

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

MENA

Equity markets down 10% in first 8 months of 2015

Arab stock markets decreased by 9.8% and GCC markets dropped by 9.9% in the first eight months of 2015 compared to increases of 21.9% and 23.6%, respectively, in the same period of 2014. Arab and GCC stock markets regressed by 11% and 13%, respectively, in August from July 2015. Activity on the Tunis equity market grew by 7.8% in the first eight months of 2015 and posted the only improvement in performance among Arab markets in the covered period. In parallel, activity on the Egyptian equity market regressed by 18.8% and posted the steepest drop among Arab markets in the first eight months of 2015. It was followed by the Khartoum bourse with a 12% drop, the Iraqi stock market with an 11% decline, the Kuwait stock market with a 10.9% decrease, the Saudi Arabia stock exchange with a 9.7% retreat, the Bahrain bourse with an 8.9% contraction, the Oman bourse with a 7.4% decrease, the Qatar bourse and the Palestine stock exchange with a 5.9% decline each, the Damascus securities exchange with a 5.2% drop, the Amman securities exchange with a 3.1% decrease, the Dubai financial market and the Beirut stock exchange with a 3% contraction each, the Casablanca equity market with a 2.9% drop and the Abu Dhabi equity market with a 0.8% decline. In comparison, global equities contracted by 4.9%, while emerging market equities fell by 14.6% in the first eight months of 2015.

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

Greenfield FDI from Arab countries at \$569bn between January 2003 and May 2015

The cumulative value of outward greenfield foreign direct investment (FDI) from Arab economies totaled \$568.9bn between January 2003 and May 2015. The value of outward greenfield FDI from Gulf Cooperation Council (GCC) countries reached \$525.7bn and accounted for 92.4% of the total, while those from non-GCC countries constituted the remaining \$43.1bn (7.6%). On a country level, the UAE was the largest source of greenfield FDI in nominal terms among 19 Arab countries during the covered period with \$297.4bn, accounting for 52.3% of the total. It was followed by Bahrain with \$68.4bn (12%), Kuwait with \$66.5bn (11.7%), Qatar with \$47.5bn (8.4%), Saudi Arabia with \$41.4bn (7.3%), Egypt with \$19.8bn (3.5%), Lebanon with \$7.2bn (1.3%), Morocco with \$5.3bn (0.9%), Oman with \$4.5bn and Jordan with \$4.3bn (0.8% each). In parallel, Arab countries invested in 4,617 cross-border greenfield projects between January 2003 and May 2015. The UAE invested in 2,456 projects and accounted for 53.2% of the total number of projects; followed by Saudi Arabia with 526 projects (11.4%), Kuwait with 412 projects (8.9%), Qatar with 301 projects (6.5%) and Bahrain with 206 projects (4.5%). The FDI figures cover cross-border greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical greenfield operation, but exclude mergers and acquisitions and other equity investments.

Source: fDi Markets, Byblos Research

Projects underway or planned at \$597bn in first half of 2015

The value of the top 100 planned or underway projects in the Middle East & North Africa region (MENA) reached \$597.2bn in the first half of 2015, constituting a rise of 5.3% from \$567.1bn in the same period last year. The value of the projects was \$297.6bn in the first quarter and reached a record high of \$299.6bn in the second quarter of 2015. The transportation sector had \$195.7bn worth of projects and accounted for 32.8% of the total in the first half of 2015. It was followed by the gas sector with \$119bn (19.9%), the oil sector with \$107.6bn (18%), the construction industry with \$100.7bn (16.9%), the power sector with \$87.5bn (14.7%), the chemicals industry with \$10.2bn (1.7%) and the industrial sector with \$5bn (0.8%). On a country level, projects in Saudi Arabia totaled \$210.3bn, or 35.2% of the total, in the first half of the year. It was followed by Iran with \$148.8bn (24.9%), the UAE with \$61.6bn (10.3%), Qatar with \$47.6bn (8%), Egypt with \$39.6bn (6.6%), Kuwait with \$32.3bn (5.4%), Iraq with \$29.1bn (4.9%), Algeria with \$27.4bn (4.6%), and Jordan with \$13.2bn (2.2%). In parallel, the value of the major planned projects, including those under design, under study and contracted, is projected at \$8.3bn in 2016 and \$4.8bn in 2017. Also, the cumulative value of planned projects is expected to reach \$600.2bn by 2050.

Source: Emirates NBD Bank, Byblos Research

GCC

Corporate profits down 7% in first half of 2015

The aggregate net profits of companies listed on the stock markets of Gulf Cooperation Council (GCC) countries totaled \$34.4bn in the first half of 2015, constituting a rise of 4.9% from the second half of 2014 but a decrease of 7.2% from \$37.1bn in the first half of last year. The collective net profits of listed banks in the GCC reached \$16.7bn and accounted for 48.5% of total earnings in the first half of 2015, followed by corporates in the commodities sector with \$4.7bn or 13.7% of the total, those in real estate with \$3.7bn (10.7%), firms in the telecommunications sector with \$3.1bn (9%), those in the construction sector with \$1.22bn (3.6%), companies in the financial sector with \$1.15bn (3.3%) and conglomerates with \$1.1bn (3.1%); while net profits of corporates in other sectors totaled \$2.8bn or 8.1% of total earnings. Corporate earnings in Saudi Arabia reached \$14.1bn in the first half of 2015, representing 41% of the region's total profits. UAE firms followed with \$9.3bn (27.1%), then Qatari firms with \$6.6bn (19.2%), corporates in Kuwait with \$2.4bn (7%), companies in Oman with \$1bn (3%) and corporates in Bahrain with \$957m (2.8%). In addition, corporate profits in Qatar rose by 13.4% year-on-year in the first half of 2015, and represented the only improvement in earnings among GCC countries. In contrast, corporate earnings in Kuwait decreased by 18.6% year-on-year, followed by those in Saudi Arabia (-15.6%), in Oman (-6.9%), in Bahrain (-5.1%) and in the UAE (-1.7%). Overall corporate earnings in the GCC are expected to reach \$69.7bn in 2015, which would reflect a decline of 0.3% from 2014.

Source: Markaz Research, Byblos Research

POLITICAL RISK OVERVIEW - August 2015

EGYPT

The government ratified a new counter-terrorism law on August 15 that increases the authorities' power to impose heavy sentences, including the death penalty, for crimes under a definition of terrorism. Also, the new law makes it a crime to publish or promote news about terrorism if they contradict the Defense Ministry's official statements, and would allow the courts to temporarily ban journalists from practicing their profession for doing so. In addition, the law makes persons who facilitated or incited a terrorist crime liable for the same penalty as if they had committed the crime. The country's supreme election committee indicated that parliamentary elections will be held in two stages. It said that 14 administrative regions will vote on October 18 and 19, while the 13 remaining governorates, including Cairo, will vote on November 22 and 23, 2015. Counter-terrorist operations intensified in the northern Sinai Peninsula as attacks by Islamic State-Sinai Province militants continued.

IRAN

Iran provided the International Atomic Energy Agency with related documents about its nuclear program as agreed under the July 2015 road map for the clarification of past and present outstanding issues. The U.S. Congress continued its debate over the nuclear deal reached with Tehran ahead of the September 2015 vote. Iran unveiled an upgraded version of its short-range solid fuel ballistic surface-to-surface missile named Fateh-313, which can locate targets more accurately. The British Embassy reopened in Tehran on August 23 after it was closed in late 2011.

IRAQ

Thousands of Iraqis demonstrated in cities across the country in protest over poor living conditions and the lack of basic services, including electricity outages and water shortages; while they urged authorities to crack down on prevalent corruption. Protesters also demanded reforming the judiciary and the abolition of sectarianism throughout government institutions. Prime Minister Haidar al-Abadi unveiled on August 9 a series of reforms to address the problems. The Iraqi Parliament unanimously approved on August 11 a reform package that aims to fight corruption and cut spending, including the elimination of multiple positions of Deputy Prime Minister and Vice President. Clashes between military forces and Islamic State militants continued throughout the month. Violence and acts of terrorism in Iraq led to 1,325 deaths and 1,811 injuries in August 2015.

DEM REP CONGO

The National Independent Electoral Commission extended the period for politicians to submit their candidacy for the election of provincial governors and vice-governors in 21 new provinces, constituting the second postponement since February 2015. The Senate convened in an extraordinary session on August 11 and approved a law that allocates the seats of local constituencies. The opposition boycotted the session and argued that the draft legislation is part of President Joseph Kabila's strategy to remain in power when his second term expires in 2016. The UN Organization Stabilization Mission in the DRC confirmed its support for the Congolese army, despite tensions between the two parties.

LIBYA

Heavy clashes between Islamic State (IS) militants and rival Islamist groups continued in the IS-held city of Sirte in central Libya. The Tripoli-based General National Congress (GNC) and the Tobruk-based House of Representatives denounced the IS attacks. Forces loyal to General Khalifa Haftar's Libyan National Army conducted airstrikes in the Sirte area but failed to hit IS targets. The Arab League called for military support to aid the Libyan government in its fight against IS militants in Libya. The UN Special Representative for Libya Bernardino León called on rival governments to unify.

SOUTH SUDAN

President Salva Kiir and Sudan Peoples' Liberation Movement-In-Opposition (SPLM-IO) signed a peace agreement on August 26 and declared a permanent ceasefire starting at the end of August 2015. The agreement addressed issues of governance, including the road to federalism and institutional reforms, and gave the SPLM-IO leader Riek Machar the responsibility to coordinate its implementation. But fighting has resumed in the Unity, Jonglei and Upper Nile states in violation of the ceasefire deal, with rival forces trading accusations over who was responsible for the violations that threaten to derail the implementation of the peace agreement.

SUDAN

The National Dialogue Committee that is headed by President Omar al-Bashir and that consists of the government's allies and the "7+7" opposition groups, announced that it will resume the dialogue process on October 10, 2015. President al-Bashir indicated his readiness to declare a two-month ceasefire in the Blue Nile and South Kordofan states, and in the Darfur region, while he renewed his offer of amnesty for rebel groups who are willing to join the national dialogue. The African Union Peace and Security Council called for a preparatory conference with all relevant parties to create the necessary conditions for a national dialogue process. The Sudan Revolutionary Front rebel coalition threatened to boycott the current dialogue and to launch an alternative. Fighting between the Sudanese Armed Forces and Sudan People's Liberation Army-North increased in the Blue Nile state and in South Kordofan.

SYRIA

The UN Security Council unanimously adopted a resolution authorizing investigators to identify individuals, entities, groups or governments perpetrating, organizing, sponsoring or otherwise involved in the use of chemical weapons in Syria. Turkey and the United States indicated that they would soon launch "comprehensive" air operations against Islamic State (IS) militants in a zone in northern Syria bordering Turkey. President Bashar al-Assad's regime forces intensified their airstrikes in the opposition-held city of Douma, including an airstrike launched on a civilian market. IS militants captured the town of al-Qaryatayn in the Homs province from pro-regime forces and demolished the ancient Christian monastery of Mar Elian.

TUNISIA

President Beji Caid Essebsi signed a new controversial anti-terror bill into law, following the approval by Parliament on July 25th, and despite widespread concerns from civil society and human rights groups. The new law includes the imposition of the death penalty on those convicted of terrorism charges. Tunisia's security forces continued a counterterrorism sweep and arrests of terrorist suspects. Eight terrorist suspects in the Bardo museum terror attack were released from custody due to lack of evidence.

YEMEN

Saudi Arabia's ground troops have reportedly crossed the border into northern Yemen for the first time since the Saudi-led coalition began an air campaign against Huthi rebels in March 2015. The Saudi-led airstrikes intensified against Huthi militants in Yemen. Huthi forces reinforced their positions in the capital city of Sanaa and regained some territory in the southern city of Taiz. Major General Mohammed Ali al-Maqdeshi, the Chief of Staff for the Yemen's exiled government claimed that his forces are approaching the city of Sanaa. The Saudi-led coalition carried out a series of airstrikes on several locations under the control of Huthi rebels and of forces loyal to ousted President Ali Abdullah Saleh in the provinces of Hodeidah and al-Bayda. Al Qaeda militants seized control of main areas in and around the city of Aden.

Source: International Crisis Watch, Newswires



OUTLOOK

WORLD

Risks to banking systems diverge across regions

Standard & Poor's expected weaker economic conditions, diminished government support and evolving regulations to constitute the main risks facing banks in 2015. It projected the decrease in government support to place downward pressure on banks' ratings, mainly in Europe, but to be partly offset by alternative forms of loss-absorbing capital building. The agency expected the cumulative impact of current and future regulatory rules to be a source of uncertainty and to have an adverse impact on banks worldwide, even if most existing bank reforms are clear on a standalone basis. It expected banks to cut lending and reduce the size of their balance sheets to absorb unexpected shocks, despite their stronger capital base relative to pre-financial crisis levels. In parallel, the agency projected the low interest rate environment and the sustained need for public and private sector deleveraging in Western Europe to continue to weigh on banks' earnings and profitability in 2015.

S&P indicated that banks operating in the Middle East are generally well-positioned to withstand weaker economic growth due to their good funding profile, solid earnings buffers and adequate capitalization. It expected deposits at Gulf Cooperation Council (GCC) banks to grow at a slower pace in 2015. It projected non-performing loans at GCC banks to gradually increase in 2015, which would limit the banks' earnings growth to single digits.

In parallel, S&P indicated that banking systems in Russia, the Commonwealth of Independent States, and Eastern Europe are vulnerable to weak economic conditions. It projected Russian banks to face funding pressures in 2015 and 2016, given their limited access to external capital markets and increased deposit volatility. Also, the agency expected the lending activity of Turkish banks to decelerate due to the economic slowdown and to weaker consumer and investor confidence, especially as political uncertainties increased following the recent parliamentary elections.

Source: Standard & Poor's

EMERGING MARKETS

Pressure on managed currencies on the rise

J.P. Morgan expected shifts in managed currency regimes of emerging markets to persist as long as commodity prices are decreasing, and given that policy makers have the option to conduct managed devaluations amid low economic growth environments. It noted that managed exchange rate regimes worldwide are currently under market pressure due in part to China's currency devaluation in August 2015. But it indicated that it does not foresee a shift in the currency pegs of oil exporting countries in Emerging Europe, the Middle East and Africa.

It expected the currency pegs in Gulf Cooperation Council countries to be maintained despite the drop in oil prices, as central banks draw down their ample foreign currency reserves to offset the depreciation pressure on their currencies. It estimated Saudi Arabia's foreign currency reserves, excluding gold, at \$671.7bn as of August 2015, equivalent to 31.6 months of import coverage, while Qatar's reserves were at \$41.4bn (8 months of imports). It

added that Kuwait's foreign reserves cover 12.9 months of imports and those of the UAE cover 4.5 months. As such, it forecast the US dollar pegs of the Saudi Arabian rial, the Emirati dirham and the Qatari riyal, along with the basket-peg of the Kuwaiti dinar to remain unchanged in 2015. But it noted that foreign currency markets are currently pricing the probability of a devaluation of GCC currencies, mainly due to the fall in oil prices.

In parallel, it projected the Central Bank of Nigeria to impose capital controls rather than allow a further devaluation of the naira, given that Nigeria's foreign currency reserves are lower than those of GCC countries. It noted that the drop in oil prices led the naira to depreciate in late 2014 and in early 2015. It estimated Nigeria's foreign currency reserves, including gold, at \$31.5bn as of August 2015, equivalent to 4.8 months of import coverage.

J.P. Morgan expected the Central Bank of Egypt to raise the exchange rate cut-off price to 7.95 against the US dollar at its foreign currency auctions in mid-September 2015, which could imply a 2.8% de facto devaluation of the Egyptian pound. It added that the move comes about as the CBE balances the need to reduce the use of foreign currency reserves and the impact of the exchange rate pass-through. It estimated Egypt's foreign currency reserves, excluding gold, at \$16.3bn as of August 2015, covering 2.7 months of imports.

Source: J.P. Morgan

GHANA

Economic stability dependent on reforms

The International Monetary Fund indicated that Ghana's fiscal consolidation efforts are on track, but considered that the government should firmly continue with fiscal reforms in order to fully restore macroeconomic stability and mitigate financing risks. It stressed on the importance of controlling the wage bill by adhering to the net hiring freeze, while further implementing the payroll clean-up plan. The Fund also called on the government to adhere to the domestic arrears clearance plan and avoid incurring new arrears. It noted that implementing structural reforms to control expenditures would support these efforts. Further, it urged authorities to identify the full cost related to next year's elections and to provision for it in the 2016 budget in order to avoid overspending.

In parallel, the IMF considered that the government's medium-term debt management strategy is a positive step to help reduce near-term financing risks. It expected external financing in 2015 to help reduce the pressure on the domestic debt market. It noted, however, that the government should complement this strategy by deepening the domestic debt market, as well as by seeking to borrow externally on concessional terms as much as possible. Further, the Fund anticipated monetary policy to remain tight to help reduce inflation, in light of the exchange rate volatility. It also expected the Bank of Ghana to be ready to tighten monetary policy further if inflationary pressures do not recede as expected. It noted that the introduction of new liquidity management instruments will improve monetary policy transmission and make the inflation targeting framework more effective.

Source: International Monetary Fund



ECONOMY & TRADE

IRAQ

Fiscal deficit to widen in 2015 amid low oil prices

Merrill Lynch indicated that low oil prices and the war against the Islamic State are increasingly weighing on Iraq's macroeconomic prospects. It projected the budget deficit to widen from 5.3% of GDP in 2014 to 16% of GDP in 2015 and to remain elevated at 11% of GDP in 2016, despite potential spending cuts and higher oil exports. It noted that Iraq's macroeconomic fundamentals are weaker than previously expected, given the sharp narrowing of the fiscal space, weak policy implementation, the Central Bank of Iraq's (CBI) elevated indirect monetization of the fiscal deficit and large external issuance requirements. Further, it expected the current account deficit to widen from 2.8% of GDP in 2014 to 8.6% of GDP this year. It indicated that the CBI's foreign assets remained at an adequate level of \$62.1bn at the end of July 2015, equivalent to 10 months of import coverage. But it noted that foreign assets are inflated, given that the government delayed imports and foreign currency payments. Merrill Lynch estimated Iraq's fiscal financing gap at \$8bn, or 4.7% of GDP in 2015, and expected it to widen to \$14bn in 2016. It noted that Iraq would cover the fiscal gaps through the possible combination of CBI monetization, arrears build-up, borrowing and a devaluation of the Iraqi dinar, given the lack of fiscal adjustments. It projected total monetization of the fiscal deficit to reach \$22.8bn, or 13.4% of GDP, in 2015 in the absence of other financing resources. It added that the CBI has started implementing the first phase of indirect monetization by discounting IQD5 trillion in government securities during the first half of 2015.

Source: Merrill Lynch

SAUDI ARABIA

Optimism of non-hydrocarbon sector deteriorates

The D&B Business Optimism Index for Saudi Arabia showed that the composite BOI for the non-hydrocarbon sector reached 36 points in the third quarter of 2015, constituting a drop of seven points from the previous quarter. The quarterly contraction is mainly due to lower demand and to slow business activity during the summer. The index for New Orders dropped to 47 points in the third quarter of 2015 from 55 in the second quarter, that for Expected Sales declined to 42 points in the third quarter from 53 in the previous quarter, and the index for the Level of Selling Prices dropped to 12 points from 14 in the second quarter of 2015. Also, the index for Net Profits declined by 10 points to 39 and that for the Number of Employees decreased by four points to 38. In contrast, the index for Inventory Levels increased to 34 points in the third quarter of 2015 from 32 in the previous quarter. Further, the finance, real estate & business services sector was the most optimistic among all non-hydrocarbon sectors, with a composite index of 40 points for the third quarter of 2015 relative to 48 in the previous quarter. The construction sector's business sentiment dropped to 38 points from 44 in the second quarter due to the lack of new projects. Further, the manufacturing sector's business outlook regressed by 10 points to 36 in the third quarter of 2015; the trade & hospitality sector's sentiment decreased by four points to 32 for the covered period and the transportation, storage & communication sector's outlook declined to 27 points in the third quarter from 32 in the second quarter of 2015.

Source: Dun & Bradstreet

UAE

Economy to steadily feel impact of low oil prices

Merrill Lynch anticipated economic activity in the UAE to slow down in 2015 and 2016 due to low oil prices, a less favorable external position and a gradual tightening of domestic liquidity. It expected challenges and downside risks to the economy to increase from 2016 onwards if global oil prices remain at low levels. But it noted that the banking sector has sufficient capital and liquidity buffers to withstand adverse shocks. It pointed out that lower oil prices have also weighed on the UAE's fiscal and external accounts, which suggests the need for fiscal consolidation to prevent the build-up of macroeconomic imbalances. Merrill Lynch expected spending cuts in the UAE to mainly target subsidies, foreign grants, net loans and grants to GREs, federal transfers and non-essential capital spending. It anticipated the country's progress in fiscal consolidation to remain modest; while it noted that the financing of the deficit would not tighten liquidity in the banking sector, given the large stock of government foreign assets. It said that economic growth in the UAE remained strong in 2014, as real GDP grew by 4.6% relative to a growth rate of 4.3% in 2013. It added that real non-hydrocarbon GDP grew by 4.8% and that hydrocarbon sector activity increased by an annual real rate of 4% in 2014. Merrill Lynch considered that the nuclear agreement between Iran and the UN Security Council's permanent members plus Germany would provide an economic upside for Dubai in 2016 through increased trade volumes and financial transactions.

Source: Merrill Lynch

EGYPT

Sovereign ratings affirmed, outlook 'stable'

Capital Intelligence affirmed Egypt's long-term foreign and local currency sovereign ratings at 'B-' with a 'stable' outlook. It also affirmed the country's short-term foreign and local currency sovereign ratings at 'B'. It attributed the affirmation of the sovereign ratings to the stabilization of short-term external financing risks, the government's commitment towards narrowing the budget deficit, the improvement in security conditions in main cities and to the resilience of the banking sector. It noted that the \$18.9bn, or 6.6% of GDP, in pledged support from Gulf Cooperation Council countries since July 2013 has stabilized the country's financing risks. It added that the country's foreign currency reserves are currently at a high level, which would provide a broadly adequate coverage of short-term external debt and a sound buffer against modest external economic shocks. The agency indicated that the ratings are also supported by a low level of external debt of 16% of GDP in 2014 and low external financing needs of about 7.5% of GDP in the fiscal year ending June 2015. It expected the government to generate additional revenues from the new Suez Canal and to implement a reform agenda aimed at correcting fiscal and economic imbalances. As such, it forecast the fiscal deficit to narrow from 11.7% in FY2014/15 to 8.4% of GDP in FY2017/18. CI expected the country's public debt level to remain high and to rise to 94% of GDP in FY2017/18, resulting in significant financing needs. It noted that the ratings continue to be constrained by weak economic activity and public finances, as well as by political and geopolitical risks.

Source: Capital Intelligence



BANKING

NIGERIA

Banking sector performance on the downside

Fitch Ratings indicated that the economic slowdown and the difficult operating environment in Nigeria would negatively weigh on banks' profitability, asset quality, liquidity and capital adequacy levels. The agency said that Nigerian banks have had to contend in recent months with the increased vulnerability of the oil & gas sector, downward pressure on the Nigerian naira, slower economic activity, and tightening bank liquidity. It noted that banks are resilient but expected their performance to be negatively affected in coming months, given their high exposure to the domestic market. It expected the recent withdrawal of public sector deposits, which represent about 8% of the system's total deposits, from commercial banks to the Central Bank of Nigeria (CBN) to add pressure to liquidity. The agency projected the sector's non-performing loans ratio to rise above the CBN's informal cap of 5%, but to remain below 10% by the end of 2015. Also, Fitch forecast the banks' regulatory capital adequacy ratios to decrease this year due to lower earnings, weaker asset quality and banks' limited ability to raise capital. It added that the Tier One capital adequacy ratio of many banks in Nigeria could fall below 15% by the end of 2015, which is a low level by historical standards. It noted that lending growth contracted in the first half of 2015 and expected the sector's financial soundness indicators to continue to deteriorate through the remainder of 2015. Fitch noted that a sustained economic slowdown is likely to add pressure on the banks' ratings.

Source: Fitch Ratings

SAUDI ARABIA

Outlook on four banks revised to 'negative'

Fitch Ratings revised the outlooks to 'negative' from 'stable' on the long-term Issuer Default Ratings (IDR) of Al Rajhi Bank (ARB), National Commercial Bank (NCB), Riyad Bank (RB) and SAMBA Financial Group (SAMBA). It noted that the action follows the outlook revision on Saudi Arabia's sovereign rating from 'stable' to 'negative'. The agency indicated that the 'A+' long-term IDRs of ARB, NCB, RB and SAMBA would be reduced to 'A' in case the sovereign is downgraded by one notch, which reflects the banks' very high systemic importance. In parallel, Fitch said that the 'A-' long-term IDRs of Saudi Investment Bank (SAIB), Saudi Hollandi Bank (SHB), Alinma Bank (ALINMA) and Bank Aljazira (BAJ) would not be subject to a downward revision in case the sovereign is downgraded by one notch. This is due to their lower systemic importance relative to the larger banks, based on their smaller sizes, market shares and franchises. It maintained the outlook on SHB, SAIB, ALINMA and BAJ's long-term IDRs at 'stable'. Fitch noted that the IDRs of ARB, NCB, RB, SAMBA, SHB, SAIB, ALINMA and BAJ are driven by the ability and willingness of Saudi authorities to support them in case of need. It added that authorities have a strong track record in providing assistance for local banks. But it considered that the 'negative' outlook on the sovereign, due to the significant deterioration of its fiscal position, reflects its weakening ability to support the banking sector.

Source: Fitch Ratings

MOROCCO

Agencies affirm ratings on major banks

Capital Intelligence affirmed the long- and short-term foreign currency ratings at 'BBB-' and 'A3', respectively, of Banque Centrale Populaire (BCP), Banque Marocaine du Commerce Extérieur (BMCE), Banque Marocaine pour le Commerce et l'Industrie's (BMCI), Credit du Maroc (CM) and Société Générale Marocaine de Banques (SGMA). It also maintained the 'BBB-' Financial Strength Rating (FSR) of BCP, BMCE, BMCI and SGMA; and affirmed CM's FSR at 'BB+'. It indicated that all banks' ratings have a 'stable' outlook. It noted that BCP's FSR reflects an adequate capital adequacy level, improved provisioning coverage, good operating conditions and higher operating profits. However, it noted that the bank's FSR is constrained by higher levels of non-performing loans (NPLs) and tight liquidity. Also, CI pointed out that BMCE's FSR is supported by the bank's improved profitability in 2014 and increased liquidity; while the FSR is constrained by a rise in NPLs, low net liquid assets and modest returns. It added that BMCI's FSR is supported by a solid level of capitalization and good loan-loss provisioning, but is constrained by a high level of NPLs, weaker net profits and tighter overall liquidity in 2014. Also, the agency said that CM's FSR is supported by sound capital position and solid liquidity, and that of SGMA reflects good operating profits and solid capital adequacy but is constrained by tight liquidity and a high level of NPLs.

In parallel, Fitch Ratings affirmed the long- and short-term foreign currency Issuer Default Ratings (IDR) of Attijariwafa Bank (AWB) and BMCE at 'BB+/B'. It also affirmed the National long- and short-term ratings of BMCI at 'AAA(mar)/F1+(mar)'. It noted that all banks' ratings have a 'stable' outlook. It said that AWB and BMCE's ratings reflect the moderate probability of support from the Moroccan authorities, given the banks' importance in the country. It added that BMCI's rating reflects the high probability of support from its majority shareholder, BNP Paribas, in case of need.

Source: Capital Intelligence, Fitch Ratings

ANGOLA

Angola takes steps to improve AML/CFT regime

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Angola made a high-level political commitment to work with the FATF and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to address its strategic AML/CFT deficiencies, mainly through the revision of its action plan in June 2010 and in February 2013. It said that Angola has taken significant steps since February 2015 towards improving its AML/CFT regime, and it adopted the mutual legal assistance legislation on June 19, 2015. However, the FATF indicated that it has not assessed the new legislation due to its very recent nature. As such, it has not yet determined the extent to which it needs to address the deficiencies that it has identified earlier. The FATF encouraged Angola to continue the process of implementing its action plan.

Source: Financial Action Task Force



ENERGY / COMMODITIES

Oil prices to remain volatile in coming months

Crude oil prices are expected to remain volatile in the coming months, given market uncertainties and speculation. Prices are forecast to remain low and trade at between \$40 and \$55 per barrel (p/b) going into 2016 due in part to sustained market oversupply, a strong US dollar and weaker demand from China. ICE Brent crude oil prices regressed by 15.4% from end-2014 to close at \$48.1 p/b on September 2nd, a level below the \$55.8 p/b average price over the first eight months of 2015. In parallel, the petroleum price, which is the average of the U.K. Brent, Dubai and West Texas Intermediate spot prices, averaged \$60.4 p/b in the second quarter of 2015 and is expected to average \$48.2 p/b in the third quarter and \$46.2 p/b in the fourth quarter of 2015. Overall, the average crude oil spot price is forecast to drop by 46.4% in 2015 to an average of \$51.6 p/b and to decline to \$50.4 p/b in 2016. According to the International Monetary Fund, the probability of WTI oil prices dropping below \$40 p/b in the coming 12 months rose from 17.4% previously to 36%, while the probability of Brent oil prices decreasing below \$40 p/b increased to 39%. In contrast, the probability that the prices of WTI and Brent crude oil would rise above \$80 p/b decreased, which reflects downward sentiment on oil prices over the next 12 months.

Source: International Monetary Fund, Byblos Research

Discovery of largest gas field in Egypt

The Italian energy group Eni indicated that it discovered an offshore deepwater natural gas field in Egypt. It noted that the newly-discovered Zohr field could hold a potential of 30 trillion cubic feet of lean gas, or 5.5 billion barrels of oil equivalent, in an area of 100 square kilometers, which makes it the largest gas discovery in Egypt and in the Mediterranean Sea. Eni aims to begin drilling production wells and installing pipelines in early 2016, and produce gas in two to three years. The majority of gas extracted from the Zohr field is expected to be consumed domestically, which would ease the recurrent energy shortages in Egypt. Proven gas reserves in Egypt are estimated at 65.2 trillion cubic feet as at the end of 2014, equivalent to 2.2 times the amount of gas in the Zohr field.

Source: Eni, Merrill Lynch, Byblos Research

Iraqi oil exports down 1% in August 2015

Preliminary figures released by the State Oil Marketing Organization (SOMO) show that Iraqi crude oil exports averaged 3.08 million barrels per day (b/d) in August 2015, down by 0.9% from 3.11 million b/d in July. Iraqi oil exports reached 95.4 million barrels in August, down by 0.9% from 96.3 million barrels in July, and generated \$3.9bn in revenues. Exports from the southern port of Basra stood at 93.7 million barrels and accounted for 98% of total Iraqi oil exports, while exports from the port of Ceyhan reached 1.8 million barrels and represented the balance of 2%.

Source: Thomson Reuters

OPEC's oil production up slightly in August 2015

The Organization of the Petroleum Exporting Countries' (OPEC) crude oil production reached 32.3 million barrels per day (b/d) in August 2015, constituting a marginal rise of 0.6% from 32.11 million b/d in the preceding month. Saudi Arabia's oil production remained above 10 million b/d last month despite a 70,000 b/d drop in output.

Source: Bloomberg

Base Metals: Steel prices down 22% in first seven months of 2015

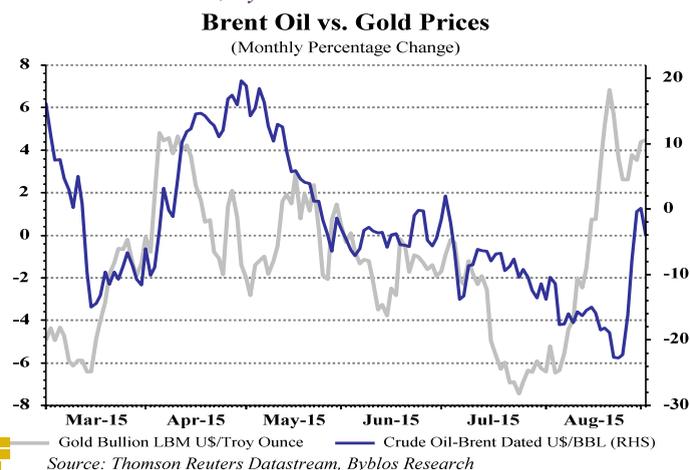
The London Metal Exchange steel cash price averaged \$293.6 per ton in the first seven months of 2015, down by 22.4% from the same period of 2014. In parallel, global crude steel output reached 948.1 million tons in the first seven months of 2015, down by 1.8% from 967 million tons in the same period of 2014. China's crude steel production totaled 476 million tons, or 50.2% of global crude steel output, in the first seven months of 2015, and reflected a decrease of 1.2% from the same period last year. It was followed by Japan with 61.4 million tons (6.5%), India with 52.9 million tons (5.6%), the U.S. with 47 million tons (5%), Russia with 41.7 million tons (4.4%) and South Korea with 40.6 million tons (4.3%). Steel output in Asia totaled 646.5 million tons and accounted for 68.2% of global production in the first seven months of the year, followed by the EU with 101.9 million tons (10.7%), North America with 65.8 million tons (7%), the Commonwealth of Independent States (CIS) with 59.2 million tons (6.2%) and South America with 26.1 million tons (2.8%). The metal's production in the CIS contracted by 7.2% year-on-year in the first seven months of 2015 and posted the steepest decline among regions, while the Middle East region's output grew by 3.2%, posting the highest annual growth worldwide. The crude steel capacity utilization ratio for the 65 countries was 68.4% in July 2015, down 4.2 percentage points from July 2014. The figures are based on 65 producing countries that account for about 98% of total world crude steel supply.

Source: World Steel Association, Byblos Research

Precious Metals: Gold prices to drop into 2016

Gold prices have traded in a narrow range of \$220 per ounce over the first eight months of 2015 and averaged \$1,185 a troy ounce during the covered period. Prices reached \$1134.4 a troy ounce on September 2nd, reflecting a rise of 3.7% from the end of July 2015 and a decrease of 4.4% from the end of 2014. The metal's price is expected to trade at relatively low levels over the longer term, given the outlook for solid economic growth, higher interest rates, weak demand for physical gold and subdued inflationary pressures. Gold prices are forecast to average \$1,150 an ounce in the coming three months and to decline to an average of \$1,100 an ounce in the coming 12 months. Upside pressure on gold prices include concerns about the economic slowdown in China, volatility on equity markets, US dollar weakness, delayed increase in U.S. interest rates and increased geopolitical risks.

Source: Julius Baer, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. 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	-	-	B-	-	CCC	-10.0	55.6	33.6	-	-	-	-9.6	-
Jordan	BB-	B1	-	BB-	CCC	-2.9	90.7	32.7	-	9.6	205.3	-7.6	5.3
Kuwait	AA	Aa2	AA	AA-	A	6.2	4.4	26.2	-	1.2	87.5	15.7	-6.1
Lebanon	B-	B2	B	B	CCC	-9.1	131.8	161.4	-	17.7	160.8	-22.2	7.7
Oman	A-	A1	-	A	A	-14.8	8.6	13.6	-	3.7	81.8	-15.0	0.4
Qatar	AA	Aa2	AA	AA-	AA	5.6	28.9	79.1	-	18.0	360.3	8.4	-2.4
Saudi Arabia	AA-	Aa3	AA	AA-	A	-14.2	1.8	13.0	-	4.7	13.7	-1.0	1.0
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	BB	-3.0	14.7	51.5	-	4.2	488.6	5.3	1.8
Yemen	-	-	-	-	CC	-5.3	53.7	14.6	-	-	-	-2.2	2.3

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Asia													
Armenia	-	Ba3	B+	-	-	-4.5	53.1	92.6	298.8	21.9	431.8	-8.6	4.1
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-1.9	43.5	10.2	-	2.7	25.1	3.2	1.5
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-7.2	62.6	23.6	101.9	5.6	158.2	-1.3	1.1
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BB	-3.3	14.3	72.9	195.4	17.3	787.9	-4.1	3.6
	Stable	Positive	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BB	-3.0	28.9	90.0	122.3	20.2	261.1	0.2	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	B	-1.8	40.5	54.7	132.5	19.4	249.2	-1.1	2.1
	Stable	Negative	Stable	-	Stable								
Russia	BB+	Baa3	BBB-	-	BBB	-3.7	18.8	52.7	133.7	29.1	195.0	5.4	-1.2
	Negative	-	Negative	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-1.8	33.4	55.8	181.2	23.2	376.5	-4.2	1.7
	Negative	Negative	Stable	Stable	Stable								
Ukraine	CCC	Caa3	CCC	-	CC	-4.2	94.1	158.4	189.9	32.0	978.3	-1.4	2.5
	Negative	Negative	-	-	Stable								

*to official creditors

Sources: International Monetary Fund; Economist Intelligence Unit; Institute of International Finance; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2015



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25	29-July-15	No change	17-Sep-15
Eurozone	Refi Rate	0.05	03-Sep-15	No change	22-Oct-15
UK	Bank Rate	0.50	06-Aug-15	No change	10-Sep-15
Japan	O/N Call Rate	0.00-0.10	07-Aug-15	No change	15-Sep-15
Australia	Cash Rate	2.00	01-Sep-15	No change	06-Oct-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
Emerging Markets					
China	One-year lending rate	4.60	25-Aug-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	13-Aug-15	Cut 25bps	11-Sep-15
Malaysia	O/N Policy Rate	3.25	09-July-15	No change	11-Sep-15
Thailand	1D Repo	1.50	05-Aug-15	No change	16-Sep-15
India	Reverse repo rate	7.25	04-Aug-15	Cut 25bps	29-Sep-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	30-July-15	No change	17-Sep-15
Turkey	Base Rate	7.50	18-Aug-15	No change	22-Sep-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	02-Nov-15
Nigeria	Monetary Policy Rate	13.00	24-July-15	No change	21-Sep-15
Ghana	Prime Rate	22.00	15-July-15	No change	16-Sep-15
Angola	Base rate	10.50	28-Aug-15	Raised 25bps	29-Sep-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	10.25	11-Aug-15	Cut 25bps	22-Sep-15
Romania	Policy Rate	1.75	04-Aug-15	Cut 25bps	30-Sep-15
Bulgaria	Base Interest	0.01	01-Sep-15	No change	N/A
Kazakhstan	Refi Rate	5.50	02-Aug-15	No change	N/A
Ukraine	Discount Rate	30.0	27-Aug-15	No change	N/A
Russia	Refi Rate	11.00	31-July-15	Cut 50bps	11-Sep-15



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (961) 338 100
Fax: (961) 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

The Country Risk Weekly Bulletin is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from the Country Risk Weekly Bulletin may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.



BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293

