

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Downgrades outpace upgrades in third quarter of 2015

Standard & Poor's indicated that it downgraded 52 corporate and sovereign issuers in emerging markets (EM) worth \$649.2bn in rated debt, while it upgraded nine EM issuers worth \$134.4bn in rated debt in the third quarter of 2015. It noted that the downgrade ratio, which is the proportion of downgrades to total rating actions, stood at 85% in the third quarter of 2015, well above the historical average of 54% since 1995. In comparison, S&P downgraded 54 corporate and sovereign issuers in EM and upgraded seven issuers in the first quarter, while it downgraded 30 EM issuers and upgraded 15 issuers in the second quarter of 2015. The agency indicated that elevated geopolitical risks, slow economic growth and financial market volatility would continue to weigh on EM ratings. In parallel, S&P downgraded 45 corporate issuers, representing \$649bn in rated debt, in the third quarter of 2015; while it upgraded seven corporate issuers worth \$134bn. Latin America had 29 corporate downgrades worth a total of \$604bn and two upgrades of \$2bn; followed by Emerging Asia with nine downgrades (\$6bn) and four upgrades (\$133bn); and Eastern Europe, the Middle East & Africa with seven downgrades (\$39bn) and one upgrade of less than \$1bn. Further, S&P downgraded seven sovereigns with \$0.2bn in rated debt in the third quarter of 2015, while it upgraded the ratings of two sovereigns representing \$0.4bn in rated debt.

Source: Standard & Poor's

MENA

Equity markets down 13% in first 10 months of 2015

Arab stock markets decreased by 13.1% and Gulf Cooperation Council (GCC) markets dropped by 13.5% in the first 10 months of 2015 compared to increases of 14.5% each in the same period of 2014. Arab and GCC stock markets regressed by 2.5% and 2.7%, respectively, in October from September 2015. Activity on the Tunis equity market grew by 0.5% in the first 10 months of 2015 and posted the only positive performance among Arab markets in the covered period. In contrast, activity on the Iraqi stock market regressed by 22.3%, the Egyptian equity market declined by 15.9%, the Beirut stock exchange contracted by 15.8%, the Saudi Arabia equity market fell by 14.5%, the Khartoum bourse dropped by 13.3%, the Bahrain equity market decreased by 12.4%, the Kuwait security exchange declined by 11.6%, the Dubai financial market dropped by 7.2%, the Oman stock market decreased by 6.5%, the Amman bourse dropped by 6.1%, the Casablanca equity market fell by 5.6%, the Qatar bourse regressed by 5.5%, the Abu Dhabi financial market contracted by 4.6% contraction, the Damascus securities exchange retreated by 4.4% and the Palestine equity market decreased by 3.7%. Also the Iranian stock exchange fell by 8.8% in the covered period. In comparison, global equities contracted by 1.3%, while emerging market equities fell by 11.4% in the first 10 months of 2015.

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

Ease of doing business varies across region

The World Bank Group's Ease of Doing Business survey for 2016 indicated that 12 out of 21 Arab economies implemented a total of 25 business reforms that affected the business environment in the region. Morocco and the UAE implemented four reforms, followed by Mauritania with three; Oman, the Comoro Islands, Tunisia, Algeria and the West Bank & Gaza with two reforms each; and Egypt, Kuwait, Qatar and Saudi Arabia with one reform each. The World Bank covered the reforms that were implemented between June 2014 and June 2015. The survey noted that the region's most popular area for reform was 'starting a business' with five reforms, followed by 'trading across borders' with four reforms, 'getting electricity', 'dealing with construction permits' and 'getting credit' with three reforms each, 'protecting minority investors', 'registering property' and 'paying taxes' with two reforms each, and 'enforcing contracts' with one reform. In parallel, the UAE was the top ranked Arab economy, coming in 31st place worldwide in terms of ease of doing business. It was followed by Bahrain in 65th place, Qatar (68th), Oman (70th) and Tunisia (74th) as the highest ranked Arab countries. In contrast, Mauritania (168th), Yemen (170th), Djibouti (171st), Syria (175th) and Libya (188th) were the lowest ranked Arab economies. The rankings of seven Arab countries improved, 13 declined and one was unchanged year-on-year. Mauritania's rank rose by eight spots, constituting the highest improvement regionally, while Jordan's rank regressed by six spots, the steepest decline in the region.

Sources: World Bank Group, Byblos Research

IRAN

FATF urges Tehran to address anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that it remains "particularly and exceptionally" concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system. It reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also repeated its call to its members and other jurisdictions to apply effective counter measures to protect their financial sectors from the money laundering and terrorist financing (ML/FT) risks originating from Iran. The FATF also urged jurisdictions to protect against correspondent relationships being used to bypass or to evade counter measures and risk mitigation practices, and to take into account ML/FT risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. The FATF urged Iran to immediately and meaningfully address its AML/CFT deficiencies, in particular by criminalizing terrorist financing and effectively implementing suspicious transaction reporting requirements. The FATF warned that, if Iran fails to take concrete steps to improve its AML/CFT regime, it will consider calling on all countries and jurisdictions in February 2016 to strengthen counter measures.

Source: Financial Action Task Force

POLITICAL RISK OVERVIEW - October 2015

EGYPT

The first round of parliamentary elections in 14 out of Egypt's 27 governorates was held in October 2015 with a low turnout of 26.6% of eligible voters. The For the Love of Egypt electoral list, loyal to President Abdel Fattah el-Sisi, secured all 60 seats designated for electoral lists in the first stage of the elections. The Call of Egypt electoral list withdrew from the elections and said that it will challenge the first round results at the Supreme Administrative Court. The second round of parliamentary elections is scheduled for November 22 and 23rd. Security operations and militant attacks continued in the Sinai Province. A court ordered the release of ousted President Hosni Mubarak's two sons, taking into account that they have completed their three-year sentences on embezzlement convictions.

IRAN

The nuclear deal between Iran and the UN Security Council's permanent members plus Germany (P5+1) was formally adopted by both sides on October 18th. Iran required its government to withdraw from the deal if the P5+1 fail to fulfill their commitments under the agreement. U.S. President Barack Obama issued a memorandum to lay the legal groundwork for lifting the U.S. nuclear-related sanctions on Iran. Also, the EU published a Council Regulation for lifting sanctions that will come into force once the International Atomic Energy Agency verifies that Iran has completed key nuclear commitments under the nuclear accord. The International Atomic Energy Agency said that it completed its investigation into the possible military dimension of Iran's nuclear program, and will submit a final report by December 15th.

IRAQ

The Iraqi government allowed Russia to conduct airstrikes against the Islamic State militant group in Iraq. Local security forces, backed by the U.S.-led coalition, continued their fight against Islamic State militants and retook several areas north and west of the city of Ramadi and in the Anbar province. The armed conflict, violence and acts of terrorism in Iraq led to 714 deaths and 1,269 injuries in October 2015. In parallel, more than 60 members of Iraq's ruling coalition threatened in late October to withdraw parliamentary support for Prime Minister Haider al-Abadi's reforms if he does not respond within 72 hours to their demands for wider consultation. Demonstrations erupted in the Kurdistan Region over the Kurdish government's failure to pay the salaries of teachers, civil servants and peshmerga fighters. Kurdish Prime Minister Nechirvan Barzani reshuffled his coalition Cabinet amid an escalation of protests over unpaid salaries.

DEM REP CONGO

Political tensions continued ahead of the 2016 presidential and legislative elections, after the expulsion in September 2015 of seven political leaders, known as the G7, from the ruling coalition after they asked President Joseph Kabila to respect the presidential two-term limit. The executive secretary of the Independent National Electoral Commission (CENI), Corneille Nangaa, has been nominated to succeed CENI President Abbe Malu Malu after he resigned on October 10 for health reasons.

LIBYA

The UN Special Representative Bernardino León announced on October 8 the names of key officials of the planned Government of National Accord, but the internationally-recognized House of Representatives (HoR) refused the proposal. Western governments endorsed a national unity government as proposed by the UN and urged lawmakers from Libya's two rival parliaments, the Tobruk-based HoR and the Tripoli-based General National Congress, to endorse the agreement. UNSR León's indicated that talks to form a unity government will continue despite the missed deadline of October 20, 2015. Meanwhile, violence continued in the city of Benghazi and in other parts of the country.

SOUTH SUDAN

President Salva Kiir unilaterally issued a decree to expand the current 10 states to 28 federal states in the country, which would keep most oil-producing areas under pro-government control. The Sudan People's Liberation Army-In-Opposition (SPLA-IO) noted that the unilateral decision aimed to open up renegotiations and to derail the implementation of the peace agreement that the warring parties signed in August to end the 21-month long civil war in the country. The ruling Sudan People's Liberation Movement's (SPLM) National Liberation Council dissolved the SPLM national secretariat. The forces of Revolutionary Movement for National Salvation (REMNASAs), an Equatorian rebel group, merged with the main rebel faction SPLA-IO.

SUDAN

The National Dialogue (ND) conference started on October 10 in the capital city of Khartoum. The majority of political opposition and armed groups boycotted the conference despite strong government lobbying. President Omar al-Bashir expressed readiness on October 10 to extend the two-month ceasefire announced on September 22 into a permanent cessation of hostilities if the armed opposition participates in the ND. The Intelligence and Security Service prevented two opposition leaders from traveling to Paris to attend opposition talks with Western envoys. The government continued to reject the African Union's call to hold a pre-dialogue preparatory meeting with armed and opposition groups in Addis Ababa.

SYRIA

The Syrian regime's forces and its allies continued a major multi-front offensive. The majority of Russian airstrikes and ground operations reportedly targeted rebel groups opposed to the Islamic State (IS) despite Moscow's public statements that the intervention would focus on combating IS militants. The first days of the offensive focused on areas held by anti-IS rebels in the Hama, Idlib, Aleppo and Homs provinces, but also included Russian airstrikes outside Damascus and advances by regime forces in the southern Quneitra province. The U.S. abandoned the Defense Department's \$500m program to train and equip Syrian rebels. President al-Assad met with President Vladimir Putin in Moscow on October 21 during the former's first official foreign visit since March 2011.

TUNISIA

The Tunisian national dialogue quartet won the 2015 Nobel peace prize for helping to prevent the Jasmine revolution from descending into chaos, like the uprisings in other Arab spring countries. But pessimism in the country prevailed despite the Nobel peace prize award. Lawmaker Ridha Chareffedine from the ruling Nidaa Tounes party escaped an assassination attempt when a gunman opened fire on his car from a passing vehicle. The government lifted a state of emergency imposed after the Sousse Islamist militant attack in June 2015.

YEMEN

Political tensions rose and large-scale deadly violence continued throughout October 2015. The military stalemate is ongoing between Houthi rebels and forces loyal to ousted President Ali Abdullah Saleh on one side, and government troops and the Saudi-led coalition, on the other side. The Saudi-led coalition made gains in coastal areas around Bab al-Mandeb. Saudi Arabian warplanes bombed targets in the capital city of Sanaa after Houthi rebels fired a Scud missile at a Saudi airbase across the border. Security conditions continued to deteriorate in the southern parts of the country. The Islamic State claimed responsibility for a series of car bombs that targeted government facilities in the city of Aden and killed at least 11 Yemenis and four UAE soldiers.

Source: *International Crisis Watch, Newswires*



OUTLOOK

ANGOLA

Structural reforms essential for economic stability

The International Monetary Fund indicated that the drop in global oil prices has adversely affected economic activity in Angola. It said that the industrial, construction and services sectors are adjusting to the decline in private consumption and public investment, and to the difficulties in accessing foreign currency. It noted that the spread widened significantly between the parallel and the primary market exchange rates, which reflects imbalances in the foreign currency market. It projected real GDP growth to remain unchanged at 3.5% in 2016, and for the non-hydrocarbon sector activity to accelerate from 2.1% in 2015 to 3.4% in 2016 supported by a strong recovery in the agriculture sector. It expected economic conditions to remain challenging in 2016, as persistent low oil prices and the uncertain global environment pose considerable risks.

The Fund welcomed the authorities' timely policy actions in response to the decline in oil prices. But it considered that the continued commitment to sound policies and to the implementation of ambitious structural reforms are critical to safeguard macroeconomic stability and debt sustainability, as well as to address protracted imbalances in the foreign currency market. It called for additional fiscal adjustment in coming years and for the gradual accumulation of fiscal buffers. It encouraged authorities to prepare the 2016 budget based on a cautious oil price assumption and a prudent level of spending, and to clear arrears. It called on authorities to contain the growth of the wage bill, reform the revenue administration, streamline tax incentives, improve the quality of public investment and eliminate fuel subsidies. It projected the public debt level to rise from 42.2% of GDP in 2014 to 57.4% of GDP in 2015, of which 14.7% of GDP would correspond to the state-owned oil company Sonangol, and called on authorities to reverse the significant increase in the overall debt level.

In parallel, the IMF welcomed the authorities' decision to allow greater exchange rate flexibility and to tighten liquidity conditions, including by increasing the Central Bank's policy rate and the banks' mandatory reserve requirements.

Source: International Monetary Fund

MOROCCO

Medium-term growth to pick up to 5%, external risks are substantial

The International Monetary Fund projected Morocco's real GDP growth to accelerate to 4.7% in 2015 due in part to a good harvest season. But it noted that the recovery in non-agricultural activity remains subdued due to the slower-than-expected rebound in Europe. It forecast economic growth to decelerate to 3% in 2016 as agricultural activity returns to normal, and to gradually rise to about 5% over the medium term. It cautioned that risks remain substantial, especially from lower growth in advanced and emerging countries, a potential increase in global oil prices and a surge in global financial market volatility.

Further, the Fund indicated that Morocco's fiscal deficit has continued to improve in recent years due to subsidy reforms and a better fiscal framework. It noted that fiscal developments so far

this year are in line with the 2015 deficit target of 4.3% of GDP, and welcomed the authorities' 2016 fiscal target of 3.5% of GDP. It anticipated that fiscal reforms over the medium term would continue to increase the economy's resilience to shocks and to provide more room for investment in infrastructure, health, education and social protection. As such, it called on authorities to make the tax system more efficient and equitable, and to urgently reform the pension system to secure its viability. It considered that these reforms would help put the public debt level on a downward path. It noted that authorities need to reduce the public debt level in order to create further fiscal space, even though the public debt is sustainable and resilient to shocks.

In parallel, the IMF projected Morocco's current account deficit to narrow to 1.5% of GDP in 2015, and for foreign currency reserves to improve to 6.5 months of imports cover. It noted that these improvements reflect in part the reduced fuel and food import bill, and the sustained increase in automobile exports and remittance inflows. It called on authorities to enhance the economy's external competitiveness, and welcomed the authorities' intention to move to a more flexible exchange rate regime.

Source: International Monetary Fund

DEM REP CONGO

Economic growth to average 7.9% in 2015-16

The International Monetary Fund projected the Democratic Republic of Congo's real GDP growth rate at 8.4% in 2015 and 7.3% in 2016. In parallel, it forecast growth at 3.8% in 2015 and 4.3% in 2016 for Sub-Saharan Africa (SSA), and at 5.9% in 2015 and 6.1% in 2016 for the SSA members of the Common Market for Eastern & Southern Africa (COMESA), in which the DRC is a member. It forecast the country's annual average inflation rate at 1% in 2015 compared to average inflation rates of 6.9% in SSA and 6.6% in the COMESA. It also expected the country's average inflation rate to reach 1.7% in 2016 relative to 7.3% for SSA and 6.4% for COMESA. It projected the DRC's real per capita GDP to grow by 5.3% in 2015 and by 4.2% in 2016. Further, it anticipated broad money to expand by 6.7% in 2015 and by 8.5% in 2016. It added that claims on the non-financial private sector grew by 26.5% and by 22.8% in 2013 and 2014, respectively, relative to 12.1% and 15.3% for the SSA region, and to 13.8% and 18.3% for COMESA.

In parallel, the Fund projected the government's fiscal balance to post deficits of 0.5% of GDP in 2015 and 1.6% of GDP in 2016, when excluding grants, relative to a surplus of 0.1% of GDP in 2014; while it estimated surpluses of 1.9% of GDP in 2015 and 1.2% of GDP in 2016, when including grants, relative to a surplus of 1.3% of GDP in 2014. It forecast government revenues, excluding grants, at 13.6% of GDP in 2015 and 13.9% of GDP in 2016, and total expenditures at 14.2% of GDP in 2015 and 15.5% of GDP in 2016. The IMF projected the external debt to official creditors at 14.9% of GDP in 2015 and 16% of GDP in 2016. Further, it expected the current account to post deficits of 7.6% of GDP in 2015 and 8% of GDP in 2016. The Fund forecast the country's gross official reserves at 1.2 months of import cover at the end of 2015 and at one month of import cover at end-2016.

Source: International Monetary Fund



ECONOMY & TRADE

SAUDI ARABIA

Sovereign ratings downgraded, outlook 'negative'

Standard & Poor's downgraded Saudi Arabia's long- and short-term foreign and local currency sovereign credit ratings to 'A+/A-1' from 'AA-/A-1+', and revised the transfer & convertibility assessment to 'AA-' from 'AA'. It maintained the 'negative' outlook on the long-term ratings to reflect the challenge of reversing the substantial deterioration of the country's fiscal position. The agency attributed the downgrade to the pronounced negative shift of Saudi Arabia's fiscal balance following the sharp drop in global oil prices. It noted that Saudi Arabia's fiscal surplus averaged 13% of GDP during the 2003-13 period, but shifted to a deficit of 1.5% of GDP in 2014 and is expected to widen to 16% of GDP in 2015. It added that the widening deficit, along with the country's high reliance on hydrocarbon revenues and rigid current expenditures highlight the vulnerabilities in public finances. It expected the fiscal deficit to narrow to 10% of GDP in 2016 and 8% of GDP by 2017 due to fiscal consolidation. Also, S&P forecast Saudi Arabia's net asset position to peak at 123% of GDP in 2015 and to gradually decrease to 79% of GDP in 2018, which means that the economy is entering a period of adverse terms-of-trade from a strong position. In parallel, the agency projected the country's current account to shift from a surplus of 10.2% of GDP in 2014 to a deficit of 6.1% of GDP in 2015 due to the decrease in hydrocarbon receipts, and to gradually recover and post a surplus of 0.3% of GDP in 2018. But it noted that Saudi Arabia maintains strong external buffers, and expected the net liquid external assets to average 235% of current account receipts over the 2015-18 period.

Source: Standard & Poor's

EGYPT

Challenges persist despite improving economic and fiscal conditions

Moody's Investors Service indicated that Egypt's public finances and economic conditions have improved due to the implementation of reforms, and anticipated public and private investment to support economic activity in the coming 12 to 18 months. It forecast a strong growth in capital imports from the expected increase in investment, which, along with the weak global demand, would weigh on net export's contribution to economic growth. Further, Moody's indicated that the wide fiscal deficits, which averaged 9.5% of GDP annually between FY2004/05 and FY2013/14, have resulted in elevated government debt levels that reached about 90% of GDP in FY2014/15. It noted that meeting the government's fiscal target of 8.9% of GDP in FY2015/16 would depend on the increase in public revenues. It expected the expansion of the Suez Canal to positively contribute to Egypt's fiscal revenues and balance-of-payments over the medium-term. It considered that the government's track record of implementing revenue-enhancing measures has been mixed so far. In contrast, the agency indicated that some challenges persist, including the government's large financing needs, elevated political risks and structural economic issues such as the high unemployment and inflation rates. It added that Egypt's political risks reflect a still-fragile security situation, which has led to weakening institutions.

Source: Moody's Investors Service

IRAN

Ratings upgraded to 'B+', outlook 'stable'

Capital Intelligence upgraded Iran's long-term local and foreign currency sovereign ratings to 'B+' from 'B', with a 'stable' outlook. It indicated that the upgrade reflects the gradual improvement in Iran's external environment and the resulting positive impact on the country's creditworthiness. The agency expected the economic sanctions imposed on Iran to be gradually lifted over the short to medium term following the endorsement of the Joint Comprehensive Plan of Action (JCPA) by the Iranian Parliament and the U.S. government. It noted that the JCPA would pave the way for the release of frozen financial assets, the restoration of Iran's access to cross-border funding, and a significant improvement in trade and investment. As such, it expected the full implementation of the JCPA to improve the country's medium term economic growth prospects and to reduce sovereign risks. However, it pointed out that risks related to the JCPA persist due to the uncertainty about the implementation timeline. It expected Iran's growth rate to accelerate from 0.8% in the fiscal year that ended in March 2015 to about 4% in FY2015/16 and to at least 4% over the medium term if sanctions are eased. It noted that the depreciation of the Iranian rial slowed down after two years of substantial losses, while it projected the inflation rate to decline to 11.5% in FY2015/16. Further, it said that Iran's public debt is low, while official foreign assets cover 15 months of imports and to 10-times the amount of external debt payments due in 2016. But it noted the uncertainty about the liquidity and usability of these assets. The agency expected the fiscal deficit to narrow to an average of 1% of GDP in the next two fiscal years in case sanctions get lifted.

Source: Capital Intelligence

ALGERIA

Low oil prices taking toll on economy

The World Bank indicated that Algeria's fiscal and external balances are deteriorating due to low oil & gas prices. It forecast the fiscal deficit to widen from 5.9% of GDP in 2014 to 11.5% of GDP in 2015, and for the current account deficit to widen from 4.2% of GDP in 2014 to 15% of GDP this year. It expected the inflation rate to increase from 2.9% in 2014 to 5.1% in 2015, reflecting a 20% depreciation of the Algerian dinar since mid-2014 and a poor wheat harvest. It projected real GDP growth to decelerate from 4.3% in 2014 to 2.8% in 2015, despite an expansionary fiscal policy, but to reach 3.9% in 2016 assuming a slight recovery in oil prices. The Bank pointed out that the 2016 draft budget law includes some fiscal adjustment measures, such as increases in the value-added tax rate on gasoil and cuts in utility subsidies, along with the possibility of external borrowing. But it noted that authorities indicated that the budget cuts would not affect public services, and the planned \$223bn in investments for the 2015-19 period would be fully executed. It expected the fiscal deficit to remain wide at 9.4% of GDP in 2016 and for the current account deficit to remain large at 13.8% of GDP. It anticipated that the deficits would be financed mostly through drawdowns from the sovereign wealth fund. As such, it expected the country's international reserves and foreign assets to drop from 24 months of imports cover in 2015 to 19 months in 2016, and from the equivalent of 21% of GDP in 2015 to 13% of GDP in 2016.

Source: World Bank



BANKING

SAUDI ARABIA

Agency takes rating actions on 11 banks

Fitch Ratings affirmed at 'A+' the long-term Issuer Default Ratings (IDR) of Al Rajhi Bank (ARB), National Commercial Bank (NCB), Riyadh Bank and SAMBA Financial Group (SAMBA). It also affirmed at 'A' the IDR of Arab National Bank (ANB), Banque Saudi Fransi (BSF) and Saudi British Bank (SABB); and at 'A-' the long-term IDR of Saudi Hollandi Bank (SHB), Saudi Investment Bank (SIB), Alinma Bank and Bank Aljazira (BAJ). In parallel, it revised to 'negative' from 'stable' the outlook on the long-term IDR of SABB, BSF and ANB, given the tougher operating environment facing the Saudi Arabian banking sector from the adverse impact of lower oil prices on government spending and, in turn, on the rest of the economy. The agency maintained the 'negative' outlook on the long-term IDR of ARB, NCB, Riyadh Bank and SAMBA, which mirrors the 'negative' outlook on the sovereign ratings; as well as the 'stable' outlook on the long-term IDR of SHB, SIB, Alinma Bank and BAJ. In parallel, Fitch upgraded the viability rating of Alinma Bank to 'BBB' from 'BBB-' to reflect the bank's greater size, maturity and track record of its franchise and strong performance. It also affirmed BAJ's VR at 'bb+', that of SIB at 'bbb-', and that of SHB at 'bbb', while it maintained the remaining banks' VR at 'a'.

Fitch indicated that all banks in Saudi Arabia benefit from a favorable operating environment, a strict and hands-on regulator, sound liquidity and capital ratios, and pre-impairment operating profit levels that enables them to absorb high impairment charges, if necessary. But it expected the operating environment to weaken over the next two years, as lower government spending would slow down loan growth, negatively affect earnings and profitability, and weaken asset quality over time, which would lower capital ratios.

Source: Fitch Ratings

TURKEY

Weak currency increases risks

Fitch Ratings indicated that the sharp depreciation of the Turkish lira has increased risks for the banks' asset quality, capitalization and foreign currency liquidity positions, but it noted that the banks' financial metrics have so far been resilient. It said that the currency lost 26% of its value against the US dollar so far this year in the context of domestic political instability and a slow-down in economic activity, and in anticipation of a rise in U.S. interest rates. It pointed out that the dollarization rate in the banking sector is high and that the banks' dependence on foreign currency lending and funding is significant. It added that the banks' foreign currency exposure to unhedged corporates constitute indirect risks because corporates are likely to face increasing difficulties to meet loan repayments for such loans. It expected banks to incur losses on their foreign currency loans, but that they would be able to absorb the losses over time given the loans' long maturities. It considered the banks' losses to be manageable, given that the banks' margin and capital buffers, and some foreign currency borrowers, are reasonably hedged. Further, Fitch indicated that the banks' asset quality is currently sound, as impaired loans were equivalent to 2.9% of total loans at the end of August 2015. In addition, it estimated that a 10% depreciation of the lira would lead to a 50 basis points drop in the sector's capital adequacy ratio that reached 14.8% at the end of August 2015. But it

noted that the sector's ratio is above the minimum regulatory capital ratio of 12%, which gives banks a significant capacity to absorb the direct hit to capital from an additional moderate currency depreciation. Further, Fitch indicated that the banks' foreign currency positions are close to flat, but it noted that potential refinancing risks are considerable given that 50% of the banks' total foreign currency borrowings have short-term maturities.

Source: Fitch Ratings

SUDAN

Sudan no longer subject to FATF monitoring

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 Sudan has made significant progress since February 2010 to improve its AML/CFT regime. FATF noted that Sudan has established the legal and regulatory framework to meet the commitments it made in its action plan about the strategic AML/CFT deficiencies that the FATF had identified in February 2010. As such, it declared that Sudan is no longer subject to FATF's monitoring under the ongoing global AML/CFT compliance process. It added that Sudan will work with the FATF-style regional body MENAFATF as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report.

Source: Financial Action Task Force

ETHIOPIA

Banks' capital adequacy at 17%, NPLs at 2%

The risk-weighted capital adequacy ratio of banks operating in Ethiopia reached 16.6% at the end of March 2015 relative to 17.4% at the end of June 2014 and 17.9% at end-June 2013. The banks' Tier-One capital ratio posted the same level as their risk-weighted capital adequacy ratio. Also, the banks' aggregate capital-to-assets ratio was 6.6% at the end of March 2015, down from 7% at end-June 2014 and 7.2% at end-June 2013. The sector's liquid assets represented 10.9% of total assets at end-March 2015 down from 16.2% at end-June 2014, while they were equivalent to 14.7% of total short-term liabilities at end-March compared to 21.5% at end-June 2014. Further, the sector's non-performing loans ratio increased from 2% at end-June 2014 to 2.4% at the end of March 2015. Also, the banks' NPLs net of provisions were equivalent to 2.4% of capital at end-March 2015, relative to -2.3% at end-June 2014.

In parallel, the sector's gross interest income accounted for 66.1% of total income at end-March 2015 relative to 62.8% at end-June 2014 and 64.9% at end-June 2013. Also, the banks' non-interest expenses were equivalent to 39.7% of gross income at end-March, down from 41% at the end of June 2014. Personnel expenses reached 40% of total non-interest expenses at end-March 2015, relative to 43.7% at end-June 2014 and 43.3% at end-June 2013. In parallel, the banks' annualized return on assets was 3% in March 2015, compared to 3.1% in June 2014 and to 3.2% in June 2013, while their return on equity reached 45% on an annualized basis in March, up marginally from 44.9% in June 2014 and relative to 48% in June 2013.

Source: International Monetary Fund



ENERGY / COMMODITIES

Oil prices to remain subdued in 2016

ICE Brent crude oil prices averaged about \$56 per barrel (p/b) in the first 10 months of 2015, reflecting a decrease of 46.8% from \$105 p/b in the same period of 2014. Prices have been supported at near the \$50 p/b mark amid a resilient recovery in global demand for oil, which is expected to grow by about 1.5 million barrels per day (b/d) to 94.2 million b/d this year, mainly due to lower oil prices and to recovering economies of the Organization for Economic Co-operation and Development (OECD), particularly in the United States. Also, non-OECD oil demand continues to grow so far this year, despite concerns over a slowdown in China and in other emerging economies. In contrast, lower oil prices were supposed to lead non-OPEC producers to reduce their supply level, but this has been materializing at a much slower pace than previously-expected, and it has been offset by rising OPEC supply. As such, the oil market is expected to start to rebalance in late 2016 rather than in 2015. Prices would remain subdued in the fourth quarter of 2015 and into next year due to sustained oversupply in the market. Brent oil prices are forecast to average \$58 p/b in 2016, given the need to reduce the large supply overhang and absorb new Iranian supply. However, oil prices are projected to start recovering to about \$70 p/b by 2017.

Source: Samba Financial Group, Byblos Research

Iraqi oil exports down 12% in October 2015

Iraqi crude oil exports averaged 2.7 million barrels per day (b/d) in October 2015, down by 11.5% from 3.1 million b/d in the preceding month. The drop was mainly attributed to shipment delays caused by bad weather. Iraq's revenues from oil exports reached \$3.32bn in October, reflecting a decrease of 7.8% from \$3.6bn in September. In parallel, Iraq's semi-autonomous Kurdistan region has increased its independent oil sales since mid-June 2015, while it reduced its supply to Iraq's State Oil Marketing Organization in an escalating dispute over export rights and budget payments.

Source: Thomson Reuters, Shafaq News

Nigeria's hydrocarbon export receipts up 21% in September 2015

Nigeria's crude oil & condensate export receipts totaled \$3.69bn in the first nine months of 2015, of which \$2.4bn were generated from crude oil exports and \$1.1bn were in gas export receipts. In parallel, \$3.09bn in hydrocarbon receipts were used to pay international oil companies, while the balance of \$607.8m was transferred to the Federation Account. Hydrocarbon receipts reached \$272m in September 2015, up by 20.5% from \$225.7m in the preceding month.

Source: Nigerian National Petroleum Corporation

Power projects worth \$65bn in MENA between September 2014 and September 2015

MEED Insight indicated that there were \$65bn in power contracts awarded across 14 countries in the Middle East & North Africa region between September 2014 and September 2015. It noted that more than 22% of these contracts were in Gulf Cooperation Council countries. It added that the installed generating capacity in the region needs to grow by 50% to 143,221 megawatts (MW) by 2020, in order to meet the expected demand. It said that Egypt needs an estimated 27,985MW of new capacity due to its fast growing population, the largest need in the region.

Source: MEED Insight

Base Metals: Copper prices to average \$5,640 per ton in 2015

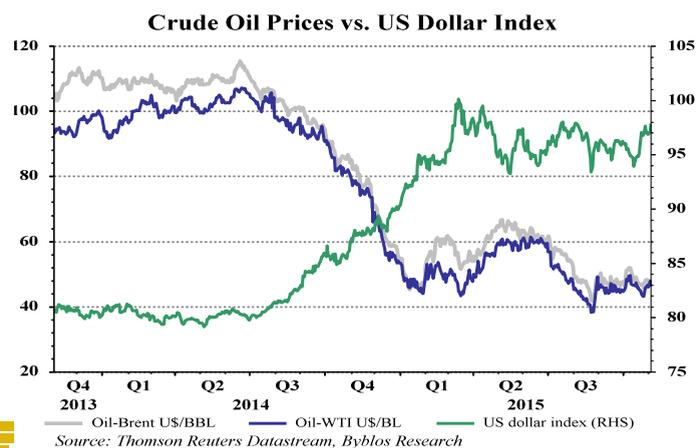
The LME cash price of copper averaged \$5,669 per ton in the first 10 months of 2015, down by 18.1% from the same period of 2014, partly due to strong US dollar, market oversupply, and persistent concerns about a Chinese economic slowdown. Prices traded at a low of \$4,963 per ton and a high of \$6,482 per ton so far in 2015, and are forecast to average \$5,640 per ton for the full year. In parallel, demand for global refined copper is estimated to have decreased by 2% year-on-year to 13,081 thousand tons in the first seven months of 2015. Russian demand for refined copper regressed by 52% in the covered period, contributing the most to the overall drop in global copper consumption; while demand in China increased by 1% year-on-year. The metal's refined production increased by 2.5% year-on-year to 13,089 thousand metric tons in the first seven months of the year. China was the main contributor to the growth in refined supply during the covered period, followed by the Philippines and Indonesia. The refined copper balance posted a production surplus of 8,000 metric tons in the first seven months of 2015 relative to a deficit of 563,000 tons in the same period of 2014.

Source: International Copper Study Group, Byblos Research

Precious Metals: Gold prices down 8% in first 10 months of 2015

The gold market's focus remains on the U.S. Federal Reserve and the timing of the first interest rate increase. Gold prices averaged \$1,177 a troy ounce in the first 10 months of 2015, down by 8.2% from the same period of 2014. Prices remain on a downtrend as demand for safe-haven assets continues to fade, due to expectations of sound global economic growth, higher interest rates and subdued inflation. Upside pressure on gold prices includes weakness in the US dollar, but the increase in prices would be limited amid weak physical demand for the metal. Prices are forecast to average \$1,150 a troy ounce over the coming three months and to decline to \$1,100 a troy ounce on average in the coming 12 months. According to the International Monetary Fund, the probability of the 12-month forward gold prices dropping below \$900 a troy ounce decreased to 10% from 17% in September; while the probability of gold prices rising above \$1,400 a troy ounce increased to 9% from 6% previously. In parallel, the Bloomberg Precious Metals Total Return Sub-Index decreased by 3.4% in the first 10 months of 2015, while the Gold Sub-Index rose by 2.4% in October and regressed by 4% from end-2014.

Source: Julius Baer, IMF, Bloomberg Indexes, 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	B+	-	CCC	-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-	(P)Caa1	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	A+	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	28-Oct-15	No change	16-Dec-15
Eurozone	Refi Rate	0.05	22-Oct-15	No change	03-Dec-15
UK	Bank Rate	0.50	08-Oct-15	No change	05-Nov-15
Japan	O/N Call Rate	0.00-0.10	30-Oct-15	No change	09-Nov-15
Australia	Cash Rate	2.00	03-Nov-15	No change	01-Dec-15
New Zealand	Cash Rate	2.75	29-Oct-15	Cut 25 bps	09-Dec-15
Switzerland	3 month Libor target	-1.25(-0.25)	17-Sep-15	No change	15-Dec-15
Canada	Overnight rate	0.50	09-Sep-15	No change	02-Dec-15
Emerging Markets					
China	One-year lending rate	4.35	23-Oct-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.50	28-Oct-15	No change	N/A
Taiwan	Discount Rate	1.75	24-Sep-15	Cut 12,5bps	01-Dec-15
South Korea	Base Rate	1.50	15-Oct-15	No change	12-Nov-15
Malaysia	O/N Policy Rate	3.25	11-Sep-15	No change	05-Nov-15
Thailand	1D Repo	1.50	04-Nov-15	No change	16-Dec-15
India	Reverse repo rate	6.75	29-Sep-15	Cut 50bps	01-Dec-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	29-Oct-15	No change	17-Dec-15
Turkey	Base Rate	7.50	21-Oct-15	No change	24-Nov-15
South Africa	Repo rate	6.00	23-Sep-15	No change	19-Nov-15
Kenya	Central Bank Rate	11.50	05-Aug-15	Raised 150bps	22-Nov-15
Nigeria	Monetary Policy Rate	13.00	21-Sep-15	No change	24-Nov-15
Ghana	Prime Rate	25.00	14-Sep-15	Raised 300bps	16-Nov-15
Angola	Base rate	10.50	28-Oct-15	No change	30-Nov-15
Mexico	Target Rate	3.00	29-Oct-15	No change	17-Dec-15
Brazil	Selic Rate	14.25	21-Oct-15	No change	25-Nov-15
Armenia	Refi Rate	10.25	22-Sep-15	No change	10-Nov-15
Romania	Policy Rate	1.75	30-Sep-15	No change	05-Nov-15
Bulgaria	Base Interest	0.01	30-Sep-15	No change	02-Nov-15
Kazakhstan	Repo Rate	16.00	02-Sep-15	Raised 400bps	N/A
Ukraine	Discount Rate	22.00	24-Sep-15	Cut 500bps	N/A
Russia	Refi Rate	11.00	30-Oct-15	No change	11-Dec-15



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

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BYBLOS BANK GROUP

LEBANON

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

SYRIA

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

IRAQ

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

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

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

UNITED ARAB EMIRATES

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

ARMENIA

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

CYPRUS

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

SUDAN

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

NIGERIA

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

DEMOCRATIC REPUBLIC OF CONGO

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

ADIR INSURANCE

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

