

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### Downgrades outpace upgrades in second quarter of 2015

Standard & Poor's indicated that it downgraded 244 issuers worth \$1,194bn in rated debt and upgraded 125 issuers worth \$620.5bn in rated debt globally in the second quarter of 2015. It noted that the global downgrade ratio, which is the proportion of downgrades to total rating actions, stood at 66% in the second quarter of 2015 compared to the historical average of 62% since 1995. It said that downgrades outpaced upgrades globally as geopolitical and economic risks rose, including Greece's potential exit from the Eurozone, a slowdown in China's economic activity, and the credit effect from interest rate normalization. In parallel, S&P downgraded 238 corporate issuers, representing \$751bn in rated debt in the second quarter of the year, while it upgraded 120 corporate issuers worth \$489bn. The U.S. had 132 corporate downgrades worth a total of \$212bn and 66 corporate upgrades representing \$226bn; followed by Europe with 61 downgrades (\$425bn) and 36 upgrades (\$206bn), other developed economies with 17 downgrades (\$69bn) and seven upgrades (\$31bn), Asia-Pacific with 13 downgrades (\$17bn) and four upgrades (\$3bn), Latin America with 12 downgrades (\$26bn) and four upgrades (\$22bn), and Eastern Europe, the Middle East & Africa (EEMEA) with three downgrades (\$4bn) and three updates (\$1bn). Further, the agency downgraded six sovereigns representing \$443bn in rated debt in the second quarter of 2015, while it upgraded five sovereigns worth \$131.5bn. Emerging economies had two sovereign downgrades worth \$19.2bn in rated debt and four upgrades worth \$26bn.

Source: Standard & Poor's

##### Private equity fundraising down 12% to \$242bn in the first half of 2015

Figures released by research provider Preqin indicate that global private equity fundraising reached \$242bn in the first half of 2015, constituting a drop of 11.6% from \$273bn in the first half of 2014. There were 484 funds that held a final close in the covered period, compared to 583 in the same period last year. North America-focused funds raised an aggregate of \$161bn in the covered period, followed by Europe-focused funds (\$50bn), Asia-focused funds (\$20bn) and funds focused on the remaining parts of the world (\$11bn). In parallel, private equity fundraising reached \$113bn in the second quarter of 2015, constituting a drop of 12.4% from \$129bn in the preceding quarter and a decline of 29.8% from \$161bn in the second quarter last year. There were 243 funds that held a final close in the second quarter of 2015 relative to 241 funds in the first quarter and 314 deals in the same quarter last year. The capital raised through 49 real estate funds worldwide reached \$26.5bn or 23.5% of aggregate capital secured, followed by 39 buyout funds with \$18.5bn (16.4%), 80 venture capital funds with \$14.4bn (12.7%), three secondaries funds with \$11.8bn (10.4%), and four natural resources funds with \$9.1bn (8.1%). Secondaries are funds where investors sold some or all of their existing interests on the secondary market.

Source: Preqin

##### Corporate default rate at 2.3% at end-June 2015

Moody's Investors Service indicated that the rate of global speculative-grade corporate defaults reached 2.3% at the end of June 2015, unchanged from the end of March 2015 and from end-June 2014, and relative to 2.1% at end-2014. It noted that 18 rated corporate debt issuers defaulted in the second quarter of 2015 with five defaults in June 2015, compared to 20 issuers who defaulted in the first quarter of the year. It forecast the global speculative-grade default rate to reach 2.6% by the end of 2015, with the rate at 3% in the United States and 1.7% in Europe. Moody's expected the pace of corporate defaults to remain low in the near term despite the challenges related to an expected increase in U.S. interest rates and the ongoing Greek crisis, among other factors. Moody's added that its speculative-grade corporate distress index, which measures the percentage of high yield issuers that have debt trading at distressed levels, stood at 14.5% at the end of June 2015, compared to 16.4% at the end of March 2015, 18.1% at end-2014 and 6.5% at end-June 2014.

Source: Moody's Investors Service

#### MENA

##### Equity markets up 1.4% in first seven months of 2015

Arab stock markets increased by 1.4% and GCC markets rose by 3.6% in the first seven months of 2015 compared to increases of 16.5% and 17.2%, respectively, in the same period of 2014. Arab stock markets dropped by 0.2% in July from June 2015, while GCC markets were nearly unchanged month-on-month. Activity on the Tunis equity market grew by 10.7% in the first seven months of 2015 and posted the best performance among Arab markets in the covered period. It was followed by the Dubai financial market with a 9.4% rise, the Saudi Arabia stock exchange with a 9.2% increase, the Abu Dhabi equity market with a 6.7% improvement, the Oman bourse with a 3.4% growth and the Casablanca stock market with a 1.2% rise. In parallel, activity on the Khartoum bourse regressed by 13.4% and posted the weakest performance among Arab markets in the first seven months of 2015. It was followed by the Iraqi stock exchange with an 8.8% drop, the Egyptian equity market with an 8.2% decrease, the Bahrain bourse with a 6.7% contraction, the Palestine stock market with a 5.7% regression, the Damascus securities exchange with a 4.6% decline, the Kuwait equity exchange with a 4.3% contraction, the Qatar bourse with a 4.1% decrease, the Iranian stock market with a 3.2% drop, the Amman securities exchange with a 1.8% decline and the Beirut stock exchange with a 1.5% regression. In comparison, global equities rose by 2.4%, while emerging market equities decreased by 5.3% in the first seven months of 2015.

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

# POLITICAL RISK OVERVIEW - July 2015

## EGYPT

Terrorist attacks intensified ahead of the second anniversary of the ousting of former President Mohammed Morsi and following the assassination of the country's top public prosecutor in Cairo on June 29th. More than 100 militants and 17 soldiers were killed in major clashes and attacks between Islamic State (IS) militants and security forces in North Sinai. The Egyptian authorities launched a series of airstrikes on IS targets in the Sinai Peninsula to support ground forces, killing 23 fighters. The government extended for three months a state of emergency it imposed on parts of the northern Sinai Peninsula in October 2014. The Cabinet drafted a law that criminalizes the reporting of terrorism statistics that contradict government statements. President Abdel Fattah al-Sisi ratified on July 9 the amendments to an election law that regulates electoral constituencies, and promised that the parliamentary elections would be held before the end of 2015.

## IRAN

Iran and the UN Security Council's permanent members plus Germany (P5+1) reached a final agreement on Tehran's nuclear program on July 14, after 12 years of crisis and 22 months of negotiations. The U.S. State Department officially submitted the nuclear deal to the U.S. Congress on July 19th, triggering a 60-day review period that expires on September 17th. The UN Security Council endorsed the Joint Comprehensive Plan of Action on July 20th, triggering a 90-day period to "adoption day" in October 2015, when Iran will begin implementing key nuclear commitments and the U.S. and the EU will issue the necessary regulations to lift the sanctions.

## IRAQ

Islamic State (IS) militants continued to conduct attacks and suicide bombings throughout the month, including detonating a car bomb in the Khan Bani Saad town that led to at least 120 deaths and 130 injuries. The government and the Shiite-backed militias began on July 13 a second large-scale military operation to recapture the Anbar governorate from IS militants. They advanced into the western city of Fallujah, but were repelled by the IS militants who planted bombs around the city. Violence and acts of terrorism in Iraq led to 14,947 deaths and 29,189 injuries between January 2014 and April 2015.

## DEM REP CONGO

The government increased the number of provinces from 11 to 26, following its announcement of suspending the decentralization process on July 11th. The electoral commission announced that the elections for provincial governors will be held on October 6, 2015 instead of August 31st. Members of the Parliament began special sessions to discuss the legislation required for local elections. The Uganda-based Allied Defence Forces rebels continued their attacks on civilians in the northern city of Beni.

## LIBYA

The UN-brokered peace talks between rival factions resulted in a preliminary political agreement that was signed on July 11 by most participants, with the exception of the Tripoli-based General National Congress (GNC). The agreement envisions the creation of a consensus-based national unity government in Tripoli with the powers to dictate foreign and security policies, and to manage state finances and institutions. It would also extend the term of the Tobruk-based House of Representatives for at least one year and make it the sole legislative authority. Also, it would establish a "State Council" to include GNC members. The country remains unstable, as fighting between rival armed groups in Benghazi continued. Clashes between groups affiliated with the Islamic State and other Islamist groups persisted in the city of Derna. A Libyan court sentenced former dictator Muammar Gaddafi's son, Saif al-Islam Gaddafi to death on charges over the violent crackdown on protestors in 2011.

## SOUTH SUDAN

The Intergovernmental Authority on Development, with the participation of key international players such as the African Union and the U.N. (IGAD-plus), presented a draft peace treaty for warring parties and gave them until August 17, 2015 to reach an agreement. The proposal would give Sudan People's Liberation Movement-In-Opposition control over 53% of the oil-rich greater Upper Nile region, followed by the government with a 33% share of the region, and the opposition parties and former political detainees with a 7% share each. The warring parties disputed certain provisions of the agreement but did not reject the draft. U.S. President Barack Obama met with African leaders and heads of state in Addis Ababa to discuss possible sanctions and an armed embargo on South Sudan if the deal is not signed by the stated deadline.

## SUDAN

President Omar al-Bashir announced that the National Dialogue Committee, which consists of the government, its allies and the "7+7" opposition groups, will resume its peace negotiations. The "7+7" group proposed to postpone the negotiations until October 2015 to allow the committee to be better prepared. It also suggested to hold a pre-dialogue preparatory meeting with the political forces and armed groups who refused to join the negotiations. The Sudanese government rejected a call by the National Umma Party to adopt a new peace process in which the mediation would include international partners. Clashes between Sudan Peoples' Liberation Movement-North and government forces continued in South Kordofan and the Blue Nile. The government deployed 1,800 troops and security forces in East Darfur to prevent clashes between ethnic groups.

## SYRIA

Tensions increased within the rebel coalition Jaish al-Fateh amid the perception that it failed to implement the agreement between its factions to share power and to provide governance in the Idlib province. The U.S.-led coalition airstrikes against Islamic State (IS) militants continued, with two of their senior leaders reported killed in the north east of the country. The Kurdish People's Protection Unit recaptured at least 10 villages seized by IS militants in the north of al-Raqqah City. The Turkish government launched airstrikes on IS militants areas in Syria in retaliation to a suicide attack in a Turkish town near the Syrian border.

## TUNISIA

President Beji Caid Essebsi declared a state of emergency until the end of September 2015. The government granted security forces the permission to increase media controls and to bar strikes or public meetings that would threaten the public order. The Parliament ratified an anti-terror law that approves the death penalty for terrorism-related crimes and raises from six to 15 days the time that police could hold a suspect under custody. Prime Minister Habib Essid announced the construction of a 100-mile "anti-terror barrier" along the country's border with Libya to curb the inflow of militants into the country.

## YEMEN

Fighting intensified after the Saudi Arabia-led coalition launched a new military offensive against the Huthis, as hopes for a Ramadan ceasefire failed to materialize. The alliance between Yemen's former President, Ali Abdullah Saleh, and Huthi fighters suffered its first major defeat since the start of the conflict in March, as Yemeni fighters backed by the Saudi-led coalition captured the Aden International Airport. The Saudi-backed fighters increased their control over most of the city of Aden and regained control of the military bases in Shebwa and Lahj. The UN estimated that 1,895 civilians were killed and 4,182 were injured in the Yemeni conflict between March 26 and July 24.

*Source: International Crisis Watch, Newswires*



# OUTLOOK

## UAE

### **Economic outlook to moderate, downside risks remain**

The International Monetary Fund expected the UAE's economic outlook to moderate in the context of low oil prices. It projected real GDP growth to decelerate from 4.6% in 2014 to 3% in 2015 and expected it to average 3.5% annually during the 2016-20 period. It forecast real non-hydrocarbon GDP to slow down from 4.8% in 2014 to 3.4% this year and to gradually increase to 4.6% by 2020, supported by the implementation of megaprojects and private investments in the run-up to Expo 2020. It projected activity in the hydrocarbon sector to grow by about 2% annually during the 2015-20 period, given the excess supply in the global oil market. It forecast the inflation rate to average 3.8% in 2015 compared to an average rate of 2.3% in 2014, driven by higher rents, and to stabilize around 3% over the medium term.

The IMF pointed out that domestic and external conditions pose risks to the UAE's medium-term outlook. It said that persistently lower-than-expected oil prices could be exacerbated by falling liquidity in the banking system if the government withdraws its deposits, as well as by increased volatility in the stock markets and disruptive declines in the real estate sector. It added that higher U.S. interest rates could pose debt rollover risks and liquidity strains for the Dubai government and its government-related entities (GREs). Further, it cautioned that an acceleration in the implementation of megaprojects in Dubai would create additional macro-financial risks to Dubai's GREs, banks and government in the context of the debt accumulated from the 2008/09 financial crisis. It estimated the debt of the government of Dubai and its GREs at \$143bn, or 136.2% of GDP, with about 50% maturing in the 2015-20 period. In parallel, it forecast the UAE's fiscal balance to shift from a surplus of 5% of GDP in 2014 to a deficit of 2.9% of GDP in 2015, which would reflect the first such deficit since 2009. But it expected the fiscal balance to shift back to a surplus from 2016 onwards. It also expected the current account surplus to narrow from 13.7% of GDP in 2014 to 5% of GDP in 2015, and to increase to 6.8% of GDP by 2020.

*Source: International Monetary Fund*

## GHANA

### **Economic outlook improves**

The Institute of International Finance indicated that the Ghanaian economy is on the road to recovery after several years of unstable conditions. It said that renewed confidence, following the IMF's first program review and the injection of US dollar liquidity by the Bank of Ghana, has resulted in a sharp rebound in foreign currency reserves in recent weeks. It noted that market participants sold foreign currency back to the BoG, which offset the decline in reserves from Central Bank operations. It expected the prevailing stability in the foreign currency market to persist, supported by the resumption of donor budgetary support following the agreement with the IMF, the collection of proceeds from the \$1.7bn cocoa loan, and the issuance of a \$1.3bn Eurobond in the third quarter. As such, it expected the Ghanaian cedi, which appreciated by more than 30% since June, to stabilize at around GHS3.5 against the dollar.

In parallel, the IIF projected Ghana's real GDP to accelerate to more than 5% in 2016 and 2017 from about 3% to 3.5% in 2015. It noted that new oil & gas fields would become operational in the coming two years, which would strengthen production. It added that the resumption of a more reliable power supply should ease the constraints on industry, which could help the recovery of output in the sector. Also, it said that agricultural activity could rebound following lower cocoa output in 2015. It forecast the inflation rate to significantly decrease in the coming 12 months from 17.1% in June 2015 to below 8% before the end of 2016 if the recent exchange rate appreciation holds. It anticipated the BoG to cautiously lower interest rate as inflation falls, which would provide relief to local industry and ease the government's growing debt service burden. Further, it expected the current account deficit to narrow in coming years, but to remain over 5% of GDP in 2015 and 2016, which constitutes a vulnerability. It noted that higher oil production and cocoa prices would support exports, while the delivery of gas to power stations would reduce the need for fuel imports. Also, the IIF indicated that fiscal consolidation is on track, with an expected fiscal deficit of 7.5% of GDP in 2015 and a primary deficit close to balance.

*Source: Institute of International Finance*

## NIGERIA

### **Policy mix to strengthen foreign currency reserves and ease currency depreciation pressure**

Credit Suisse anticipated that the Central Bank of Nigeria (CBN) would maintain non-traditional measures in the near term to protect the naira and foreign currency reserves, as well as to encourage tighter naira liquidity. It noted that such measures include a 30% Cash Reserve Requirement for public and private banks, and foreign currency controls that the CBN introduced in June 2015. It expected the CBN to raise the Monetary Policy Rate by 100 basis points to 14% this year. Overall, it pointed out that, under the monetary policy mix, lending rates are higher, naira liquidity is tighter and foreign currency shortages have become more severe.

Credit Suisse said that, since the CBN introduced foreign currency controls, foreign reserves increased by \$2.4bn to \$31.5bn at the end of July. It expected the CBN to maintain the foreign exchange controls in the near term as it aims to protect the reserve buffers. Also, it anticipated capital outflows in 2015 to be smaller than originally expected, as the CBN limited residents' purchase of foreign bonds and shares. It noted that this would result in smaller funding needs for the balance of payments and a slower depletion of foreign currency reserves. As such, it raised its forecast for foreign currency reserves to \$29.5bn at the end of 2015 from \$19.5bn previously, and relative to \$34.5bn at end-2014.

Further, Credit Suisse said that market expectations for the devaluation of the naira have stabilized since the introduction of foreign currency controls in June. It forecast the CBN to depreciate the naira by 5% during the second half of the year and expected the currency to trade at NGN210 against the US dollar at the end of 2015. It noted that the pace of devaluation would be steadier than the market expects, as the CBN continues to take steps against currency substitution.

*Source: Credit Suisse*



# ECONOMY & TRADE

## AFRICA

### **Sovereign creditworthiness deteriorates, Eurobond issuance to become more challenging**

Standard & Poor's indicated that the overall sovereign creditworthiness in Sub-Saharan Africa (SSA) has deteriorated since February 2015. The agency took negative rating actions on Nigeria, Zambia and Mozambique, and upgraded Rwanda's sovereign ratings by one notch to 'B+'. It anticipated economic conditions for several sovereigns in Sub-Saharan Africa (SSA) to be challenging in the second half of 2015. It said that the sharp drop in global oil prices since mid-2014 would continue to negatively affect the economic, external and fiscal profiles of the region's large oil-producers. It added that slower economic activity in China would result in weaker demand for commodities. In turn, this would keep commodity prices at low levels, which would continue to pose problems for several non-oil commodity exporters in SSA. Also, it noted that the expected increase in U.S. interest rates could make emerging and frontier markets' debt relatively less attractive to investors. In addition, S&P considered that the region's rated net hydrocarbon importers would benefit from a modest improvement in their fiscal and external accounts as a result of lower oil prices. However, it did not expect these benefits to be significant enough to lead to positive rating actions. In parallel, the agency anticipated that conditions for Eurobond issuance would be more challenging in 2015, and noted that issuance in the second half of 2015 would be driven by financing needs rather than low borrowing costs. It said that Angola, Ghana, Nigeria, Cameroon, Ethiopia, Tanzania, South Africa, and Zambia are all considering issuing Eurobonds.

*Source: Standard & Poor's*

## IRAQ

### **Additional fiscal adjustment efforts needed**

The International Monetary Fund indicated that its Executive Board approved an IMF emergency assistance of about \$1.24bn for Iraq under the Rapid Financing Instrument. It said that the decline in global oil prices and the conflict with the Islamic State militants have severely widened Iraq's fiscal deficit and caused a decline in its foreign currency reserves. It welcomed the authorities' policies to deal with the shocks, such as implementing a sizeable fiscal adjustment and preserving the dinar's peg to the US dollar. It considered that the IMF funding would support the authorities' current economic program, which includes fiscal adjustment measures and structural reforms, and would help address Iraq's urgent balance-of-payments and budget needs. But it noted that large fiscal and external gaps remain. As such, it called on authorities to introduce additional fiscal adjustment measures and to identify domestic and internal financing sources, in addition to implementing their current policies. The Fund encouraged authorities to implement the new electricity tariff schedule as soon as possible, or adopt compensatory measures. It added that the government should lay the ground for medium-term structural reforms that would support macroeconomic policy management and improve the economy's resilience to shocks.

*Source: International Monetary Fund*

## EGYPT

### **Budget subject to execution risks and delays**

Merrill Lynch considered that Egypt's revised budget for the fiscal year that ends in June 2016 incorporates gradual fiscal consolidation measures, but its targets are ambitious and are subject to execution risk and delays. It noted that the revised budget aims for a fiscal deficit of 8.9% of GDP for FY2015/16, relative to a target of 9.9% of GDP in the initial budget. It expected the fiscal deficit to narrow from 10.8% of GDP in FY2014/15 but to miss the government's target deficit and to remain above 10% of GDP in FY2015/16. It pointed out that the budget for FY2015/16 intends to increase public revenues by 13.4% from the preceding year. But it noted that the revenues are based on an ambitious real GDP growth forecast of 5% for FY2015/16, as well as on the introduction of the value-added tax that has been frequently delayed. Also, Merrill Lynch did not expect another round of energy reforms, as the decline in energy subsidies reflects lower global oil prices. In parallel, Merrill Lynch anticipated that the materialization of pledges made at the Egypt Economic Development Conference could help support the external account, given continued external funding pressures. It noted that net international reserves at the Central Bank of Egypt (CBE) were lower-than-expected at \$20bn at the end of June due to the settlement of arrears. Further, it pointed out that the Egyptian pound has stabilized following the gradual devaluation in July. It noted that this is in line with the CBE's gradual corrective approach for the pound. It said that the CBE could gradually depreciate the currency to between EGP8 and EGP8.25 against the US dollar.

*Source: Merrill Lynch*

## ANGOLA

### **Policy response improves, challenges remain**

Fitch Ratings considered that the Banco Nacional de Angola's (BNA) decision to increase its policy rate adds to the authorities' improved policy response to falling oil prices that included sharp currency depreciation and fiscal tightening. It said that authorities have responded more quickly to the fall in oil prices than in 2008/09, but it noted that the country's credit profile remains vulnerable, with foreign currency reserves under pressure, the public debt rising and growth slowing significantly. It indicated that the BNA raised rates by 150 basis points to 10.25% since August 2014, in response to the steady increase in the inflation rate that reached 9.6% in June 2015. It pointed out that the Angolan kwanza depreciated by 18% against the US dollar so far this year, as the BNA has allowed the currency to depreciate much more rapidly than in 2008. It said that this has limited the depletion of foreign currency reserves even though they have decreased by \$3.5bn since the third quarter of 2014. It indicated that the BNA's willingness to increase rates could help contain inflation expectations and limit the exchange rate pass-through to inflation. The agency anticipated that the continued shortfall of foreign currency in the market would likely maintain the pressure on the currency and foreign currency reserves. It expected foreign currency reserves to fall to 4.8 months of external payments in 2015, but to be above the median of 4.1 months among 'BB'-rated sovereigns and the low of 3.3 months in 2009. Fitch considered that raising external funding to help finance the balance of payments deficit could be challenging, especially if oil prices remain low.

*Source: Fitch Ratings*



# BANKING

## MOROCCO

### Pressure on asset quality to remain

Fitch Ratings anticipated that the asset quality of Morocco's six largest banks could further deteriorate in 2015 despite expectations of higher non-agricultural real GDP growth. It noted that any significant improvement in the banks' asset quality ratios this year would have to come from stronger demand for loans. But it projected the banks' lending to grow by about 3%, at the same rate as in 2014. Groupe Banque Centrale Populaire, Attijariwafa Bank, BMCE Bank, Société Générale Marocaine de Banques, Banque Marocaine pour le Commerce et l'Industrie and Crédit du Maroc account for about 90% of the sector's customer deposits. Fitch noted that domestic credit risk is high for the six banks, and expected risks to further deteriorate this year, with loan expansion being primarily driven by growth outside Morocco. Further, it said that the banks' substantial exposure to volatile operating environments, such as Sub-Saharan African (SSA) countries or Tunisia, poses additional credit risks. It added that high concentration levels in the banks' loan portfolios expose them to heightened credit risk in adverse economic conditions. It pointed out that the banks' reserve coverage ratios are only adequate due to the insufficient coverage of impaired loans in SSA, significant exposure to vulnerable domestic corporate and SMEs, and uncertainties on collateral valuation. In parallel, it anticipated the banks' profitability to deteriorate in 2015, given that the 2014 non-recurring gains on the bonds portfolios are unlikely to be repeated in 2015. It added that worsening asset quality has taken its toll on the banks' core profitability.

Source: Fitch Ratings

## UAE

### Interest income drives earnings growth

The net profits of nine listed banks in the UAE totaled AED16.8bn, equivalent to \$4.6bn, in the first half of 2015, constituting a rise of 17.1% from AED14.3bn in the same period of 2014. The increase in profits in the first half of the year reflects a 10.6% year-on-year rise in interest income and a 15.3% drop in provisions. Provisioning pressure is unlikely to increase in the second half of 2015 due to subdued non-performing loans (NPL) formation and satisfactory NPL coverage. Also, total operating expenses rose by 14% to AED10.7bn, or \$2.9bn, in the first half of 2015. Aggregate net profits rose by 20.6% annually to AED8.3bn, or \$2.26bn, in the first quarter of 2015, while they grew by 13.8% to AED8.5bn, or \$2.31bn, in the second quarter of the year. The slowdown in the banks' earnings growth in the second quarter reflects tightening spreads and a deceleration in fee income growth. In parallel, total assets reached AED1,663bn, equivalent to \$453.1bn, at the end of June 2015, constituting a rise of 11.5% from end-June 2014. Net loans totaled AED1,063bn, or \$289.6bn, at the end of June 2015 and rose by 13.8% year-on-year. Further, aggregate customer deposits reached AED1,110bn or \$302.4bn, at the end of June 2015 and increased by 6.1% from end-June 2014. The loans-to-deposits ratio was 95.8% at end-June 2015 relative to 91.5% at the end of March 2015 and 89.3% at the end of June 2014. Total investments by banks reached AED187.1bn at the end of June 2015 and posted a 5.8% growth year-on-year.

Source: EFG Hermes

## SAUDI ARABIA

### Banks' ratings affirmed, outlook 'stable'

Capital Intelligence affirmed at 'A+' the long-term foreign currency rating of the Saudi British Bank (SABB), Banque Saudi Fransi (BSF) and the Arab National Bank, at 'A' the rating of the Saudi Investment Bank (SAIB) and the Saudi Hollandi Bank (SHB) and at 'BBB+' that of Bank Al Jazira (BAJ). It also affirmed at 'A1' the short-term foreign currency ratings of SABB, BSF and ANB, and at 'A2' those of SAIB, SHB and BAJ. It said that all banks' long-term ratings have a 'stable' outlook. Further, it affirmed the financial strength rating (FSR) of SABB and ANB at 'A+', that of SHB at 'A', that of SAIB at 'A-' and that of BAJ at 'BBB'; while it upgraded the FSR of BSF from 'A' to 'A+'. The agency attributed its upgrade on BSF's FSR to the bank's sound and improved liquidity, strong growth in demand deposits and continued high use of medium and long term-funding. But it noted that the rating is constrained by continued deceleration in operating profitability and tight liquidity ratios. Also, the agency noted that SABB's FSR is supported by the bank's very sound and improving liquidity, excellent cost control, and strong profitability. Also, it said that SAIB's FSR reflects the bank's strong growth in customer deposits, improved liquidity and profitability and liquid investment portfolio. It pointed out that SHB and ANB's FSRs are supported by their strong asset quality, rising profitability levels, robust growth in customer deposits and strong franchises. It noted that BAJ's FSR reflects its strong asset quality and liquidity, as well as its sound effective coverage ratio.

Source: Capital Intelligence

## ARMENIA

### Banks post net losses of \$14.3m in first half of 2015

The Armenian banking sector posted net losses of AMD6.8bn in the first half of 2015, equivalent to \$14.3m, relative to net profits of AMD18.5bn, or \$44.9m, in the same period of 2014. Aggregate assets reached AMD3,239bn, equivalent to \$6.9bn at the end of June 2015, constituting a decrease of 5% from end-2014 and a rise of 10.8% from a year earlier. Total loans stood at AMD2,080bn or \$4.4bn at end-June 2015, down by 4.9% from the end of 2014 and up by 10.4% from end-June 2014. Loans in foreign currency accounted for 66% of total loans at the end of June 2015 relative to 62.6% a year earlier; while loans to non-residents represented 3.9% of aggregate loans. Deposits reached AMD1,761bn, equivalent to \$3.7bn at end-June 2015, unchanged from the end of 2014 and up by 7.1% from end-June 2014. Deposits in foreign currency accounted for 69.7% of total deposits at end-June 2015, up from 68.7% a year earlier. Non-resident deposits represented 21.9% of total deposits at the end of June 2015 and 25.1% a year earlier. In parallel, the sector's risk-weighted capital adequacy ratio was 15.4% at the end of June 2015 down from 16.2% a year earlier. The sector's liquid assets were equivalent to 25.2% of total assets at end-June 2015 relative to 27.5% a year earlier; while they represented 138.2% of short-term liabilities compared to 135.1% at end-June 2014. The loans-to-deposits ratio in foreign currency stood at 111.7%, up from 104.3% a year earlier, while the same ratio in local currency was 133% relative to 137.3% a year earlier. The total loans-to-deposits ratio was 118.1% at end-June 2015, up from 114.6% a year earlier.

Source: Central Bank of Armenia, Byblos Research



# ENERGY / COMMODITIES

## Oil prices fall to five-month low

ICE Brent crude oil futures prices closed at \$52.3 per barrel (p/b) at the end of July 2015, constituting a decline of 13.8% month-on-month and of 4.5% in the first seven months of 2015. Also, WTI oil prices reached \$47.1 p/b at the end of July, down by 20.8% from the end of June 2015 and by 11.9% from end-2014. Oil prices have dropped in recent weeks on investors' concerns that the persistently high production in the U.S. and elsewhere could keep the oil market oversupplied through the end of 2015. Further downside pressures on oil prices included the uncertainty regarding the economic implications of China's stock market decline. Indeed, prices fell below the \$50 p/b mark in early August to reach their lowest level in five months, after weekly inventory data showed a small increase in U.S. crude oil production and as U.S. President Barack Obama urged lawmakers to support the Iranian nuclear deal. Brent oil prices are expected to average \$61 p/b in the third quarter and \$66 p/b in the fourth quarter of 2015. Overall, Brent oil prices are forecast to drop by 39% to an average of \$61 p/b in 2015, while WTI prices would decline by 39.8% to an average of \$56 p/b this year.

Source: Barclays, Wall Street Journal, Byblos Research

## KRG oil exports down 10% in July 2015

The Kurdistan Regional Government's (KRG) crude oil exports averaged 516,745 barrels per day (b/d) in July 2015, down by 9.5% from 571,021 b/d in the previous month. The KRG pointed out that it reduced its oil transfers to the Iraq's State Organization for Marketing of Oil (SOMO) by 52.6% to an average of 71,017 b/d in July 2015. The KRG indicated that, starting in September 2015, it would allocate a portion of its monthly revenues from its direct crude oil sales to international oil companies operating in the region. The move follows Baghdad's failure to fully transfer Erbil's 17% share of the national budget. The KRG noted that it remains determined to reach a lasting agreement with Baghdad on all outstanding issues related to oil revenue sharing.

Source: KRG Ministry of Natural Resources, Byblos Research

## Iran needs at least five years to grow gas capacity

Fitch Ratings indicated that it will take Iran at least five years to increase its gas production and build the pipelines necessary to become one of the world's largest gas exporters, even if international sanctions are removed. It noted that liquefied natural gas projects are costly and complex, which means that significant LNG exports would take a decade or longer to materialize. It added that most foreign oil companies have stopped dealing with Iran following international sanctions. Fitch expected a significant part of the new gas production to be consumed domestically over the next few years. Iran's natural gas reserves are estimated at 34 trillion cubic meters, or 18% of the world's total gas reserves.

Source: Fitch Ratings

## OPEC's oil production at 32.1 million b/d in July

The Organization of the Petroleum Exporting Countries' crude oil production reached 32.11 million barrels per day (b/d) in July 2015, constituting a decline of 1.1% from 32.47 million b/d in the preceding month. Oil output from Saudi Arabia rose by 70,000 b/d during the month, while supply from Iraq fell by 194,000 b/d, contributing most to the decline in total production. Total output remained well above OPEC's target production of 30 million b/d, exceeding it by two million b/d for the second consecutive month.

Source: Bloomberg

COUNTRY RISK WEEKLY BULLETIN

## Base Metals: Aluminium prices at lowest level since 2009

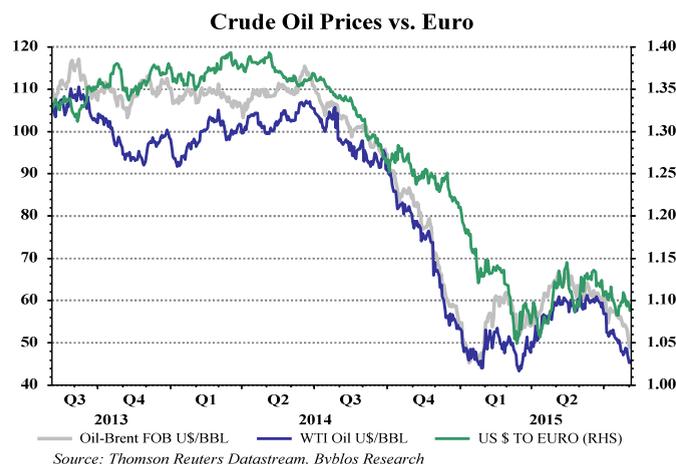
London Metal Exchange aluminium prices reached their lowest level in six years at \$1,560 per metric ton on August 5, 2015, due in part to slower global demand for the metal and to higher exports from China. Prices are forecast to maintain the downward trend that started in 2011 despite falling inventories in LME-bonded warehouses. The metal's price is expected to remain volatile in the coming months and to trade at between \$1,650 and \$1,800 per ton in the third quarter of 2015. In parallel, aluminium demand is projected to be relatively robust this year due to the metal's diversified use in multiple sectors. But the aluminium market is forecast to remain oversupplied in 2015, with the metal's global production rising by 6.5% year-on-year to 57.3 million tons and global demand increasing by 6% to 56.8 million tons. As such, aluminium prices are forecast to average \$1,765 a metric ton in 2015, which would constitute a drop of 5.5% from \$1,867 a metric ton in 2014. In parallel, the Bloomberg Aluminium Total Return Sub-Index regressed by 4.8% in July and by 15.4% in the first seven months of 2015.

Source: World Bank, Sucden Financial, Bloomberg Indexes, Byblos Research

## Precious Metals: Gold prices to remain subdued through 2015

Gold prices are expected to trade at between \$1,000 an ounce and \$1,200 an ounce during the 2015-16 period. The downward trend in the metal's price, which has been in place since 2011, is forecast to persist in the near term amid investors' speculation on the timing of the U.S. interest rate hike. The metal's average price is projected to reach \$1,175 a troy ounce in 2015 and to decline to \$1,150 a troy ounce in 2016. Downside pressures on gold prices include the expected strengthening of the US dollar as U.S. monetary policy normalizes, and a decrease in demand for the metal from China and India, the world's largest consumers of gold. Prices could drop to below \$1,000 an ounce if a higher-than-expected increase in U.S. interest rates occurs, and if China's equity market meltdown intensifies. Gold prices fell to \$1094.3 a troy ounce in July, constituting a 6.4% drop from end-June 2015 and a decrease of 7.8% from end-2014. In parallel, the Bloomberg Precious Metals Total Return Sub-Index decreased by 6.4% in July and by 7.6% in the first seven months of 2015, while the Gold Sub-Index dropped by 6.7% last month and by 7.9% during the first seven months of 2015.

Source: BMI Research, Bloomberg Indexes, Byblos Research



August 6, 2015

# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
<b>Africa</b>													
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
<b>Middle East</b>													
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								
<b>Asia</b>													
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								
<b>Central &amp; Eastern Europe</b>													
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-July-15	No change	17-Sep-15
Eurozone	Refi Rate	0.05	16-July-15	No change	02-Sep-15
UK	Bank Rate	0.50	09-July-15	No change	06-Aug-15
Japan	O/N Call Rate	0.00-0.10	15-July-15	No change	07-Aug-15
Australia	Cash Rate	2.00	21-July-15	No change	04-Aug-15
New Zealand	Cash Rate	3.00	23-July-15	Cut 25 bps	10-Sep-15
Switzerland	3 month Libor target	-1.25(-0.25)	18-Jun-15	No change	17-Sep-15
Canada	Overnight rate	0.50	15-July-15	Cut 25 bps	09-Sep-15
<b>Emerging Markets</b>					
China	One-year lending rate	4.85	27-Jun-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.50	30-July-15	No change	17-Sep-15
Taiwan	Discount Rate	1.875	25-Jun-15	No change	24-Sep-15
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	11-Sep-15
Thailand	1D Repo	1.50	10-Jun-15	No change	05-Aug-15
India	Reverse repo rate	7.25	04-Aug-15	Cut 25bps	N/A
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	30-July-15	No change	17-Sep-15
Turkey	Base Rate	7.50	23-July-15	No change	18-Aug-15
South Africa	Repo rate	6.00	23-July-15	Raised 25bps	23-Sep-15
Kenya	Central Bank Rate	11.50	05-Aug-15	Raised 150bps	15-Sep-15
Nigeria	Monetary Policy Rate	13.00	24-July-15	No change	22-Sep-15
Ghana	Prime Rate	22.00	15-July-15	No change	16-Sep-15
Angola	Base rate	9.75	27-July-15	Raised 50bps	28-Aug-15
Mexico	Target Rate	3.00	23-July-15	No change	21-Sep-15
Brazil	Selic Rate	14.25	29-July-15	Raised 50bps	02-Sep-15
Armenia	Refi Rate	10.50	10-Feb-15	Raised 100bps	11-Aug-15
Romania	Policy Rate	1.75	04-Aug-15	Cut 25bps	30-Sep-15
Bulgaria	Base Interest	0.01	31-July-15	Cut 1bp	01-Sep-15
Kazakhstan	Refi Rate	5.50	02-Aug-15	No change	N/A
Ukraine	Discount Rate	30.0	30-July-15	No change	27-Aug-15
Russia	Refi Rate	11.00	31-July-15	Cut 50bps	11-Sep-15



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