

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### Fixed income trading volume down 22% to \$1,137bn in third quarter of 2015

Trading in emerging markets (EM) debt instruments totaled \$1,137bn in the third quarter of 2015, constituting decreases of 6.1% from \$1,211bn in the preceding quarter and of 21.7% from \$1,453bn in the third quarter of 2014. Trading debt volumes reached their lowest level in six years in the covered quarter. Further, turnover in local-currency instruments reached \$706bn in the third quarter of 2015, down by 2.1% from \$721bn in the second quarter of the year and by 17.1% from \$852bn in the third quarter of last year. Mexico's domestic debt was the most frequently-traded local currency debt in the covered quarter with \$210bn, or 29.7% of the total, followed by Brazil with a turnover of \$87bn (12.3%), China with \$82bn (11.6%), India with \$56bn (7.9%) and South Africa with \$44bn (6.2%). In parallel, trading in sovereign and corporate Eurobonds stood at \$430bn in the third quarter of 2015, dropping by 11.7% from \$487bn in the preceding quarter and by 28.1% from \$598bn in the third quarter of 2014. The volume of traded sovereign Eurobonds reached \$221bn and accounted for 51.4% of the total debt traded in the covered quarter, while the volume of traded corporate Eurobonds reached \$197bn or 45.8% of the total. The most frequently traded instruments in the third quarter of 2015 were Mexican fixed income assets with a turnover of \$248bn, or 21.8% of the total, followed by assets from Brazil with \$153bn (13.5%), from China with \$118bn (10.4%), from India with \$63bn (5.5%) and from South Africa with \$54bn (4.7%).

Source: EMTA

#### GCC

##### Optimism in construction industry drops

A survey about the construction sector in the Gulf Cooperation Council (GCC) shows that 32% of respondents are optimistic about the construction sector in 2016, down from 77% of respondents who were optimistic about the sector in 2015. The survey mainly covers companies involved in large projects with a value of over AED100m, or \$27.2m. Further, 16% of participants said that their 2016 order books declined by over 10%, compared to 4% who said the same about their order books a year ago. Also, 93% of businesses said their contract conditions had become less favorable during 2015, relative to 79% of respondents who said the same about their contract conditions in 2014. The survey showed that 95% of participants said that payment periods became longer in 2015, while 60% noted that they were involved in more disputes during 2015 than they expected at the start of the year. The survey pointed out that 12% of respondents consider that Saudi Arabia would have the strongest construction sector among GCC countries in 2016, down from 40% of participants who believed that Saudi Arabia would have the strongest construction activity in 2015. This constituted the steepest decline in optimism among all GCC markets. In contrast, 33% of participants stated that Qatar would offer the strongest construction opportunities among GCC economies in 2016, relative to 14% of respondents last year.

Source: Pinsent Masons

#### MENA

##### Nation brand value varies across the Arab world

The Nation Brands Index for 2015 estimated Saudi Arabia's brand value at \$506bn, the 22nd highest globally and the highest among Arab countries. The UAE followed at \$403bn (29th), then Qatar at \$235bn (36th), Kuwait at \$124bn (51st), Egypt at \$81bn (55th), Algeria at \$74bn (56th), Oman at \$48bn (65th), Morocco at \$44bn (69th), Jordan at \$37bn (73rd), Bahrain at \$30bn (79th) and Lebanon at \$22bn (83rd). The index, which is issued by brand valuation and strategy consultancy firm Brand Finance, measures the strength and value of the nation brand of 100 leading countries based on the "royalty relief mechanism" methodology that is used to value the world's largest companies. The brand value of seven Arab countries increased and that of four economies regressed from 2014. In parallel, the firm upgraded the brand strength rating of the UAE, Kuwait, Egypt, Algeria and Lebanon on its 2015 Brand Strength Index, while it maintained the rating of six economies. The survey rates each country's brand strength by the performance of the Investment, Goods & Services, and Society pillars. The index has a scale of 18 ratings that range from 'AAA+' to 'D', with a score of 'AAA+' reflecting the strongest nation brand. The UAE has the strongest brand rating in the MENA region of 'AAA', while Algeria has the lowest brand rating of 'BBB'.

Source: Brand Finance, Byblos Research

##### Region has high barriers to investment in oil & gas exploration and production

The 2015 Global Petroleum Survey's Policy Perception Index indicated that Arab countries have higher barriers to investment in oil & gas exploration and production relative to the global level. The region received an average score of 58.5 points on the 2015 index, which is worse than the global average of 49.4 points. A lower score reflects lower barriers to oil & gas investment. The survey, which is issued by the Canada-based independent think tank Fraser Institute, captures the opinions of managers and executives about the level of investment barriers in oil & gas exploration and production in a given country. The UAE has the lowest barriers to investment in oil & gas exploration and production among 14 Arab economies and ranks in 27th place among 126 countries and jurisdictions worldwide. It is followed by Oman in 35th place, Qatar (43rd), Bahrain (46th) and Jordan (54th). In contrast, Libya has the highest barriers to investment in the region and came in last place globally. It was preceded by Syria in 124th place, Yemen (111th), Iraq (108th) and Algeria (101st) as the five Arab countries with the highest barriers to investment in oil & gas. Barriers to investment rose in seven Arab countries as their scores deteriorated from the 2014 survey, with Libya posting the largest deterioration of 14.6 points, followed by Syria (-12.3 points) and Morocco (-7.1 points). In contrast, barriers to oil & gas investment regressed in seven economies as their scores improved from the previous survey, with Egypt posting the largest improvement of 24 points, followed by Kuwait (+21 points) and Iraq (+15.1 points).

Source: World Economic Forum, Byblos Research

# OUTLOOK

## GCC

### Liquidity at banks to tighten

Fitch Ratings anticipated that the liquidity level at banks in Gulf Cooperation Council (GCC) countries would further tighten and that their profitability would slow down in 2016, but it expected asset quality and capital levels to remain sound. It said that liquidity started to tighten in the second half of 2015 and would worsen in 2016 due to the decline in sovereign-related deposits at banks and to subscriptions to new sovereign bond issuance. It indicated that the liquidity tightening is starting from a very high base, which means that banks' liquidity fell from 'ample' to 'comfortable' levels. It considered that lower demand for borrowing as a result of the slowdown in economic activity would reduce the liquidity squeeze. Still, it expected banks to continue to issue debt in capital markets in 2016 and to tap the international syndicated loan market in order to raise funding or repay their maturing loans or debt. It noted that this would increase the cost of funding for GCC banks. But it did not expect any GCC bank to rely on large debt issuance in 2016, as customer deposits remain very significant and relatively cheap. Further, Fitch expected the slowdown in economic activity to gradually affect banks' profitability, especially at commercial banks. It added that funding costs would increase and banks would continue to build up general loan-loss reserves, which would weigh on profitability.

In parallel, the agency expected GCC banks' asset quality metrics to be stable in 2016, supported by the sustained growth in banks' lending. It anticipated loan impairment charges to remain stable in 2016, and noted that most banks have strong pre-impairment profitability that allows them to absorb higher impairment charges if they occur, and to build up significant general risk reserves. However, it expected borrowers to be under increasing pressure as the operating environment weakens and lending rates increase. It said that concentration risks, exposure to the real estate market and equity risks would be the key risks for GCC banks in 2016. Further, Fitch expected GCC banks' capital ratios to be largely unchanged in 2016 due to lower prospects for loan growth.

*Source: Fitch Ratings*

## SAUDI ARABIA

### Market-based model to benefit economy

The McKinsey Global Institute anticipated Saudi Arabia to face critical fiscal and demographic challenges over the next 15 years, with heightened competition in the energy market and a large increase in the number of nationals reaching working age. It said that Saudi Arabia's economy could deteriorate based on current trends. It noted that if authorities addressed these challenges by freezing the nominal value of public spending or by limiting the influx of foreign workers, it would be insufficient to maintain current living standards of Saudi nationals or sound public finances. In this case, it estimated that real household income would fall by 22% by 2030, the unemployment rate would reach 22% and fiscal strains would increase with a fiscal deficit of 12% of GDP and a public debt level of 140% of GDP by 2030. As such, it indicated that these challenges pose a threat to the Kingdom's current development model, and that authorities can no longer rely on hydrocarbon revenues and public spending to drive economic growth.

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As such, McKinsey anticipated that authorities could shift their current government-led economic model to a more market-based approach over the next 15 years. It estimated that this could double the economy's size to \$1.6 trillion by 2030, increase real household income by 60%, create six million new jobs and reduce the unemployment rate to 7% by 2030. Also, it anticipated that non-hydrocarbon revenues would increase from 10% of total government revenues currently to 70% by 2030. In addition, it said that the fiscal deficit would shift to a surplus of 2% of GDP by 2030 with the public debt level reaching 30% of GDP. It noted that this transformation would require investments of about \$1.4 trillion, most of which would come from non-government Saudi and foreign sources. It pointed out that eight economic sectors could contribute to this outcome, which are mining & metals, petrochemicals, manufacturing, retail & wholesale trade, tourism & hospitality, healthcare, finance and construction. Further, it indicated that the transformation of the economy would require a more productive workforce, the implementation of economic reforms to improve the business environment, and a sustainable fiscal management policy with more efficient public spending.

*Source: McKinsey Global Institute*

## MOROCCO

### Economic growth to slow down, medium-term prospects are favorable

The International Monetary Fund projected Morocco's real GDP growth to accelerate from 2.4% in 2014 to 4.7% in 2015 due to a good harvest season and improvements in the construction sector. But it noted that non-agricultural activity has been subdued, including in sectors related to tourism that were affected by geopolitical risks, and in some traditional manufacturing segments such as textiles. It forecast real GDP growth at 3.1% in 2016, as it expected agricultural output to contract by 1.8% next year relative to a 15.2% growth in 2015 and for non-agricultural activity to expand by 3.8% in 2016 compared to a 3.3% improvement in 2015. It indicated that the country's medium-term prospects are favorable, as it projected real GDP growth to accelerate to about 5% by 2020. But it cautioned that risks remain substantial, especially from lower growth in the Eurozone and a potential increase in global oil prices. It pointed out that stronger medium-term growth is contingent on the sustained implementation of reforms to improve labor participation and labor market efficiency, increase access to finance, improve the efficiency of public spending, and strengthen the business environment.

Further, the Fund projected the fiscal deficit to narrow from 4.9% of GDP in 2014 to 4.3% of GDP in 2015, reflecting a lower wage bill and reduced spending on subsidies. It forecast the deficit to further narrow to 3.5% of GDP in 2016, and for the public debt level to slightly increase from 63.6% of GDP in 2015 to 64.4% of GDP in 2016. It encouraged authorities to further reduce spending on wages and subsidies and to advance with tax and pension reforms. In parallel, the IMF projected the current account deficit to narrow from 5.7% of GDP in 2014 to 1.5% of GDP in 2015. It forecast the deficit to further narrow to 0.7% of GDP in 2016. It anticipated that this would increase foreign currency reserves from 6.7 months of imports cover in 2015 to 7.6 months in 2016.

*Source: International Monetary Fund*

December 17, 2015

# ECONOMY & TRADE

## WORLD

### Lower oil prices continue to weigh on sovereign ratings of major oil exporters

Fitch Ratings anticipated that lower global oil prices would continue to weigh on the sovereign credit profiles of major oil-exporting economies. It said that fiscal and external receipts have decreased in these economies, which has led to the downgrade of five oil-exporters in the last 12 months. First, it said that Bahrain, Ecuador, Iraq, Nigeria and Venezuela are the most exposed to a drop in oil prices and continue to face challenges. It noted that it downgraded the sovereign ratings of Bahrain and Venezuela and revised the outlook on Nigeria's ratings to 'negative'. Second, it pointed out that Abu Dhabi, Kuwait, Norway and Qatar are the least exposed to lower oil prices and continue to be resilient to the drop in oil prices. It noted that their high per capita hydrocarbon revenues have kept their fiscal breakeven oil prices at low levels and have allowed the accumulation of ample net foreign assets. Third, it said that Azerbaijan, Angola, Gabon, Kazakhstan, Mexico, the Republic of Congo, Russia and Saudi Arabia are in the 'middle category' where a fiscal deficit could erode fiscal and external buffers. It noted that it downgraded the sovereign ratings of Gabon due its small fiscal buffers, those of Russia because of its deteriorating economic outlook, and Angola's ratings due to the adverse impact of low oil prices on the economy. It added that it revised the outlook on Saudi Arabia and the Republic of Congo's sovereign ratings to 'negative'. It said that Angola, Azerbaijan, Kazakhstan, Nigeria and Russian have devalued their currencies or have let them depreciate. It added that sovereigns that cannot devalue their currency have attempted to increase public revenues and/or cut spending.

Source: Fitch Ratings

## QATAR

### Economy to remain resilient through 2017 despite drop in oil prices

Moody's Investors Service projected Qatar's real GDP growth rate to average about 5% annually until 2017, driven by non-hydrocarbon sector activity and by the start of the Barzan gas project. It added that the government's fiscal buffers and substantial foreign assets would sustain public investments amid the low oil price environment, which, in turn, would support activity in the non-hydrocarbon sector. But it noted that the pace of economic activity in coming years would not match the strong growth performance during the 2004-11 period. Further, the agency expected lower oil prices in 2015 and 2016 to negatively affect public finances and economic activity with a lag, as liquefied natural gas projects are typically secured with long-term sale and purchase contracts to protect against price volatility. It forecast the fiscal surplus to narrow from 16.7% in 2014 to 6.4% of GDP in 2015 and to shift to a deficit of 2.4% of GDP in 2016 under the assumption of an average oil price of \$55 p/b in 2015 and \$53 p/b in 2016. It projected Qatar's debt level at about 35% of GDP in 2016, which would be higher than the median of similarly-rated peers. But it noted that debt servicing as a share of government revenues are in line with the median of similarly-rated peers. Moody's noted that Qatar's exposure to event risks is moderate, given the prevailing geopolitical tensions.

Source: Moody's Investors Service

## NIGERIA

### Sovereign ratings affirmed, outlook 'stable'

Moody's Investors Service affirmed Nigeria's local and foreign currency issuer ratings at 'Ba3', with a 'stable' outlook. It noted that the ratings reflect mainly the country's robust medium-term growth prospects and relatively strong balance sheet with low levels of public and external debt. It estimated Nigeria's public debt level at 14% of GDP in 2015, significantly lower than the median of 'Ba'-rated peers of 45% of GDP. It projected the external debt level at 2.2% of GDP this year, most of which is on concessional terms. It estimated the fiscal deficit at 4.2% of GDP in 2015, of which 2% of GDP is related to the accumulation of arrears at the states and municipalities level. It noted that the government plans to take measures to increase revenues and reduce spending to narrow the fiscal deficit to between 2% and 3% of GDP in 2016. Further, the agency projected real GDP growth to rebound from 3.5% in 2015 to 4.9% in 2016, supported by non-hydrocarbon sectors and better power availability. But it noted that fiscal consolidation, currency depreciation, foreign currency rationing, as well as arrears, would continue to be a drag on economic activity at least until mid-2016. Also, the agency expected the country's external position to remain strong, with foreign currency reserves covering between five and six months of imports. In parallel, Moody's downgraded Nigeria's foreign currency ceiling for bonds from 'Ba1' to 'Ba2', which reflects a somewhat higher risk that the government would impose a moratorium on other external borrowers in the event of its own severe financial distress. It noted that the downgrade takes into account the restrictions imposed by the monetary authorities to preserve the country's stock of foreign currency reserves.

Source: Moody's Investors Service

## COTE d'IVOIRE

### Favorable near-term economic prospects, reforms needed

The International Monetary Fund indicated that Côte d'Ivoire's near-term macroeconomic prospects are positive, and are supported by strong real GDP growth. It added that authorities are taking steps to maintain the momentum of economic reforms, and noted that the 2016 draft budget focuses on further strengthening the country's fiscal position. But it called on authorities to proceed with deeper fiscal consolidation measures, such as removing tax exemptions, which would help address the emerging fiscal risks and would make room for needed spending on social programs. It added that further steps to improve public finance management would enhance the policy framework. Further, the Fund encouraged authorities to pursue ambitious reforms to strengthen the financial sector, improve the business climate, and promote private sector activity and economic diversification. It considered that it is crucial to improve the country's statistical base, especially national accounts. In parallel, the IMF indicated that the country's economic performance under the Extended Credit Facility program that started in November 2011 has been impressive, and has been supported by macroeconomic stability, strong growth rates and strengthened fiscal position.

Source: International Monetary Fund



# BANKING

## AFRICA

### **Banks' buffers to balance rising asset quality risks**

Moody's Investors Service assigned a 'stable' outlook for Africa's banking systems for 2016, which balances the banks' resilient earnings, solid capital buffers and deposit-based funding against rising asset quality risks. It expected credit risks at African banks to increase over the next 12 to 18 months due to challenging operating conditions. It anticipated that slowing economic growth, lower commodity prices, currency depreciation, as well as infrastructure bottlenecks, weak governance and fiscal imbalances would continue to threaten the asset quality of African banks. It expected the credit profile of banking systems in North Africa's oil-importing countries to be more resilient than the remaining banking sectors in Africa, as they are benefiting from lower global oil prices and reforms. It added that Sub-Saharan Africa's banking systems are more vulnerable to rising credit risks due to increased fiscal challenges and weaker risk management practices. It forecast the average non-performing loan ratio in Africa, which it currently estimates at 8% to 9%, to rise further in 2016. However, it noted that robust earnings, increasing business opportunities and strong deposit bases would support African banks' credit profiles. It forecast credit growth in Africa to exceed 12% in 2016, supported by structural reforms and greater political stability. Further, the agency expected African banks' profitability to remain broadly stable, with the pre-tax return on equity at around 21% and the return on average assets at over 2%. But it anticipated higher loan-loss provisioning requirements and increased funding costs to weigh on earnings growth.

*Source: Moody's Investors Service*

## BAHRAIN

### **Agencies take rating actions on five banks**

Fitch Ratings affirmed at 'BBB-' the long-term Issuer Default Ratings (IDRs) of National Bank of Bahrain (NBB) and BBK Bank, and maintained at 'bbb-' the banks' Viability Ratings (VRs). It revised the outlook on the long-term IDRs from 'stable' to 'negative', following a similar action on Bahrain's sovereign ratings. It noted that it would downgrade both banks' ratings in the event of a sovereign downgrade. It said that NBB's VR reflects the bank's strong capitalization, consistent and solid profitability, improving asset quality and sound liquidity; and is constrained by the bank's reliance on a small and competitive domestic environment and high concentrations in both loans and deposits. It added that BBK's VR is supported by its satisfactory funding and liquidity indicators, and is constrained by the bank's concentrated loan book and dependence on the Bahraini market. In parallel, Capital Intelligence affirmed at 'A-' the long-term foreign currency ratings of Ahli United Bank (AUB) and at 'BBB' that of United Gulf Bank (UGB). It also downgraded the long-term foreign currency ratings of NBB from 'BBB' to 'BBB-' and that of Al Baraka Islamic Bank (AIB) from 'BB+' to 'BB', following its downgrade of Bahrain's sovereign ratings. Further, CI affirmed the Financial Strength Ratings (FSR) of AUB at 'A-', that of UGB at 'BBB' and that of AIB at 'BB'; while it downgraded the FSR of NBB to 'A-' from 'A'. It indicated that all banks' ratings have a 'stable' outlook.

*Source: Fitch Ratings, Capital Intelligence*

## UAE

### **Outlook on banking sector remains stable**

Moody's Investors Service maintained its outlook on the UAE's banking system at 'stable', reflecting the banks' resilient profitability, and strong capital and liquidity buffers that would support their credit profiles. However, it forecast credit growth to decelerate from about 9% in 2014 to between 3% and 5% in 2015 and 2016, as the slowdown in economic activity would weaken operating conditions for banks. It projected the banks' asset quality to remain stable and expected loan impairments to be equivalent to about 5% of total loans in 2016. It noted that the banks' progress on solving legacy assets would moderate the formation of new problem loans. Moody's forecast the banks' return on assets at around 2% over the next 12 to 18 months, supported by solid margins, and by stable operating costs and provisioning charges. It noted that the increase in corporate yields would largely offset the rise in funding costs. The agency expected the banks' capital buffers to improve further in the coming 12 to 18 months, and forecast their tangible common equity at 15% of risk-weighted assets at the end of 2016, up from 13.8% at the end of June 2015. It anticipated the banks' liquidity metrics to decline for the first time since the 2008 crisis, and projected liquid assets to decline to 25% of total assets over the next 12 to 18 months from a peak of around 30% at end-2014. It expected deposit growth to decelerate from 10% in 2014 to between 2% and 4% in 2015 and 2016, which would further increase market funding and the loans-to-deposits ratio throughout 2016.

*Source: Moody's Investors Service*

## TURKEY

### **Stable outlook on banking sector maintained, downside risks on the rise**

Fitch Ratings maintained its stable outlook on Turkey's banking sector as it expected the banks' financial metrics in 2016 to remain broadly in line with their current levels. However, it indicated that downside risks to asset quality and, in turn, to profitability and capital have increased. It added that Turkish banks are more exposed than banks in other emerging markets to a marked shift in investor sentiment as U.S. interest rates start to rise, given their dependence on short-term external funding. It projected credit growth net of exchange rate effects to pick up from 10.6% in the first nine months of 2015 to between 15% to 20% in 2016, due to increased confidence. It expected the banks' asset quality to deteriorate moderately in 2016 due to the slower growth environment, as it anticipated non-performing loans to increase in 2016 in the lira-denominated credit card segment and in the retail and small- and medium-sized loan portfolio. But it noted that the increase in NPL would remain manageable relative to pre-impairment profits, while the banks' capital provides a significant additional buffer. Also, it forecast losses on the banks' foreign currency loan portfolios to increase following the sharp depreciation of the Turkish lira. It considered that the banks' capital buffers are sufficient to absorb significant losses, but they could come under pressure from a sharp currency depreciation. In parallel, the agency considered that Turkish banks' liquidity in foreign currency would cover their foreign currency debt service of about \$80bn to \$85bn over the coming 12 months.

*Source: Fitch Ratings*



# ENERGY / COMMODITIES

## Oil prices to average below \$50 p/b in 2016

The International Energy Agency (IEA) indicated that crude oil prices reached seven-year lows in mid-December 2015 after the Organization of the Petroleum Exporting Countries (OPEC) refrained from cutting its oil production in order to defend its market share. It noted that the Saudi-led strategy is starting to work, as lower oil prices are taking a toll on non-OPEC supply. It added that non-OPEC supply grew by less than 0.3 million barrels per day (b/d) year-on-year in November 2015 relative to a growth of 2.2 million b/d at the start of 2015. It forecast non-OPEC's oil production to decline by 0.6 million b/d in 2016 as production of U.S. shale oil, the driver of non-OPEC growth, starts to contract. It expected the impact of lower oil prices on non-OPEC's oil supply to be more pronounced in the long run as oil companies cut spending further. In parallel, the IEA pointed out that global oil consumption has peaked in the third quarter of 2015 at 95.43 million b/d and expected it to grow by just 1.2 million b/d in 2016, as support from the drop in oil prices begins to fade. In parallel, crude oil prices are forecast to remain volatile in the near term and to trade at low levels going into 2016. This is due in part to sustained oversupply in the market and a strong US dollar. In parallel, ICE Brent crude oil front-month future prices fell by 34% from the end of 2014 to close at \$37.2 per barrel (p/b) on December 16th, below the \$55 p/b average price in the first 11 months of 2015. The petroleum price, which is the average of the U.K. Brent, Dubai and West Texas Intermediate spot oil prices, is forecast to drop by 47.1% in 2015 to \$50.9 p/b and to decline further by 17.6% to \$42 p/b in 2016.

Source: IEA, IMF, Byblos Research

## OPEC's oil output at 31.6 million b/d in November

The Organization of the Petroleum Exporting Countries' (OPEC) crude oil production averaged 31.7 million barrels per day (b/d) in November 2015, up by 0.7% from 31.5 million b/d in October. Saudi Arabia produced 10.1 million b/d in November, equivalent to 32% of OPEC's total oil output. It was followed by Iraq with 4.3 million b/d (13.6%), the UAE and Iran with 2.9 million b/d each (9.1% each), and Kuwait with 2.7 million b/d (8.6%).

Source: OPEC, Byblos Research

## Kurdish oil exports down 2% in November 2015

The Kurdistan Regional Government's (KRG) crude oil exports totaled 18 million barrels in November 2015, down by 2.4% from 18.46 million barrels in the preceding month. On a daily basis, Kurdish oil exports rose by 0.9% month-on-month to an average of 600,769 b/d in November. About 72.3% of crude oil exports were extracted from fields operated by the KRG, while the remaining 27.7% came from fields operated by Iraq's North Oil Company. The KRG said that it continued its direct oil sales from the port of Ceyhan to international markets to compensate for the lack of budget transfers from the Iraqi federal government.

Source: KRG Ministry of Natural Resources

## OPEC's oil basket price down 10% in November

The OPEC's oil reference basket price reached \$40.5 per barrel (p/b) in November 2015, constituting a drop of 10% from the preceding month. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at \$46 p/b in November, followed by Algeria's Saharan Blend at \$45.3 p/b and Nigeria's Bonny Light at \$44.8 p/b.

Source: OPEC, Byblos Research

## Base Metals: Steel prices to drop by 28% in 2015

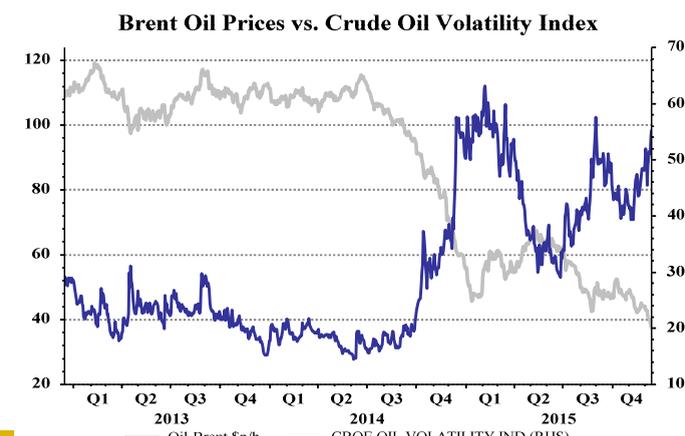
Benchmark EU steel hot-rolled coil prices are forecast to drop by 27.7% to an average of \$413 per ton in 2015, constituting the fourth consecutive annual decline. Further, EU steel hot-rolled coil prices are expected to decrease further to an average of \$363 per ton in 2016. Global crude steel consumption is projected to decline by 3.1% in 2015, reflecting a larger than expected contraction in demand from China, after official data revealed a very weak economic performance in the third quarter. Demand for steel is forecast to grow by 2.2% to 1,610.4 million tons in 2016, supported by a minor improvement in global economic activity and re-stocking. Consumption of the metal is projected to be limited in 2016 due to subdued demand from emerging markets, as currency weakness constrains private- and public-sector construction expenditures. In parallel, global steel supply is expected to contract by 2% in 2015 due to weak prices and poor Chinese demand. This will be followed by a modest recovery in 2016, as strengthening production in North America and Asia excluding China would drive a 0.1% expansion in global output.

Source: Economist Intelligence Unit, Byblos Research

## Precious Stones: Long-term outlook for diamond industry is positive

The diamond industry suffered the ripple effects in 2015 from the decline in consumer demand for diamond jewelry that started in mid-2014 in China. This slowdown led to a drop in demand for polished and rough diamonds, which in turn led to decreases of 12% and 23% in the price of polished and rough diamonds, respectively, since May 2014. Also, the prices of polished and rough diamonds declined by 8% and 15%, respectively, since the beginning of 2015. The weaker-than-expected growth in customer demand initially affected demand for polished diamonds as retailers built up inventories and reduced purchases of the precious stone. The slowdown then extended to rough-diamond producers, as mid-market companies built up their inventories and reduced their purchases of rough diamonds despite declining prices. In parallel, the long-term outlook for the diamond market is positive, with demand expected to outpace supply starting in 2019. Demand for rough diamonds is projected to recover from the recent downturn and return to a long-term growth trajectory of about 3% to 4% per year on average, due to strong fundamentals in the United States and the continued growth of the middle class in India and China. The supply of rough diamonds in value terms is forecast to drop by 1% to 2% per year through 2030.

Source: Bain & Company, Byblos Research



Source: Thomson Reuters Datastream, Byblos Research



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	EIU								
<b>Africa</b>													
Algeria	-	-	-	-	BB	-12.9	13.6	2.0	5.7	1.2	-	-15.7	-
Angola	B+	Ba2	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
<b>Middle East</b>													
Bahrain	BBB-	Baa3	BBB-	BBB-	BB	-9.9	54.0	158.3	-	17.5	721.6	-2.1	0.4
Iran	-	-	-	B+	CCC	-2.7	11.9	2.5	-	-	-	0.8	-
Iraq	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								
<b>Asia</b>													
Armenia	-	Ba3	B+	-	-	-4.5	53.1	92.6	298.8	21.9	431.8	-8.6	4.1
	-	Negative	Stable	-	-								
China	AA-	Aa3	A+	-	BBB	-1.9	43.5	10.2	-	2.7	25.1	3.2	1.5
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BB	-7.2	62.6	23.6	101.9	5.6	158.2	-1.3	1.1
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BB	-3.3	14.3	72.9	195.4	17.3	787.9	-4.1	3.6
	Stable	Positive	Stable	-	Stable								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BB	-3.0	28.9	90.0	122.3	20.2	261.1	0.2	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	B	-1.8	40.5	54.7	132.5	19.4	249.2	-1.1	2.1
	Stable	Negative	Stable	-	Stable								
Russia	BB+	Baa3	BBB-	-	BBB	-3.7	18.8	52.7	133.7	29.1	195.0	5.4	-1.2
	Negative	-	Negative	-	Stable								
Turkey	BB+	Baa3	BBB-	BB+	B	-1.8	33.4	55.8	181.2	23.2	376.5	-4.2	1.7
	Negative	Negative	Stable	Stable	Stable								
Ukraine	CCC	Caa3	CCC	-	CC	-4.2	94.1	158.4	189.9	32.0	978.3	-1.4	2.5
	Negative	Negative	-	-	Stable								

\*to official creditors

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



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	16-Dec-15	Raised 25bps	16-Mar-16
Eurozone	Refi Rate	0.05	03-Dec-15	No change	21-Jan-16
UK	Bank Rate	0.50	10-Dec-15	No change	14-Jan-16
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	2.50	10-Dec-15	Cut 25 bps	28-Jan-16
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Dec-15	No change	17-Mar-16
Canada	Overnight rate	0.50	02-Dec-15	No change	09-Mar-16
<b>Emerging Markets</b>					
China	One-year lending rate	4.35	21-Oct-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	16-Dec-15	Raised 25bps	16-Dec-15
Taiwan	Discount Rate	1.75	01-Dec-15	No change	17-Dec-15
South Korea	Base Rate	1.50	10-Dec-15	No change	14-Jan-16
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	Reverse repo rate	0.50	16-Dec-15	Raised 25bps	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	N/A
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-Oct-15	Raised 400bps	N/A
Ukraine	Discount Rate	22.00	24-Sep-15	Cut 500bps	17-Dec-15
Russia	Refi Rate	11.00	11-Dec-15	No change	18-Mar-16



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