

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global speculative-grade default at 2.4% at end-September 2015

Standard & Poor's indicated that 82 corporate issuers with \$78.3bn in outstanding debt defaulted globally in the first nine months of 2015, compared to 44 defaults worth \$77.6bn in the same period of 2014 and relative to 60 defaults worth \$91.6bn in full year 2014. It noted that 69 speculative grade issuers defaulted in the covered period, while the remaining 13 issuers were no longer rated by the agency at the time of default. On a quarterly basis, 23 issuers with \$22.1bn in outstanding debt defaulted in the third quarter of 2015, down from 34 defaulted issuers with \$36bn in the preceding quarter. Also, 16 companies defaulted in the United States in the third quarter of 2015, equivalent to 69.6% of total defaults, while one company defaulted in each of Brazil, Canada, Indonesia, Russia, South Africa, the United Kingdom and Ukraine, with each representing 4.3% of global defaults. The agency indicated that 12 companies from the energy & natural resources sector defaulted in the third quarter of 2015, followed by seven issuers from the consumer & services sector, two corporates from the financial services sector, and one issuer from each of the healthcare & chemicals and leisure time & media sectors. It added that debt-distress exchanges were the most frequent reason for defaults in past months, while the substantial drop in oil prices contributed to the rising number of defaults in the energy sector and in other industries that extract non-agricultural commodities. S&P pointed out that the trailing-12-months speculative-grade default rate widened from 2.21% at the end of June 2015 to 2.39% at the end of September 2015.

Source: Standard & Poor's

M&A in insurance sector at highest level in years due to low interest rates and weak growth

Moody's Investors Service indicated that the growth in mergers and acquisitions (M&A) in the insurance sector is currently at its highest level in many years. It said that the elevated M&A activity in the sector is driven by the weak global economic environment and regulatory changes, which led many insurance groups worldwide to consider business sales. It added that low interest rates and funding costs, as well as the insurers' desire to seek economies of scale and expand in growing markets, have encouraged bidders. It noted that M&A in the insurance industry exceeded \$200bn in the first nine months of 2015. Moody's projected debt-funded M&A to continue to be attractive in coming years. The agency noted that many insurance groups worldwide have increasingly recognized the need to achieve higher scale or greater efficiency to help manage the negative impact of a low-return investment environment. It said that some of the largest deals have been mainly in the U.S. health insurance sector, while significant cross-border deal activity took place. It said that Chinese and Japanese insurance groups have been active in the U.S. and EMEA markets. It pointed out that Japanese firms looked for non-domestic acquisitions, in order to offset the slowdown in the domestic market.

Source: Moody's Investors Service

MENA

Vast disparities in region's financial literacy levels

Standard & Poor's Global Financial Literacy Survey for 2015 indicated that the financial literacy rate exceeds 30% in nine out of 17 countries in the Middle East & North Africa (MENA), while the literacy rate ranges between 13.3% and 27.5% in the remaining eight countries. The survey measures financial literacy through questions that assess the basic knowledge of survey respondents about four fundamental concepts in financial decision-making, which are interest rates, compounded interest rates, inflation, and investment risk diversification. It defined a person as financially literate if the person provides the correct answers to questions about at least three out of four financial concepts. Further, the survey showed that 68.4% of adults in Israel are financially literate, the highest share in the region and the fourth highest among 144 countries, followed by Tunisia with 44.7% (32nd), Lebanon with 44.4% (33rd), Kuwait with 43.5% (37th) and Bahrain with 39.5% (51st). In contrast, the lowest financial literacy rates in the region are in Turkey with 23.62% (120th), Jordan with 23.5% (122nd), Sudan with 20.7% (129th), Iran with 20.5% (130th) and Yemen with 13.3% (144th). In parallel, the difference in the financial literacy rates among genders show that the gap between males and females in Tunisia is 12.6 percentage points, the largest gender gap among MENA countries, followed by Lebanon (11.1 percentage points) and Yemen (10.2 percentage points). Also, the financial literacy gap between the rich and poor is the widest in Yemen at 10.1 percentage points, followed by Tunisia (8.9 percentage points) and Israel (8.1 percentage points). Source: Standard & Poor's, Byblos Research

Equity markets down 16% in first 11 months

Arab stock markets decreased by 16% and Gulf Cooperation Council (GCC) markets dropped by 15.8% in the first 11 months of 2015 compared to increases of 8.4% and 6.3%, respectively, in the same period of 2014. Arab and GCC stock markets regressed by 3.4% and 2.7%, respectively, in November from October 2015. Activity on the Palestine equity market grew by 1.7% in the first 11 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 30.4%, the Egyptian equity market declined by 28.8%, the Qatar bourse contracted by 17.9%, the Dubai financial market decreased by 15.1%, the Khartoum bourse dropped by 14.7%, the Bahrain stock market declined by 13.6%, the Saudi Arabia equity market retreated by 13.1%, the Oman stock market regressed by 12.5%, the Kuwait security exchange fell by 11.2%, the Amman bourse dropped by 7.9%, the Abu Dhabi financial market contracted by 6.5%, the Casablanca equity market declined by 5.5%, the Damascus securities exchange retreated by 4.9%, the Tunis equity market regressed by 2.7% and the Beirut stock exchange contracted by 1.8%. Also, the Iranian financial market fell by 9.2% in the covered period. In comparison, global equities contracted by 1.9%, while emerging market equities fell by 14.2% in the first 11 months of 2015.

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

POLITICAL RISK OVERVIEW - November 2015

EGYPT

The second and final round of parliamentary elections was held on November 22 and 23 with a low turnout of 29.8% of eligible voters. The For the Love of Egypt electoral list, loyal to President Abdel Fattah el-Sisi, secured all 60 seats in the second stage of the elections. It was the only list to secure victory in the first and second rounds of parliamentary elections. Violence and acts of terrorism continued in the Sinai Province. Ashraf Gharabli, a leader of an Islamic State's affiliate in northern Sinai, died in a shootout in Cairo after security forces tried to arrest him. Six Sudanese migrants were killed and 17 were wounded during clashes between security forces and smugglers in North Sinai. The United Kingdom, the U.S. and Russia suggested that the Russian airplane crash was caused by a bomb planted on the plane by the Islamic State militant group or one of its affiliates.

IRAN

The International Atomic Energy Agency indicated that Iran has started dismantling its nuclear centrifuges in the Fordow and Natanz uranium enrichment facilities as per the July 2015 Joint Comprehensive Plan of Action. A group of 20 hardline parliamentarians wrote a letter to the president complaining that the deactivation of the centrifuges contradicts the directives of Supreme Leader Ayatollah Ali Khamenei. Russian President Vladimir Putin met Supreme Leader Ayatollah Ali Khamenei on November 23 in Tehran to discuss the war in Syria.

IRAQ

The Peshmerga Kurdish forces, backed by the U.S.-led coalition and fighters from the Yazidi minority, launched on November 12 a massive offensive against Islamic State (IS) militants in the town of Sinjar in the western Ninewa Province. Kurdish fighters have regained control of the strategic Iraqi town of Sinjar that had been held by the IS militant group since last year. A mass grave believed to contain the remains of more than 70 members of Iraq's Yazidi minority was discovered in eastern Sinjar after Kurdish forces claimed victory over IS militants in the area. Iraq's military command advised all civilians in the provincial capital Ramadi to leave the city, a sign that a military operation may soon be underway to retake the city from IS militants. The armed conflict, violence and acts of terrorism in Iraq led to 888 deaths and 1,237 injuries in November 2015.

DEM REP CONGO

President Joseph Kabila made a long-anticipated public call for a national dialogue to prepare for the 2016 elections, an idea regarded with suspicion by his opponents. The opposition platform 'Dynamique de l'opposition Congolaise' organized a convention in the city of Kinshasa, underlining their refusal to participate in the national dialogue. They were later joined by leaders of the seven parties, known as the G7, and the former governor of Katanga Province Moïse Katumbi. The Catholic church called on the Congolese to reject a possible third term for Kabila. President Kabila swore in new chiefs of the electoral commission in the DRC, one year ahead of the planned polls. Clashes between the Ugandan Allied Democratic Forces and government forces led to at least 30 deaths in North Kivu.

LIBYA

The UN-sponsored talks aimed at ending the conflict between Libya's two rival governments have stalled, as both parties continued to resist voting on any of the July or October 2015 peace draft agreements. The German diplomat Martin Kobler replaced Bernardino León as the Special Representative of the UN Secretary General and the head of the United Nations Support Mission in Libya. A peace agreement was signed between the Tuareg and Tebu rival tribes, but fighting has reportedly resumed soon after. Meanwhile, violence persisted in the city of Benghazi and in other parts of the country.

SOUTH SUDAN

The Joint Monitoring and Evaluation Commission, set by East Africa's Intergovernmental Authority on Development (IGAD), held its first meeting in Juba. The Sudan Peoples' Liberation Movement-In-Opposition (SPLM-IO) refused to participate. The commission is responsible to oversee the proper implementation of the peace deal between President Salva Kiir and the SPLM-IO. The main backers of the peace process warned that the deal will unravel if rival parties continue to miss the implementation deadlines. Uganda completed the withdrawal of its forces that were deployed at the end of 2013 in support of the government. Armed clashes between rival parties continued in the Unity State, which violated the ceasefire. President Salva Kiir announced its plan to normalize the exchange rate, which will enable South Sudan to access loans from international financial institutions and to support the peace implementation plan.

SUDAN

The government and rebel groups held negotiations in Addis Ababa, but the parties failed to reach a ceasefire agreement. The government refused to allow humanitarian aid to enter the rebel-held territory and proposed a separate deal with the Sudan People's Liberation Movement-North (SPLM-N) on the South Kordofan and Blue Nile states. The SPLM-N demanded a comprehensive agreement and criticized the government's decision to exclude political opposition parties from the National Dialogue. Fighting continued between government troops and SPLM-N forces in the South Kordofan and Blue Nile states.

SYRIA

Turkey shot down a Russian warplane near the Syrian border. In retaliation, Moscow announced unilateral economic sanctions and increased its airstrikes along the Syrian side of the Turkish border. Foreign ministers of 17 key external players in the Syrian conflict reached a joint agreement on outlines to end the conflict. The agreement stipulated the beginning of negotiations in January 2016 between President Bashar al Assad's regime and opposition representatives to agree on a ceasefire as well as to put in place a process that would establish credible, inclusive and non-sectarian governance within six months. Also, a new constitution should be put in place within 18 months, followed by a UN-monitored elections where all Syrians would be entitled to vote. In response to the Paris attacks claimed by the Islamic State (IS), France intensified its air-strikes on the IS stronghold in the city Raqqa and deployed an aircraft carrier in the Mediterranean Sea.

TUNISIA

The Islamic State claimed responsibility for a bomb attack that killed 12 people in the capital city of Tunis. Authorities announced a state of emergency throughout the country and a curfew in the capital. It arrested two militants connected with the bombing and seized hidden weapons. Tensions within the ruling Nidaa Tounes party erupted as various groups fought for control. A group of 31 deputies from the ruling party threatened to resign, which raised the possibility that the An Nahda party could become the largest political force in the National Assembly.

YEMEN

Political tensions intensified and large-scale deadly violence continued throughout November 2015. Fighting intensified in and around the Taiz Province between Huthi 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. President Abdrabbuh Mansour Hadi returned from his six-month exile in Saudi Arabia to oversee campaigns against the Huthi fighters in the capital city of Sanaa. The Saudi-led coalition airstrikes in the city of Sanaa have decreased in response to international pressure.

Source: International Crisis Group, Newswires



OUTLOOK

EMERGING MARKETS

Emerging markets more vulnerable to strong US dollar and low commodity prices than rising rates

Fitch Ratings indicated that the U.S. Federal Reserves' first interest rate increase since 2006 does not mean that an external financing crisis in emerging markets (EM) is imminent. But it identified three risks that would face EM economies in the context of higher U.S. interest rates. First, it said that the near-term growth outlook is less promising for EMs where economic growth has been supported by cheap external funding. Second, it noted that the cost of refinancing maturing EM external debt will rise as U.S. interest rates increase, especially that most EM external debt is denominated in US dollars. Third, it pointed out that EM policy-makers would need to choose between allowing their currencies to depreciate or raising domestic interest rates, in case higher U.S. interest rates draw capital from EM financial markets. It noted that both options would have adverse implications on debt servicing cost. It added that pro-cyclical interest rate increases are already under way in several EM.

In parallel, the agency anticipated that the continued appreciation of the US dollar and the sustained low commodity prices would put more pressure on the ratings of EM sovereigns than the increase in interest rates in the United States. Further, Fitch indicated that the deterioration in EM sovereign credit profiles is not an evidence of imminent EM financial crises. It added that EM have significantly improve their external balance sheets over the past decade, especially their foreign currency reserves, have adopted flexible exchange regimes and have improved their overall macroeconomic policy management. It considered that EM policy-makers have more options to confront the external financing pressures and are well-positioned to do so.

Source: Fitch Ratings

EGYPT

Economy facing additional challenges

The Institute of International Finance projected Egypt's real GDP growth rate to decelerate from an estimated 4.3% in the fiscal year that ended in June 2015 to 3.5% in FY2015/16. It indicated that delays in the implementation of reforms, an overvalued Egyptian pound and exchange rate controls are weighing heavily on private sector confidence. It expected tourism receipts to decline following the recent security breach in Sharm el-Sheikh, but to be partly offset by some recovery in receipts from natural gas exports. It added that the recent major gas discovery, along with improved contract terms for international companies, have encouraged the development of previously discovered gas fields. It said that the inflation rate remained elevated at 9.5% in October 2015, mainly due to supply bottlenecks. It noted that authorities would impose price controls on 10 more basic food commodities in order to keep prices under control. In parallel, the IIF pointed out that authorities are targeting a fiscal deficit of less than 10% of GDP in FY2015/16 relative to 11.5% of GDP in FY2014/15, supported by low oil prices and energy subsidy reforms. It added that the government plans to introduce the value-added tax in July 2016.

Further, the IIF indicated that the market expects the Central Bank of Egypt (CBE) to shift to a more flexible monetary policy, given the depletion in foreign currency reserves and because foreign exchange controls are taking a toll on economic activity. It said that the industrial sector is asking for tighter import regulations to limit the demand for US dollars, while private banks and other businesses are pressing to end capital controls in order to reduce the pressure on foreign currency. It noted that foreign currency reserves dropped from \$36bn prior to the 2011 uprising to \$16.4bn, or 2.8 months of imports, at the end of October 2015, which leaves the CBE with little room to defend the value of the pound. In addition, the IIF expected Egypt's external financing to remain under pressure. It forecast export receipts to drop from \$7.4bn in FY2014/15 to \$5.1bn in FY2015/16, as the banning of flights to Sharm el-Sheikh by Russia and several EU countries would adversely affect the winter tourism season. It added that lower export receipts, along with an overvalued currency, would further widen the current account deficit to 5.3% of GDP in FY2015/16. It noted that FDI did not increase as fast as expected due to the slow pace of reforms and to foreign investors' "wait-and-see" attitude given the highly overvalued exchange rate. Also, it expected official support from the GCC countries to be limited by their tighter budgetary constraints.

Source: Institute of International Finance

SAUDI ARABIA

Fiscal adjustment to proceed gradually

Merrill Lynch expected the Saudi riyal's peg to the US dollar to remain in place over the medium term, supported by the country's substantial foreign assets. Also, it anticipated that Saudi authorities would proceed with a gradual fiscal adjustment process, which would slow down the pace of drawdown of foreign currency reserves at the Saudi Arabian Monetary Agency (SAMA). It pointed out that the recent fluctuations in the spot exchange rate reflect technical distortions rather than SAMA's weakened commitment to the peg. It expected SAMA's passive intervention in the foreign exchange market to continue.

In parallel, Merrill Lynch anticipated that the gradual fiscal consolidation and the phasing out next year of one-off spending items, equivalent to 5% of GDP, would result in a slower pace of foreign currency reserves loss. It noted that the government has withdrawn \$10bn per month from its deposits in the first nine months of 2015, while SAMA's foreign assets have decreased by \$8.6bn per month as oil prices averaged \$53 p/b over the same period. It projected foreign currency reserves to decline by \$4.2bn per month in 2016 based on an average oil price of \$50 p/b, and to decrease by \$6.9bn per month if oil prices average \$30 p/b during the year. It noted that these forecasts assume fiscal adjustments, no external debt issuance and financing of 40% of the budget deficit through domestic debt issuance. It expected foreign reserves to drop by \$6.2bn per month in 2016 if oil prices average \$50 p/b during the year, and to fall by \$8.9bn if prices average \$30 p/b, assuming that authorities do not proceed with fiscal consolidation. Further, it anticipated the pension system to play an important role in absorbing government debt issuances. It added that SAMA can use macro-prudential tools to alleviate additional tightening of banks' liquidity, such as cuts in the reserve requirement ratio and injection of deposits.

Source: Merrill Lynch



ECONOMY & TRADE

QATAR

Lower gas export receipts and current spending to weigh on non-hydrocarbon growth

Regional investment bank EFG Hermes revised downward its projection for Qatar's non-hydrocarbon growth to 8% in 2016 and 9% in 2017 from a previous forecast of 8.8% and 10.2%, respectively. It attributed the change to lower gas export receipts and public spending. It said that Qatar's liquid natural gas (LNG) industry faces two key challenges, which are lower export prices that fell by 40% year-on-year so far in 2015, and rising competition. It noted that LNG prices are linked to oil prices and would adjust to a drop in oil prices with a six-months lag. It added that Qatar's ability to retain its market share globally will be impacted by increased competition from new LNG supply coming online. Overall, it indicated that total gas export receipts fell by 41.3% year-on-year to \$39.6bn in the first nine months of 2015. It added that this has significantly narrowed the trade surplus in the context of a steady import bill of \$24bn in the first nine months of 2015. EFG pointed out that authorities responded to lower receipts through cuts in current spending. It noted that preliminary fiscal figures show that current spending fell by 10.4% in the fiscal year that ended in March 2015. It considered that the government gave priority to cutting its current spending in order to retain room for development spending related to its national development strategy. It noted that the authorities' ability to sustain investment spending would be increasingly dependent on government-related entities and the private sector. It expected the government's measures to keep the fiscal deficit at 2% of GDP in 2016, but this would weigh more heavily on activity.

Source: EFG Hermes

KUWAIT

Non-hydrocarbon growth at 3% in 2015-16

The International Monetary Fund indicated that the drop in global oil prices has adversely affected Kuwait's fiscal and current account balances, and has slowed economic growth. But it noted that the country's large fiscal and external buffers, as well as its substantial borrowing space, would facilitate the fiscal adjustment in response to the decline in oil prices and would continue to support growth through sizable investment spending. It forecast non-hydrocarbon growth to decelerate from 3.2% in 2014 to 3% in each of 2015 and 2016, and to pick up to 4% in the medium term, supported by public and private investments. It projected total investment to rise from 15.5% of GDP in 2014 to 21.8% of GDP in 2015 and 22.5% of GDP in 2016. The IMF called on authorities to take advantage of the available policy space to pursue gradual and sustained reforms to safeguard fiscal sustainability, promote export diversification and increase the private sector's participation in the economy. The Fund noted the need for fiscal consolidation through higher non-hydrocarbon revenues, spending controls, and additional subsidy and public-sector wage reforms. It supported the government's plans to introduce a value-added tax and a corporate income tax, and encouraged authorities to combine domestic and external financing sources to maintain capital spending. It forecast the fiscal deficit, excluding investment income, to reach 12.8% in the fiscal year that ends in March 2016.

Source: International Monetary Fund

IRAQ

Iraq to face difficulties in financing fiscal deficit

BMI Research projected Iraq's fiscal deficit to narrow from 10.1% of GDP in 2015 to 4.6% of GDP in 2016, and noted that the fiscal balance would remain in deficit in coming years. It forecast Iraq's oil exports to average about 3.4 million b/d in 2016, below the government's expectations of 3.8 million b/d. Also, it said that the government based its 2016 budget on an average oil price of \$45 p/b, but it noted that authorities would need to sell their oil at a discounted price in order to retain their market share. Further, it indicated that the drop in government revenues would significantly affect public investments, given that more than 90% of total spending in the 2016 budget will be allocated to current and defense expenditures. In parallel, BMI anticipated that the Iraqi government would face difficulties in funding its wide fiscal deficit in 2016. It noted that the government is already crowding out private investment, as banks' credit extended to public institutions accounted for almost 50% of their total lending in 2014. Also, it said that Iraq pulled out of a \$2bn Eurobond issuance in October 2015 due to very high interest rates required by the market. It expected the risk premium for Iraq's fixed income to remain above 9% in 2016, which would discourage the authorities from issuing large amounts of debt on international markets. It noted that support from multilateral lenders would not be sufficient to cover the fiscal deficit. As such, it expected the Central Bank of Iraq to devalue the dinar by 10% in 2016 in order to increase the value in local currency of hydrocarbon revenues that are settled in US dollars. It forecast the Iraqi dinar to trade at IQD1,304 per dollar by the end of 2016.

Source: BMI Research

ARMENIA

Weak domestic demand and external vulnerabilities to weigh on economic activity in 2016

Moody's Investors Service projected Armenia's real GDP growth to decelerate from 2.5% in 2015 to 2.2% in 2016, reflecting the economy's low diversification, weakened domestic demand, and trade and financial exposures to Russia. It said that Armenia's weak domestic demand has slowed down consumption and investment, while Russia's worsening economic conditions have led to sharp declines in remittance inflows to Armenia. It added that Armenia is significantly exposed to the Russian growth cycle, given that remittance inflows from Russia account for about 15% of the country's GDP. But it indicated that the economy has performed better than expected in 2015 due to the strong performance of the agricultural and mining sectors. Further, Moody's expected the fiscal deficit to widen to 4.2% of GDP in 2015, mainly due to the expansionary fiscal measures and low revenue growth from weak domestic demand. It forecast the government debt level to rise to about 48% of GDP in 2015 due to the deteriorating fiscal position. But it expected the country's fiscal deficit to narrow to 3.6% of GDP in 2016. However, the agency noted that sustained external vulnerabilities could negatively affect the government's plans to increase tax revenues over the next two years. Also, it said that Armenia's debt profile is susceptible to negative growth shocks, and that the debt stock could further increase if spillover risks from Russia worsen.

Source: Moody's Investors Service



BANKING

MOROCCO

Banking sector faces high economic risks

Standard & Poor's maintained Morocco's Banking Industry Country Risk Assessment (BICRA) in 'Group 7' and its industry and economic risk scores at '6' and '7', respectively. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking systems and 'Group 10' the riskiest ones. It noted that other countries in BICRA's 'Group 7' include Jordan, the Philippines, Portugal and Slovenia. S&P said that Morocco's economic risk score indicates that its economic resilience and credit risk in the economy are at "very high risks" and its economic imbalances at "intermediate risks". It noted that economic risks include the country's low-middle income per capita and high social needs that have weighed on the debt stock in recent years. It added that economic activity is concentrated in some cyclical sectors, mainly agriculture, real estate and shipping, which leaves the economy vulnerable to external factors. In parallel, S&P pointed out that its industry score indicates that the country faces "high risks" in its institutional framework and in its system-wide funding, and "intermediate risks" in its competitive dynamics. It noted that Morocco's banking system is one of the largest and most concentrated in North Africa, which contributes to industry stability. But it considered that the banks' risk appetite is high given their rapid expansion, mainly in riskier African countries. It said that the trend for the banking sector's industry risk is 'stable', even though it expected cyclical sectors to continue to present elevated credit risks for banks. It also noted that the trend for economic risks is 'stable'.

Source: Standard & Poor's

KUWAIT

Banks' ratings affirmed, outlook 'stable'

Fitch Ratings affirmed at 'A' the long-term Issuer Default Rating (IDR) of Gulf International Bank (GIB), at 'BBB+' that of Ahli United Bank (AUB) and at 'BBB-' the long-term IDR of National Bank of Bahrain (NBB), BBK Bank and Arab Banking Corporation (ABC). It said that all the banks' long-term IDRs have a 'stable' outlook. It noted that the IDRs on NBB and BBK Bank are driven by their intrinsic creditworthiness or viability rating (VR). It added that there is a high probability that Bahraini authorities would provide support to both banks, in case of need, due to their systemic importance as major retail and corporate banks in Bahrain, and because local authorities hold significant stakes in both banks. The agency indicated that it does not factor any sovereign support in the ratings of wholesale banks GIB and ABC, adding that their IDRs reflect the high probability of institutional support from their respective shareholders. Further, Fitch affirmed at 'bbb' the VR of AUB, and at 'bbb-' that of ABC, BBK Bank, GIB and NBB. It noted that NBB's VR is supported by the bank's strong capitalization, solid funding profile, and improving asset quality. But it is constrained by the bank's reliance on a small and competitive domestic environment and concentrations in both loans and deposits. It said that BBK's VR is supported by the bank's adequate capitalization and satisfactory financial performance, but it is constrained by the bank's concentrated loan book.

Source: Fitch Ratings

SAUDI ARABIA

Outlook on banking sector to remain stable

Moody's Investors Service maintained its 'stable' outlook on Saudi Arabia's banking system, as it expected the banks' profitability and capital buffers to remain resilient and to support their solid credit profiles over the next 12 to 18 months amid persistently low oil prices. It anticipated countercyclical government spending to continue to support the non-hydrocarbon sector, to which most bank lending is directed, and to help moderate the negative effect of low oil prices on the economy. It forecast credit growth to decelerate to 8% in 2015 and to about 5% in 2016, in line with the slowdown of overall economic activity. Also, the agency expected the sector's asset quality to weaken but to remain strong, as it projected the non-performing loans ratio to rise from 1.4% currently but to remain under 2.5% in 2016. Further, it expected the banks' solid profitability to support a modest increase in their capital buffers despite the anticipated slowdown in credit growth. It projected the banks' tangible common equity ratio to average 16.8% at the end of 2016, which would reflect an increase of 100 basis points from end-2014. It indicated that these buffers provide a significant support against the expected pressure on the banks' asset quality and the high level of loan concentration. In parallel, Moody's anticipated that Saudi banks would continue to benefit from a low-cost and stable deposit funding base. But it indicated that bank liquidity is tightening due to persistently low oil prices and increased government borrowings. Still, it noted that the Saudi banks' liquid assets represented 33% of their total assets at the end of June 2015, and expected their liquidity buffers to remain solid in 2016.

Source: Moody's Investors Service

OMAN

Outlook on banking sector revised to negative

Moody's Investors Service revised the outlook on Oman's banking system from 'stable' to 'negative' due to the weakening operating environment amid lower global oil prices. It added that the 'negative' outlook takes into account the government's diminishing capacity to provide support to the banking sector in case of need. It anticipated that slower economic growth would translate into weaker credit growth and would lead to moderate pressure on the banks' funding, asset quality and profitability. It expected credit growth to decelerate from 11% in 2014 to between 7% and 9% in 2016. Also, it forecast the sector's non-performing loans ratio to increase from 2.3% in 2014 to around 3% in 2016. It pointed out that Omani banks' relatively high loan concentration, especially in the real estate sector, would continue to pose a risk to asset quality. But it noted that the sector's solid capital buffers would counterbalance the pressure on banks' assets. Further, Moody's expected Omani banks to increasingly rely on more costly and confidence-sensitive market funding to support credit growth. It projected deposits from the government and its related entities to decelerate, but it noted that the banks' liquidity buffers will remain solid in 2016. In parallel, it anticipated the banks' profitability to decline marginally in 2016, as higher borrowing costs, rising expenses and higher loan-loss provisioning. This would be mostly offset by the expected rise in interest rate and the shift in government borrowing to longer-term debt.

Source: Moody's Investors Service



Oil market oversupply to narrow in 2016

Crude oil demand is anticipated to grow by 1.8% to 94.5 million barrels per day (b/d) in 2015 and by 1.1% to 95.5 million b/d in 2016. Oil demand in 2015 has been driven by the drop in oil prices, which enhanced demand from motorists in developed countries, and by the cold weather in European countries. Global oil consumption growth is expected to moderate in the next two years as demand in OECD countries resumes its structural decline due to demographic and income trends, and as efforts to improve energy efficiency persist. Also, China's slowing economy and declining energy intensity, as well as economic troubles in Brazil and Russia, are projected to constrain demand growth in emerging markets. In parallel, crude oil output is anticipated to grow by 1.7% to 95.3 million b/d in 2015 and by 0.5% to 95.8 million b/d in 2016. The growth in supply would be supported by sustained output from the Organization of Petroleum Exporting Countries (OPEC), and by additional production from Iran once the international sanctions are lifted. But it would be partly offset by falling output in the U.S. and production cutbacks from producers elsewhere. As such, the oil market oversupply is expected to reach about 860,000 b/d in 2015 and to narrow to 300,000 b/d and 180,000 b/d in 2016 and 2017, respectively. ICE Brent oil prices are forecast to rise from an average of \$53.4 p/b in 2015 to \$60 p/b next year and \$72.7 p/b in 2017; while WTI oil price are projected to grow from an average of \$48.4 p/b in 2015 to \$55.1 p/b in 2016 and \$67.6 p/b in 2017.

Source: *Economist Intelligence Unit, Byblos Research*

Iraqi oil exports at highest level in over 10 years

Iraqi crude oil exports reached their highest level in over 10 years at 3.4 million barrels per day (b/d) in November, up by 24.8% from 2.7 million b/d in October. All oil exports were channeled through the southern ports, as operations at the northern port of Ceyhan were halted for the second consecutive month due to criminal attacks on the pipeline. Iraq's revenues from oil exports reached \$3.67bn in November 2015, up by 11.6% from \$3.29bn in October.

Source: *Thomson Reuters*

Nigeria's earnings from hydrocarbon exports up 64% in October 2015

Nigeria's crude oil & gas export receipts totaled \$4.14bn in the first 10 months of 2015, of which \$2.7bn were generated from crude oil exports, \$1.2bn from gas exports and \$282.3m from other receipts. In parallel, \$3.53bn 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 \$445.8m in October 2015, up by 64% from \$272m in the preceding month.

Source: *Nigerian National Petroleum Corporation*

OPEC's oil output at 31.4 million b/d in October

The Organization of the Petroleum Exporting Countries' (OPEC) crude oil production averaged 31.4 million barrels per day (b/d) in October 2015, down by 0.8% from 31.6 million b/d in September. Saudi Arabia produced 10.1 million b/d in October, equivalent to 32.3% of OPEC's total oil output. It was followed by Iraq with 4 million b/d (12.8%), the UAE and Iran with 2.9 million b/d each (9.2% each), and Kuwait with 2.7 million b/d (8.6%).

Source: *OPEC, Byblos Research*

Base Metals: Copper Prices up 86% over 10 years

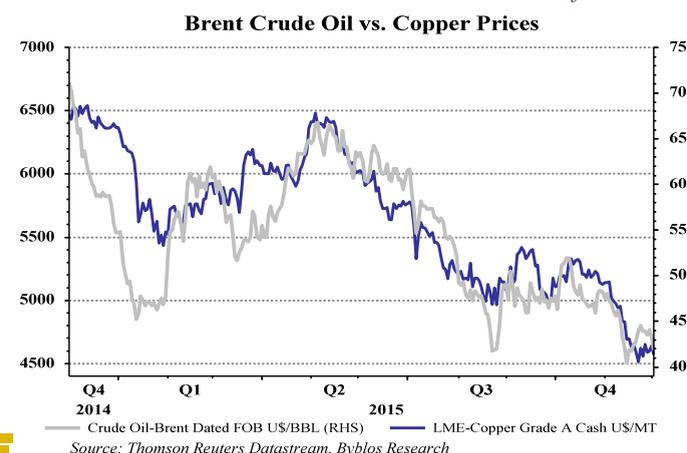
The LME cash price of copper averaged \$5,667 per ton in the first 11 months of 2015, trading at a low of \$4,513 per ton and a high of \$6,482 per ton so far this year. The price of copper increased by 86.3% in the 2005-14 period as it rose from an average of \$3,684 per ton in 2005 to \$6,862 per ton in 2014. As such, the metal's price grew by a compound annual growth rate (CAGR) of 7.1% over the covered period. In parallel, global demand for refined copper rose by 38.1% over the 10-year period, from 16,564 thousand tons in 2005 to 22,881 thousand tons in 2014, and grew at a CAGR of 3.5%. The growth in Chinese demand tripled over the covered period and rose from a share of 20% of the total in 2004 to about 45% in 2014. The metal's global refined production rose by 35.5% from 16,572 thousand metric tons in 2005 to 22,475 thousand tons in 2014. As such, it grew at a CAGR of 3.5% over the covered period. China was the main contributor to the growth in refined supply. Overall, the refined copper balance shifted from a production surplus of 8,000 metric tons in 2005 to a deficit of 419,000 tons in 2014. The copper market posted surpluses in 2005, 2006, 2008 and 2009, while it displayed deficits in 2007, 2010, 2011, 2012, 2013 and 2014.

Source: *International Copper Study Group, Byblos Research*

Precious Metals: Platinum output to grow by 6% in 2015 due to supply recovery in South Africa

Global platinum supply is expected to reach 7.73 million ounces in 2015, which would reflect a rise of 6.3% from 7.27 million ounces in 2014. The anticipated increase reflects the ongoing recovery of mine production in South Africa, that would be partly offset by a 7.4% drop in the metal's recycling worldwide. South Africa's mine supply is expected to surge by 34.3% in 2015 to 4.2 million ounces, mainly due to its very low supply base in 2014 that resulted from the five-month strike of platinum mine workers. The decline in Platinum recycling is primarily attributed to the drop in the metal's price and to a decline in jewelry demand in China. In parallel, global demand for platinum is projected to rise marginally by 0.4% to 8 million ounces this year as growth in automotive, industrial and investment demand would more than offset the decline in jewelry demand. The global automotive sector is expected to account for 42.5% of total platinum demand in 2015, followed by the jewelry industry with 35.5% and the chemicals sector with 7.1%. Overall, the global platinum market is projected to remain in deficit in 2015, as demand would exceed supply by 300,000 ounces.

Source: *World Platinum Investment Council, SFA Oxford*



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
Africa													
Algeria	-	-	-	-	BB	-12.9	13.6	2.0	5.7	1.2	-	-15.7	-
Angola	B+	Ba2	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	-	Ba3	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	BBB+	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	05-Nov-15	No change	10-Dec-15
Japan	O/N Call Rate	0.00-0.10	19-Nov-15	No change	18-Dec-15
Australia	Cash Rate	2.00	01-Dec-15	No change	02-Feb-15
New Zealand	Cash Rate	2.75	29-Oct-15	Cut 25 bps	10-Dec-15
Switzerland	3 month Libor target	-1.25(-0.25)	17-Sep-15	No change	15-Dec-15
Canada	Overnight rate	0.50	02-Dec-15	No change	09-Mar-16
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	16-Dec-15
Taiwan	Discount Rate	1.75	24-Sep-15	Cut 12,5bps	01-Dec-15
South Korea	Base Rate	1.50	12-Nov-15	No change	10-Dec-15
Malaysia	O/N Policy Rate	3.25	05-Nov-15	No change	21-Jan-16
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	24-Nov-15	No change	22-Dec-15
South Africa	Repo rate	6.25	19-Nov-15	Raised 25bps	28-Jan-16
Kenya	Central Bank Rate	11.50	22-Nov-15	No change	16-Jan-16
Nigeria	Monetary Policy Rate	11.00	24-Nov-15	Cut 200bps	N/A
Ghana	Prime Rate	26.00	16-Nov-15	Raised 100bps	25-Jan-16
Angola	Base rate	10.50	30-Nov-15	No change	N/A
Mexico	Target Rate	3.00	29-Oct-15	No change	17-Dec-15
Brazil	Selic Rate	14.25	25-Nov-15	No change	20-Jan-16
Armenia	Refi Rate	9.75	10-Nov-15	Cut 50bps	08-Dec-15
Romania	Policy Rate	1.75	05-Nov-15	No change	27-Jan-16
Bulgaria	Base Interest	0.01	01-Dec-15	No change	N/A
Kazakhstan	Repo Rate	16.00	02-Sep-15	Raised 400bps	N/A
Ukraine	Discount Rate	22.00	24-Sep-15	Cut 500bps	17-Dec-15
Russia	Refi Rate	11.00	30-Oct-15	No change	11-Dec-15



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