth has been subdued since the third quarter of 2014 due in part to lower oil prices, the political changes in the kingdom, as well as to regional uncertainties. It considered that sectors that do not benefit directly from continued government spending or are not supported by domestic consumption would likely adopt a wait-and-see approach and would not deploy or raise capital. In parallel, it noted that the country's average oil production of 10.1 million barrels per day in the first five months of the year reflects, in part, the expected increase in domestic consumption ahead of the summer season. But it projected oil production to decline in the second half of the year, and to average 9.9 million barrels per day in 2015. EFG Hermes projected Saudi Arabia's real GDP growth at 3.2% in 2015, with hydrocarbon sector output growing by 2% and the non-hydrocarbon sector expanding by 4.2%.

Source: EFG Hermes

CÔTE D'IVOIRE

Sovereign ratings affirmed, outlook 'positive'

Fitch Ratings affirmed Côte d'Ivoire's long-term foreign and local currency Issuer Default Ratings at 'B', with a 'positive' outlook. It also affirmed the Country Ceiling at 'BBB-', in line with the Country Ceiling of the West African Economic and Monetary Union to which Côte d'Ivoire belongs. It said that the ratings and the outlook reflect a strong macroeconomic performance, a strengthened sovereign debt profile, improved public finance management, a stable current account deficit and improved banking sector indicators. It projected real GDP growth to average 7.7% during the 2015-16 period, and to be supported by public and private investments, strong demand, rising agricultural output and ongoing reforms to the business environment. It noted the presidential elections scheduled for October 2015 would be a key test for local institutions. It added that political instability constitutes the main risk to the short-term economic outlook. Further, it forecast the fiscal deficit to widen from 2.2% of GDP in 2014 to 3.4% of GDP in 2015, mainly due to higher wages, ongoing infrastructure spending, as well as to a potential rise in current expenditures related to the upcoming presidential elections. But it expected the public debt level to remain broadly stable in 2015 compared to an average of 44.5% of GDP in the 2012-14 period, due in part to strong GDP growth. In addition, it projected the current account deficit to remain stable during the 2015-16 period relative to a deficit of 0.7% of GDP in 2014 due to rising agricultural exports. It anticipated Côte d'Ivoire to remain a net external creditor during the 2015-16 period.

Source: Fitch Ratings



BANKING

MENA

Region lags developing economies in account penetration at financial institutions

Figures issued by the World Bank show that 14.2% of adults above 15 years old in the Middle East & North Africa (MENA) region had an individual or a joint account at a formal financial institution at the end of 2014, up from 10.9% of adults in 2011, and lower than the global average of 60.7%. The Bank defines a formal financial institution as a commercial bank, credit union, cooperative, post office or microfinance institution. The MENA region's account penetration rate was lower than that of the Euro area (94.8%), developing countries in East Asia & the Pacific (68.8%), developing countries in Europe & Central Asia (51.4%), developing countries in Latin America & the Caribbean (51.1%), South Asia (45.5%) and developing countries in Sub-Saharan Africa (28.9%). On a country basis, Iran's account penetration rate reached 92.2% in 2014, reflecting the highest rate among nine developing countries in the MENA region. It was followed by Algeria (50.5%), Lebanon (47%), Tunisia (27.3%), Jordan (24.6%), the West Bank & Gaza (24.2%), Egypt (13.7%), Iraq (11%) and Yemen (6.4%). On a gender basis, 18.7% of males and 9.2% of females in the MENA region who are 15 years or older had an individual or a joint account at the end of 2014, relative to 14.5% and 7.2%, respectively, at the end of 2011.

Source: World Bank

BAHRAIN

Credit risks at high level

Standard & Poor's Banking Industry Country Risk Assessment (BICRA) classified Bahrain's banking sector in 'Group 6', with industry and economic risk scores of '6'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky ones. The agency noted that other countries in BICRA's 'Group 6' include Brunei, Guatemala, Italy, Uruguay, Thailand and Turkey. S&P indicated that Bahrain's economic risk score reflects its "high risks" in economic resilience and credit risks in the economy, and its "intermediate risks" in economic imbalances. It said that the assessment of Bahrain's economic risks balances the economy's hydrocarbon resources and high GDP per capita level with the pressure from low oil prices on economic growth prospects and the government's fiscal and external accounts. It added that imbalances in Bahrain's economy include the ongoing correction in the domestic real estate market to which the banking system is heavily exposed, while the elevated credit risks reflect high industry and single-party concentrations in the banks' loan books. In parallel, it said the industry score indicates that the sector faces "very high risks" in its competitive dynamics, and "intermediate risks" in its institutional framework and system-wide funding. Further, it noted that the trend for economic risks is "negative" due to the low oil price environment, while that for industry risks is "stable". In parallel, Moody's Investors Service changed the outlook for Bahrain's banking system to negative from stable, as it expected the slowdown in economic activity from lower oil prices to weigh on the banks' funding and profitability over the coming 12 to 18 months.

Source: Standard & Poor's, Moody's Investors Service

QATAR

Banking sector's outlook remains stable

Moody's Investors Service maintained its 'stable' outlook on Qatar's banking system as it expected public spending to remain high, which would continue to drive economic activity despite low global oil prices. It anticipated Qatari banks to maintain robust financial metrics over the next 12 to 18 months, including strong earnings and capital buffers, as well as low levels of non-performing loans (NPL). It said that the strong operating environment, prudential regulations and the sizeable share of high-quality government-related loans would support the banks' asset quality. It forecast the banking sector's NPL ratio at between 1.5% and 2% over the next 12 to 18 months. Further, it projected the banks' balance sheets to continue to grow, supported by the favorable domestic economic environment and the banks' foreign expansion. Moody's said that the banking sector's capitalization level would remain solid, but it expected the banks' Tier-One Capital ratio to slightly decline to between 15% and 17% over the next 12 to 18 months. In parallel, the agency indicated that Qatari banks would face deposit pressure as lower global oil prices would lead to reduced deposits from the government and its related entities, the banking sector's largest depositors. As such, it expected the banks to increase their reliance on longer-term and costlier market funding to support growth over the coming months. Also, it noted that loan book concentrations that result from the undiversified economy weigh on the banking sector. The agency considered that the Qatari authorities would be willing and able to provide support to the banks in case of need.

Source: Moody's Investors Service

EGYPT

Near term adjustment in the value of the currency unclear

Citi indicated that the Central Bank of Egypt's (CBE) recent decision to devalue the pound was earlier-than-anticipated, as it did not expect the CBE to adjust the currency until late in the second half of the year due to the rise in the inflation rate in the first half of 2015. Also, it noted that the CBE could have waited until early 2016 to adjust the pound given the recent \$6.1bn deposit by GCC countries at the CBE, which strengthened foreign currency reserves and helped pay an additional part of the foreign currency backlog in the country. As such, it considered that the CBE's decisions have become more difficult to read. The CBE devalued the pound by 1.3% to EGP7.63 against the US dollar on July 2nd and by another 1.3% to EGP7.73 per dollar on July 5, and kept the pound steady since then. Citi anticipated that the CBE would hold the exchange rate at around EGP7.95 per dollar this year, which would constitute an 11% loss in value against the US dollar from the end of 2014. But it noted that the CBE could allow the currency to depreciate to less than the projected EGP7.95. Further, Citi considered that the Egyptian authorities are still committed to broad exchange rate stability. It noted that the adjustment to the pound should not be considered as a trend in coming months. The CBE's preliminary figures show that foreign currency reserves stood at \$20.1bn at the end of June 2015, constituting an increase of 2.7% from \$19.6bn at end May-2014.

Source: Citi



Oil prices down 8% in first week of July 2015

Brent crude oil prices reached \$56.1 per barrel (p/b) on July 8, 2015, constituting a drop of 8% from \$61.2 p/b at the end of June, and a rise of 0.5% from \$55.8 p/b at the end of 2014. The fall in oil prices followed Greece's default on a \$1.7bn payment to the International Monetary Fund on June 30, 2015, and was sustained by the intensification of the Greek debt crisis as well as China's stock market turmoil. The ongoing events in China and Greece could lead the growth in global oil demand to slow down. The potential Greek exit from the Eurozone would further weigh on oil prices, as oil demand from Europe would weaken and the US dollar would strengthen. On the supply side, downward price pressures include the prospects of a permanent nuclear agreement with Iran that would result in additional oil supply to an already oversupplied market. In parallel, the Bloomberg WTI Crude Oil Total Return Sub-Index was nearly unchanged in the first half of 2015, while the Brent Oil Sub-Index increased by 0.4% from end-2014.

Source: BMI Research, Thomson Reuters, Byblos Research

Iraqi oil exports at record high in June 2015

Preliminary figures released by the State Oil Marketing Organization (SOMO) show that Iraqi crude oil exports averaged 3.2 million barrels per day (b/d) in June 2015, up by 1.6% from 3.15 million b/d in May, and constituting its highest daily average output recorded to date. Iraqi oil exports reached 95.6 million barrels in June, down by 1.9% from 97.5 million b/d in May, and generated more than \$5bn in revenues. Exports from the southern port of Basra stood at 90.7 million b/d and accounted for 94.8% of total Iraqi oil exports, while exports from the Ceyhan port reached 4.9 million b/d and represented the balance of 5.2%.

Source: Thomson Reuters, SOMO

Egypt's debt to foreign oil companies at \$3.5bn at end-June 2015

Egypt's total debt to foreign oil companies stood at \$3.5bn at the end of June 2015, constituting an increase of 6.1% from the previous month. Egypt paid \$9.4bn in arrears to foreign energy firms in the nine months ending March 2015, while the Minister of Petroleum indicated that it intends to fully repay its debts to energy companies by the middle of 2016. The country's payments to oil & gas companies have been delayed due to the economic instability initiated by the 2011 uprising.

Source: Thomson Reuters, Byblos Research

Algeria's oil & gas output down 6% in first quarter of 2015

Algeria's oil and natural gas production totaled 38.1 million tons of oil equivalent in the first quarter of 2015, constituting a drop of 6% from the same quarter of 2014. Foreign energy firms, including BP, Statoil, Repsol and Total, accounted for about 33% of total output during the covered quarter. The decrease in production weighs on the country's public finances that have already weakened as a result of the drop in global oil prices. In addition, output of refined oil products fell by 8.2% year-on-year to 7 million tons in the first quarter of 2015, which forced the government to import 581,000 tons of refined fuel to meet domestic demand. The government plans to build five new refineries in order to double its oil and gas output by 2019.

Source: Thomson Reuters, Byblos Research

Base Metals: Zinc prices to modestly rise in 2015

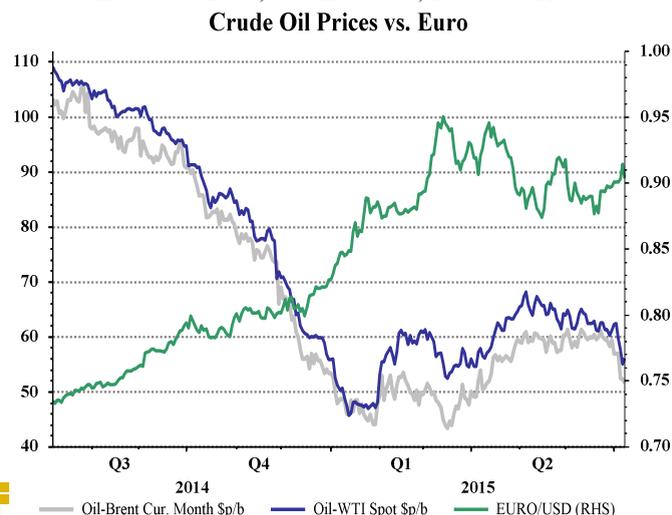
Zinc prices dropped by 8.6% from the end of 2014 to \$1,981 a ton on July 8, 2015, making zinc the second best performer among base metals so far this year. Investors are expected to continue to hold positions in zinc during the second half of 2015 in the absence of other compelling investment options in commodities. The metal's price is forecast to rise by 0.6% year-on-year to an average of \$2,177 per ton in 2015. The zinc market is projected to remain oversupplied in 2015, which would further reduce global inventories. Downturn pressures that could affect the positive medium-term price outlook for zinc include weaker-than-expected global demand growth, especially from China. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index fell by 4.8% in June and by 10.3% in the first half of 2015, while the Zinc Sub-Index dropped by 8.8% last month and by 9% from end-2014.

Source: Deutsche Bank, Bloomberg Indexes

Precious Metals: Platinum prices reach six-year low

Platinum prices reached their lowest level in six years at \$1,016 an ounce on July 8, 2015 after Greece's vote against austerity measures fueled concerns that the metal's demand in Europe would retreat. Also, downward pressure on platinum prices includes the decline in the price of gold and a strong US dollar. Global platinum consumption is projected to average 7.6 million ounces in 2015, which would constitute an increase of 4% from 7.3 million ounces in 2014. Auto-catalyst demand would account for 45.7% of the metal's global consumption, while jewelry consumption would be equivalent to 31.4% of the total in 2015. In parallel, global platinum production is expected to average 7.3 million ounces this year, which would reflect a growth of 19% from 6.1 million ounces in 2014. South African supply is projected to account for 57% of global platinum production. The market is expected to post a deficit of 291,000 ounces, down by 75% from last year. Platinum prices are forecast to average \$1,235 an ounce in the third quarter of 2015 and \$1,250 an ounce in the fourth quarter, compared to an average of \$1,195 per ounce in the first quarter and of \$1,175 an ounce in the second quarter of 2015. Overall, platinum prices are projected to drop by 12.3% to \$1,215 an ounce this year from \$1,385 an ounce in 2014. In parallel, the Bloomberg Precious Metals Total Return Sub-Index fell by 3% in June and by 1.3% in the first half of 2015, while the Platinum Sub-Index dropped by 3% last month and by 11% from end-2014.

Source: Deutsche Bank, Citi Research, Thomson Reuters



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	07-July-15	No change	21-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	09-July-15	Cut 25bps	13-Aug-15
Malaysia	O/N Policy Rate	3.25	09-July-15	No change	03-Sep-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



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

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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

