

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Private equity investments at \$29bn in first nine months of 2015

Private equity funds that mainly invest in emerging markets raised \$28.6bn in the first nine months of 2015 through 147 funds, compared to \$49.1bn through 219 funds in full year 2014. Each fund raised about \$194.8m on average in the first nine months of the year, relative to \$224.1m last year. Emerging Asia funds raised \$20.1bn through 80 funds, followed by Latin America & the Caribbean funds with \$3.9bn through 21 funds, Sub-Saharan Africa funds with \$3.3bn through 21 funds, Middle East & North African (MENA) funds with \$994m through 12 funds and Central Eastern Europe & the Commonwealth of Independent States (CEE & CIS) funds with \$379m through 13 funds. In parallel, private equity investments in emerging markets totaled \$22bn in the first nine months of 2015 compared to \$37.5bn in full year 2014. The number of transactions reached 1,120 deals in the covered period compared to 1,423 deals in 2014. The average investment deal was worth about \$19.7m in the first nine months of the year, compared to an average investment size of \$26.3m last year. Emerging Asia attracted 78% of private equity investments in value terms, followed by Latin America & the Caribbean with 9%, the CEE & CIS with 6.1%, the MENA region with 3.5% and Sub-Saharan Africa with 3.4%.

Source: *Emerging Markets Private Equity Association*

Private sector debt exceeds public debt level

Fitch Ratings indicated that private sector debt in emerging market (EM) economies has increased rapidly over the past 10 years and has exceeded government debt levels, which would potentially expose EM economies, financial systems and sovereign creditworthiness to downside risks. It noted that such vulnerabilities are exacerbated by the slowdown in economic activity, the anticipated increase in U.S. interest rates, currency volatility and the fall in commodity prices. It estimated that the wide private sector debt for the seven largest EM countries rated in the 'BBB' range to have increased from 46% of GDP in 2005 to 71% of GDP in 2014, and expected it to reach 77% of GDP in 2015. It defined wide private sector debt as the debt of the non-financial private sector borrowed from both banks and capital markets, and from domestic lenders and non-residents. The seven EM economies are Brazil, India, Indonesia, Mexico, Russia, South Africa and Turkey. Fitch indicated that private sector debt is the highest in Brazil at 93% of GDP as at end-2014 and the lowest in Mexico at 47% of GDP. It noted that private sector debt rose by 50 percentage points of GDP in Brazil between 2005 and 2014, and by 49 percentage points of GDP in Turkey. It said that credit from the domestic banking sector accounted for an average of 71% of total private sector debt in the seven countries in 2014. It noted that corporate debt was equivalent to 52% of GDP in 2014 compared to 20% of GDP in household debt. It added that 24% of private sector debt is financed from external sources.

Source: *Fitch Ratings*

MENA

Vast disparities in region's property rights levels

The Property Rights Alliance's 2015 International Property Rights Index indicated that eight out of 18 countries in the Middle East & North Africa region have a level of property rights below the global average of 5.17 points and the MENA region's average of five points. The index measures the strength and protection of physical and intellectual property rights in a given country. It includes 10 factors that are grouped into three sub-indices, which are the Legal & Political Environment Sub-Index, the Physical Property Rights Sub-Index and the Intellectual Property Rights Sub-Index. It gives each country a score from zero to 10, with a score of 10 reflecting the strongest level of property rights. The region's score was lower than that of North America (7.8 points), Western Europe (7.3 points), Asia & Oceania (5.6 points) and Eastern Europe & Central Asia (5.1 points); but higher than that of Latin America & the Caribbean (4.7 points) and Africa (4.4 points). Qatar had the highest level of property rights in the region and came in 18th place among 129 countries globally. It was followed by the UAE (21st), Israel (32nd), Oman (33rd) and Saudi Arabia (36th); while Iran (108th), Mauritania (113th), Lebanon (119th), Yemen (123rd) and Libya (124th) had the lowest levels of property rights. Qatar ranked first on the Legal & Political Environment and the Physical Property Rights sub-indices, while Israel came in first place on the Intellectual Property Rights Sub-Index.

Source: *Property Rights Alliance, Byblos Research*

Region's gender gap widest globally

The World Economic Forum's Global Gender Gap Index for 2015 shows that Arab countries continue to have the widest gender gap in the world, as their average score of 0.595 points came below the average scores of all other regions worldwide. The index is based on four sub-indices that measure Economic Participation & Opportunity, Educational Attainment, Health & Survival, and Political Empowerment. The index included 15 Arab countries, with Kuwait ranking in 117th place, highest in the region. It was followed by the UAE in 119th place, Qatar (122nd), Bahrain (123rd), Tunisia (127th), Algeria (128th), Mauritania (132nd), Saudi Arabia (134th), Oman (135th), Egypt (136th), Lebanon (138th), Morocco (139th), Jordan (140th), Syria (143rd) and Yemen (145th). The scores of eight Arab countries improved and those of the other seven countries regressed from the 2014 index. Also, the rank of one country improved and the rankings of 14 countries regressed. The MENA region, which includes 15 Arab countries and Israel, continues to rank last on the Economic Participation & Opportunity and on the Political Attainment sub-indices. The survey said that four out of the five lowest ranked countries globally on the Political Attainment Sub-Index are from the MENA region. In parallel, the survey showed that the MENA region posted the smallest improvement among regions on the Gender Gap Index, the Economic Participation & Opportunity Sub-Index and the Political Attainment Sub-Index between 2006 and 2015, while it posted the largest improvement globally on the Educational Attainment Sub-Index during the same period.

Source: *World Economic Forum, Byblos Research*

OUTLOOK

SAUDI ARABIA

Currency depreciation unlikely to stop foreign currency drawdowns

Citi considered that a devaluation of the Saudi riyal would not stop the depletion of foreign currency reserves in Saudi Arabia. It attributed the decline in foreign currency reserves to the drop in oil export receipts and to capital outflows in the form of asset purchases by the private sector. It noted that the high level of capital outflows constitutes the main source of foreign currency leakage from the Saudi economy. It pointed out that capital outflows would almost total \$60bn in 2015 and would average \$70bn per year over the next five years, which means that the wider economy would continue to invest its savings abroad. Also, it said that Saudi Arabia's current account balance is expected to post a deficit of about \$6bn in 2015 and to shift to a surplus from 2016 onwards. It noted that foreign currency reserves are projected to decline by around \$65bn in 2015 and would continue to drop in coming years. As such, it considered that a weaker riyal would not increase export receipts, given that the country's foreign earnings are almost entirely derived from the hydrocarbon sector. It added that, if authorities devalue the currency and the market expects another devaluation, savers would have a strong incentive to increase the share of foreign assets in their portfolios. This would increase capital outflows and erode foreign reserves.

In parallel, Citi indicated that Saudi authorities could implement other policies than a currency devaluation to limit capital outflows. First, it said that a cut in public spending and an increase in taxes would reduce savings in the Saudi economy and decrease the amounts of funds available for investment abroad. It considered that this would curb capital outflows and help restore foreign currency reserves. Second, it noted that an increase in domestic interest rates would provide a necessary incentive for savers to invest in domestic assets. Third, it indicated that issuing more local sovereign debt would absorb a significant portion of the liquidity in the banking sector and should reduce the funds that banks can invest abroad.

Source: Citi

NIGERIA

Economic activity to recover, public finances to deteriorate

Credit Suisse projected Nigeria's real GDP growth to accelerate from 3.2% in 2015 to 4.8% in 2016 but to remain below trend, as insufficient power supply and high inflation rates would limit the positive impact on activity from monetary and fiscal policy easing. It forecast the inflation rate to average 10.3% in 2016 relative to 9% in 2015, reflecting mainly increased government spending and a weaker currency.

Credit Suisse forecast the fiscal deficit to widen from an estimated 1.9% of GDP in 2015 to 3.3% of GDP in 2016 due to lower global oil prices and an expansionary fiscal policy. It expected authorities to issue or roll over \$40bn in debt in 2016 in order to finance the larger budget requirement and the maturing debt. It estimated that about NGN3.7 trillion in debt, or \$18.6bn at the current exchange rate, would mature in the first half of 2016. It expected authorities to continue to issue or to roll over a large proportion of the debt in the local-currency debt market. It

forecast the government debt level to rise from 15.7% of GDP in 2015 to 18.4% of GDP in 2016. It anticipated that the deteriorating fiscal metrics would lead to downgrade of sovereign ratings.

In parallel, Credit Suisse projected the current account deficit to slightly widen from 2% of GDP in 2015 to 2.2% of GDP in 2016, but it expected foreign capital to be insufficient to finance the deficit. It forecast net inflows of \$1.5bn in 2016 relative to an annual average of \$5.3bn during the 2010-14 period, as it expected Nigeria to remain an unattractive destination for international capital. It projected foreign currency reserves to decline from \$29.5bn at the end of 2015 to \$24.5bn at end-2016, which would cover 4.7 months of imports. Further, it noted that the naira has been trading at NGN250 against the US dollar on the black market relative to the official market rate of NGN199 per dollar. It expected the Central Bank of Nigeria to devalue the naira by 10% to NGN220 per dollar in the first half of 2016.

Source: Credit Suisse

TURKEY

Growth at 3.1% in 2016, external factors to weigh on economic activity

Deutsche Bank projected Turkey's real GDP growth to remain subdued at 3.1% in 2016 relative to a growth rate of 2.9% in each of 2014 and 2015, driven by private consumption and a modest recovery in exports. It said that economic activity will benefit from a clearer political outlook following the November 2015 elections and the new government's program. It estimated that the full implementation of the new government's pledges would cost 1.1% of GDP in 2016, but it did not expect all the pledges to be immediately implemented. It anticipated the 30% increase in the minimum wage to come into effect in January 2016. However, the Bank said that the internal positive factors would be counterbalanced by external factors that include higher geopolitical risks and the adverse impact of the increase in U.S. interest rates on capital outflows from Turkey.

Further, Deutsche Bank indicated that the Turkish lira is currently the fourth most undervalued currency worldwide, and expected it to continue to weaken in the context of the anticipated increase in U.S. interest rates and the country's low foreign currency reserves and large external financing requirements. It forecast the lira to depreciate by 12% in 2016 compared to a 25% depreciation in 2015, and to trade at TL3.18 against the US dollar at the end of 2016 relative to a current rate of TL2.89 per dollar. It noted that this would lead to a lower pass-through effect on inflation, and projected the inflation rate at 7.8% at the end of 2016 compared to 7.6% at end-2015. It expected the Central Bank of Turkey to gradually increase its policy rate in line with the anticipated increase in the U.S. interest rates.

In parallel, Deutsche Bank projected Turkey's fiscal deficit to widen from 1.6% of GDP in 2015 to 2.1% of GDP in 2016, and its primary surplus to narrow from 1.2% of GDP in 2015 to 0.6% of GDP in 2016. Further, it expected the energy bill to be relatively contained due to lower oil prices and for exports to modestly rebound, which would keep the current account deficit at a manageable level. It forecast the current account deficit to widen from 4.8% of GDP in 2015 to 5.2% of GDP in 2016.

Source: Deutsche Bank

ECONOMY & TRADE

JORDAN

Ratings affirmed, outlook 'stable'

Capital Intelligence affirmed Jordan's long-term foreign currency rating at 'BB-' and its long-term local currency rating at 'BB', with a 'stable' outlook. It said that the affirmation of the ratings reflects the improvement in Jordan's capacity to absorb economic shocks in the context of the drop in global oil prices and the gradual increase in foreign currency reserves. It pointed out that Jordan's foreign currency reserves reached \$15.1bn at the end of September 2015 and cover more than 100% of the external debt that matures within a year. It projected the current account deficit to narrow from 6.8% of GDP in 2014 to 6.4% of GDP in 2015. However, the agency expected balance-of-payments risks to remain relatively high. It noted that Jordan's exports suffered from the interruption of trade lines in Syria and Iraq, while its imports are subject to fluctuations in oil prices. Overall, it attributed the rise in foreign reserves to external borrowing rather than to a fundamental improvement in trade dynamics. In parallel, the agency indicated that Jordan's fiscal performance continues to improve, partly due to the implementation of fiscal consolidation measures. It projected the fiscal deficit to narrow from 2.3% of GDP in 2014 to 1.7% of GDP in 2015, while it expected the primary budget balance to post a surplus for the second consecutive year. However, it indicated that public finances constitute the major constraint on the ratings, given the high debt level that would exceed 90% of GDP in 2015 and the elevated financing requirements projected at about 28% of GDP in 2015 and 2016. But it noted that near-term refinancing risks are manageable, as most of the scheduled debt repayments are in local currency.

Source: Capital Intelligence

BAHRAIN

Outlook on sovereign ratings revised to 'negative'

Fitch Ratings affirmed Bahrain's long-term foreign currency Issuer Default Rating (IDR) at 'BBB-' and its long-term local currency IDR at 'BBB', and maintained the Country Ceiling at 'BBB+'. It revised the outlook on the long-term ratings from 'stable' to 'negative'. It attributed the outlook revision to the fact that the adverse effect of sustained low global oil prices on Bahrain's public finances has significantly outweighed the impact of the authorities' policy response. It forecast the fiscal deficit to widen from 5.5% of GDP in 2014 to 12.5% of GDP in 2015 and 10.5% of GDP in 2016. It estimated the fiscal breakeven oil price at about \$122 per barrel in 2015 and \$118 per barrel in 2016 relative to an average Brent oil price of \$55 per barrel in both 2015 and 2016. It indicated that fiscal adjustment measures that have been introduced so far have been insufficient to offset the negative impact of lower oil prices, as social and competitiveness constraints limit the pace of a policy response. It forecast the government's debt level to rise from 46.1% of GDP in 2014 to 58.6% of GDP in 2015 and 65.2% of GDP in 2016, relative to the 42.8% of GDP median ratio of 'BBB'-rated sovereigns in 2015. In parallel, the agency indicated that Bahrain's 'BBB-' IDR reflects its favorable growth rates that have been resilient to the drop in oil prices, as well as its stronger external position than similarly-rated peers. Also, the IDR takes into account the country's financing flexibility, GDP per capita level, and business environment that are better than similarly-rated peers.

Source: Fitch Ratings

UAE

Insurance sector facing strains

Standard & Poor's indicated that gross premiums generated by the 29 listed insurance companies in the UAE totaled AED13.5bn, or \$3.7bn in the first nine months of 2015, constituting a rise of 9% year-on-year. It attributed the strong rise in premiums to the growing maturity and expansion of the Dubai compulsory health insurance scheme, in addition to the favorable economic and political environments. However, S&P indicated that the insurers' underwriting and net earnings continue to be weak. It noted that the 29 insurers posted a net underwriting deficit of AED211m in the first nine months of 2015, compared to an underwriting surplus of AED221m in the same period last year. It added that the listed insurers' net combined ratio, which is the market's main profitability measure, reached 103% at the end of September 2015 relative to 96% a year earlier. S&P attributed the insurers' weak results to the strong competition in all lines of business, to corrections in technical reserves and to weak investment returns. It expected these factors to remain in place through 2016, which would prevent a meaningful recovery in the sector's technical or net earnings before 2017. Further, it said that capital strains are developing at individual insurers even though the market aggregates reflect robust capitalization levels. It added that the Insurance Authority's new solvency requirements would further weigh on insurers' capitalization. It anticipated that the combination of new regulatory demands and poor earnings would increase the likelihood of business cessation in the coming years.

Source: Standard & Poor's

TURKEY

Cost of Russian sanctions at up to 0.7% of GDP

The European Bank for Reconstruction and Development (EBRD) estimated the Russian sanctions on Turkey to reduce Turkey's real GDP growth rate by between 0.3 and 0.7 percentage points in 2016, mainly through lower revenues and food exports, and reduced new businesses for Turkish contractors in Russia. It based its estimate on the full and sustained implementation of sanctions in 2016. It noted that Russia banned the import of certain foodstuffs from Turkey, restricted new economic activity of Turkish firms in Russia, banned the new employment of Turkish nationals in Russia, suspended the visa-free travel to Russia for Turkish citizens, and suspended the bilateral economic cooperation programs and commissions between the two countries, among other measures. It considered that a disruption to the energy supply from Russia to Turkey is currently unlikely, as it would adversely affect Russia's exports and economic growth. It indicated that Russia was Turkey's main energy supplier, its seventh largest exports market and its fourth largest foreign investor in 2014, while the Turkish tourism industry has strong ties with the Russian market and Turkish contractors have large operations in Russia. It said that the economic cost of sanctions would be at around 0.3 percentage points if Turkish contractors and workers currently operating in Russia continue to be exempt from sanctions, and provided that the affected Turkish exporters and contractors would quickly find alternative markets for their operations. It cautioned that Turkey's country risk premium and cost of funding could rise in the event of additional sanctions, which would lead to larger-than-expected losses.

Source: European Bank for Reconstruction and Development



BANKING

TUNISIA

Agency takes rating actions on five banks

Capital Intelligence affirmed at 'BB' the long-term foreign currency rating (FCR) of Banque Internationale Arabe de Tunisie (BIAT) and Attijari Bank (AB), and at 'B+' that of Amen Bank (Amen); while it downgraded to 'BB' from 'BB+' the long-term rating of Arab Tunisian Bank (ATB) and to 'B' from 'B+' that of Banque Nationale Agricole (BNA). It also affirmed at 'BB+' the Financial Strength Rating (FSR) of ATB, at 'BB' that of BIAT and AB, at 'B+' that of Amen and at 'B' that of BNA. Further, the agency revised the outlook on BNA's ratings from 'stable' to 'negative', and that on Amen's ratings from 'positive' to 'stable', while it assigned a 'stable' outlook to the remaining banks' ratings. It indicated that BIAT's FSR is supported by its sound liquidity and profitability levels, and high customer deposits, but is constrained by the bank's low capital position and high NPL ratio. It attributed the rating downgrade of BNA's FCR to the long delay in finalizing the bank's detailed financial and strategic audit and to the lack of new capital, among other factors. It added that the BNA's FSR is constrained by its very weak loan asset quality, insufficient loan-loss coverage and low levels of liquidity and capital. It indicated that the 'negative' outlook reflects the continued pressure on BNA's loan asset quality and capital. Further, the agency attributed the outlook revision on Amen's ratings to its weaker loan asset quality and tighter liquidity. In addition, it pointed out that AB's FSR reflects its reasonable level of liquid assets, solid profitability and improving asset quality, but is constrained by its modest level of risk-weighted capital and low effective NPLs coverage. In parallel, the agency attributed the downgrade of ATB's FSR to prevailing very difficult operating conditions in Tunisia which are unlikely to improve anytime soon.

Source: Capital Intelligence

QATAR

Banking sector liquidity tightens

Regional investment bank EFG Hermes indicated that banks' lending in Qatar grew by 12% year-on-year in September 2015, similar to the 13% increase in December 2014. It said that private sector lending, which expanded by 24.3% in September 2015 supported overall lending activity. In contrast, it noted that public sector lending contracted by 6.5% year-on-year in September 2015, reflecting the government's new approach to public sector borrowing, and the fact that most of the government's projects are infrastructure-related that involve the private sector. Further, EFG indicated that liquidity in the Qatari banking sector has been tightening as the loans-to-deposits ratio increased from 104% in June 2014 to 112% in September 2015. It noted that public sector deposits, which account for about 30% of total deposits, contracted by 12% year-on-year in September 2015, while private sector deposits grew by 20% in September 2015. It noted that higher interbank and interest rates for new term deposits reflect the tightening in liquidity. It did not expect the authorities to inject liquidity in the market at this point in time, as Qatari banks are able to attract deposits but at a higher cost. Further, EFG pointed out that tighter liquidity has led to lower net interest margins in the first nine months of 2015. It anticipated that additional pressure on net interest margins would lead to single-digit growth in net interest income and earnings in 2016.

Source: EFG Hermes

KUWAIT

Outlook on banking sector remains stable

Moody's Investors Service maintained its outlook on Kuwait's banking sector at 'stable', reflecting the banks' favorable domestic operating environment that is supported by government spending, the accelerated implementation of infrastructure projects and strong domestic consumption. It projected the banking sector's non-performing loans ratio to drop from 4% in 2014 to 3% in the 2015-16 period. It noted that Kuwaiti banks have made significant progress in improving their loan books and anticipated the supporting operating conditions to help limit the formation of new distressed loans. However, it said that banks would continue to be exposed to high credit concentrations and to the volatile equity and real estate markets. It indicated that downside risks to the outlook include a decrease in investor and consumer confidence in coming quarters, which could lead to lower asset prices and reduced credit growth for banks. In parallel, Moody's expected the banking sector to preserve its substantial loan-loss absorption capacity, supported by robust capitalization levels and by improving provisioning coverage. It expected the system's profitability to gradually recover due to lower provisioning, and forecast the banks' return on average assets to exceed 1.5% over the coming 12 to 18 months. Further, it expected government-related deposits to fall due to low oil prices and for banks to increase their reliance on market funding.

Source: Moody's Investors Service

ANGOLA

Banking sector facing foreign currency crunch

Moody's Investors Service indicated that foreign currency liquidity continues to be tight in Angola due to lower US dollar inflows in the context of low global oil prices. It noted that US dollar deposits at Angolan banks are susceptible to oil price volatility due to the banking system's large exposure to the oil & gas sector. As such, the agency lowered Angola's banking system's macro profile score from 'Very Weak +' to 'Very Weak', despite the system's high level of liquid assets and low dependence on confidence-sensitive wholesale funding. In parallel, Moody's downgraded the long-term local and foreign currency deposit ratings of Banco Angolano de Investimentos (BAI) from 'Ba3' to 'B1', while it lowered the bank's standalone baseline credit assessment from 'b1' to 'b3' and Counterparty Risk Assessment from 'Ba2(cr)' to 'Ba(cr)'. It attributed the downgrade to the weakening funding conditions across the Angolan banking system and to the deteriorating operating environment, among other factors. It indicated that foreign banks in Angola have stopped supplying US dollars to their Angola-based clients in recent weeks, which led Angolan banks to voluntarily limit weekly dollar cash withdrawals. It noted that banks did not impose restrictions on electronic transfers of dollar balances between foreign and domestic banks, as long as these transfers remain within the Banco Nacional de Angola's existing limits on cross-border transfers. Further, it indicated that the Angolan Kwanzas' sharp depreciation that exceeded 30% so far this year, and the high level of dollarization in the economy would put pressure on the earnings of borrowers that are already challenged by low commodity prices and weak economic growth.

Source: Moody's Investors Service



ENERGY / COMMODITIES

Oil prices at lowest levels since 2009

Crude oil prices reached their lowest levels in more than six years following OPEC's decision on December 4 to refrain from cutting its oil output and amid a sustained oversupply in the oil market. BMI Research noted that OPEC's decision to maintain production at 31.5 million b/d and to allow its members to produce as much as they are able and willing, would add further pressure on oil prices. ICE Brent oil prices closed at \$39.4 per barrel (p/b) on December 8 relative to an average of \$53.8 p/b in the first 11 months of 2015, while WTI oil prices reached \$37.5 p/b compared to an average of \$49.8 p/b year-to-September. BMI forecast ICE front-month Brent crude oil prices to trade at an average of \$54 p/b in 2016, below the Bloomberg's consensus price of \$56 p/b and compared to an estimated average price of \$55 p/b in 2015. It noted that the potential return of Libyan and Iranian crude oil to the market would weigh on oil prices. It forecast the market oversupply to average 1.2 million barrels per day in 2016 and 2017. In parallel, the Bloomberg Energy Total Return Sub-Index dropped by 10.6% in November and by 31.7% in the first 11 months of 2015, while the Petroleum Sub-Index declined by 10.8% last month and by 29.2% from end-2014. Also, the Bloomberg WTI Oil Sub-Index regressed by 12.3% last month and by 34.6% in the first 11 months, while the Brent Crude Oil Sub-Index fell by 11.7% last month and by 34% from end-2014.

Source: BMI Research, Bloomberg Indexes, Byblos Research

ME oil exporters to preserve market share in Asia

The Arab Petroleum Investments Corporation (APICORP) indicated that Asia imported 63% of its oil needs from the Middle East (ME) in 2014, relative to 68% in 2010. It noted that ME oil exporters have offered price discounts and attractive payment plans to buyers in Asia in line with the aggressive pricing strategy of the past 18 months. Under these agreements, Iraq, Kuwait and Iran gave some of their Asian clients a grace period of 60 to 90 days to pay for crude oil imports, equivalent to a \$0.5 to \$0.75 discount per barrel. APICORP expected ME oil exporters to resort to creative strategies in order to retain their market share in Asia, given the shift in global trade patterns and tougher competition.

Source: Arab Petroleum Investments Corporation

Middle East's gold demand up 9% year-on-year in third quarter of 2015

The Middle East region's demand for gold reached 70.5 tons in the third quarter of 2015, reflecting an increase of 8.8% from the preceding quarter, and accounting for 7.6% of global demand for the metal. Iran's demand for gold was 20.1 tons in the third quarter and represented 28.5% of the region's total demand. It was followed by Saudi Arabia with 19.4 tons (27.5%), Egypt with 13.3 tons (18.9%) and the UAE with 11.6 tons (16.5%).

Source: World Gold Council, Byblos Research

ME&A's steel output down 17% in first 10 months

The Middle East & Africa (ME&A) region's steel production averaged 35 million tons in the first 10 months of 2015, down by 17.3% from 42.3 million tons in the same period of 2014, and accounted for 2.6% of global steel production. Iran produced 13.6 million tons in the first 10 months of 2015, equivalent to about 38.9% of the region's total output. It was followed by South Africa with 6.3 million tons (18.1%), Saudi Arabia with 4.9 million tons (13.9%) and Egypt with 4.7 million tons (13.5%).

Source: World Steel Association, Byblos Research

Base Metals: Copper prices to average \$4,500 per ton in near term

The LME cash price of copper increased slightly from its second-lowest level in six years on December 7 to close at \$4,592 per metric ton on December 8th, driven by higher-than-expected Chinese inflation data and a weaker US dollar. Downward pressure on prices is expected over the near term, mainly due to an anticipated weaker copper demand in China, higher growth in global mine supply and lower production costs in US dollar terms. Also, the anticipated increase in U.S. interest rates would strengthen the US dollar, which would place further downward pressure on dollar-priced commodities such as copper. Prices are forecast to average \$4,800 per ton in the coming three months and to decrease to an average of \$4,500 per ton in the next 12 months. Overall, copper prices have dropped by 28% so far in 2015 relative to a decrease of 13.7% in 2014. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index decreased by 8.7% in November and by 29.3% in the first 11 months of 2015, while the Copper Sub-Index dropped by 12% last month and by 28.2% from end-2014.

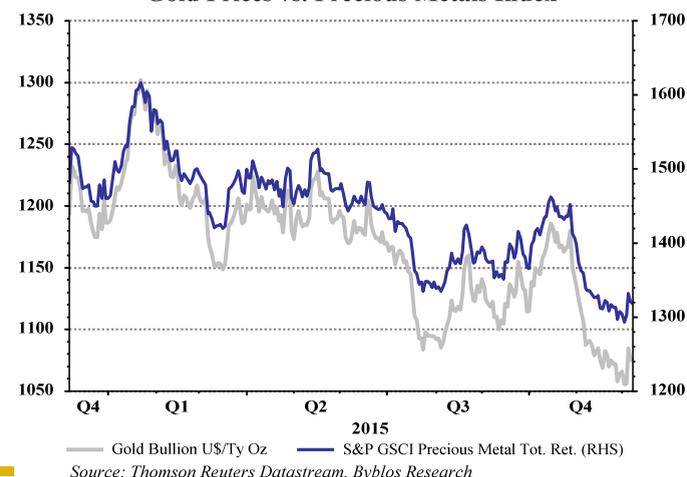
Source: Goldman Sachs, Bloomberg Indexes, Byblos Research

Precious Metals: Gold prices to drop under \$1,000 an ounce in 2016

Gold prices averaged \$1,166 per troy ounce so far in 2015, trading at a low of \$1,055 per ounce and a high of \$1,302 per ounce. Prices are expected to remain volatile ahead of the anticipated hike in US interest rates in mid-December 2015. Further, downward pressure on gold prices is projected to persist in the coming months due to a stronger US dollar and higher U.S. interest rates, with prices expected to fall below \$1,000 per ounce before the end of the first quarter of 2016. The strengthening of the US dollar could lead investors to continue to reduce their gold exposures and invest instead in higher-yielding assets, such as equities and bonds. Prices are forecast to average \$1,155 per troy ounce in 2015 and to drop further to \$995 per ounce in 2016. Upside pressure on gold prices in 2016 is expected to be short-lived and could include continued macroeconomic risk concerns and a supportive physical market. In parallel, the Bloomberg Precious Metals Total Return Sub-Index regressed by 7.5% in November and by 10.7% in the first 11 months of 2015, while the Gold Sub-Index declined by 6.7% last month and by 10.5% from end-2014.

Source: Citigroup, Bloomberg Indexes, Byblos Research

Gold Prices vs. Precious Metals Index



Source: Thomson Reuters Datastream, 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	-	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	03-Dec-15	No change	21-Jan-16
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	01-Dec-15	No change	31-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	01-Dec-15	No change	02-Feb-16
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	No change	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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