

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

'Stable' outlook for life and P&C insurance segments, 'negative' outlook for global reinsurance

Moody's Investors Service assigned a 'stable' outlook for the global life and property & casualty (P&C) insurance segments for 2016. It forecast modest growth for the global P&C insurance segment, as it projected P&C insurance premiums in advanced economies to expand at the same pace as economic growth, and for premiums in emerging markets to post stronger growth due to rising insurance penetration rates. It said that the mandatory nature of major lines such as auto, home and commercial property constitutes a key strength for P&C insurers. It added that P&C insurers generally maintain sound balance sheets with high-quality investments, adequate reserves and good capitalization, which contribute to the 'stable' outlook for this segment. However, it noted that natural and man-made catastrophes, along with the pricing or provisioning for the resulting losses, are key challenges for the P&C segment. Further, Moody's projected the profitability in the life insurance segment to be supported by a growing shift in the product mix away from spread-based products, and to benefit from higher fee-based income. But it noted that continued low interest rates and higher asset volatility would intensify risks for life insurers. The agency expected mergers and acquisitions (M&A) in the insurance industry, which reached record levels in 2015, to continue to rise in coming years, driven mainly by the challenging economic environment and by regulatory changes. In parallel, Moody's assigned a 'negative' outlook for the global reinsurance industry due to excess reinsurance capacity and shrinking demand from primary insurers.

Source: *Moody's Investors Service*

MENA

Equity markets down 17% in 2015

Arab stock markets decreased by 17% and Gulf Cooperation Council (GCC) markets dropped by 17.8% in 2015 compared to an increase of 0.2% and to a decrease of 2.6%, respectively, in 2014. Arab and GCC stock markets regressed by 1.2% and 2.4%, respectively, in December from November 2015. Activity on the Palestine equity market grew by 4.1% in 2015 and posted the only positive performance among Arab markets. In contrast, activity on the Iraqi stock market regressed by 21.7%, the Egyptian equity market declined by 21.5%, Saudi Arabia's bourse contracted by 17.1%, the Dubai financial market decreased by 16.5%, the Qatar bourse dropped by 15.1%, the Oman and the Bahrain equity markets retreated by 14.8% each, the Kuwait security exchange fell by 14.1%, the Khartoum stock market regressed by 9.6%, the Casablanca equity market declined by 7.2%, the Abu Dhabi stock market contracted by 4.9%, the Damascus financial market retreated by 3.4%, the Beirut stock exchange regressed by 1.5%, the Amman bourse dropped by 1.3% and the Tunis equity market decreased by 0.9%. Also, the Iranian stock market fell by 10.6% in 2015. In comparison, global equities contracted by 4%, while emerging market equities dropped by 15.9% last year.

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

Economic freedom in Arab world varies in 2015

The Fraser Institute's 2015 Index of Economic Freedom in the Arab World indicated that the UAE is the most economically-free country among 21 Arab countries included in the survey. It was followed by Jordan, Bahrain, Kuwait and Qatar as the five most economically-free countries, while Sudan, Algeria and Syria ranked as the least free economies in the region. The index evaluates individual economies on the basis of 39 variables that are divided into five broad factors of economic freedom that measure the Size of Government; Legal Structure & Security of Property Rights; Access to Sound Money; Freedom to Trade Internationally; and the Regulation of Credit, Labor and Business. The rankings of 12 Arab countries regressed, three improved and five were unchanged, while the Institute included Palestine for the first time in the 2015 index. In parallel, the scores of six countries improved, four regressed and 10 were unchanged. Sudan had the best score on the Size of Government category, while Saudi Arabia ranked first in the Legal Structure & Security of Property Rights category. Also, Palestine ranked first on the Access to Sound Money category; Bahrain came in first place on the Regulation of Credit, Labor and Business category, while Yemen came in first place on the Freedom to Trade category.

Source: *Fraser Institute, Byblos Research*

Human development level varies across Arab world

The United Nations' Human Development Index (HDI) for 2014 showed that the level of human development in the Arab world was unchanged year-on-year, as the average score of the 20 Arab countries included in the index was 0.686 points, similar to the region's score in 2013 and below the global average of 0.711 points in 2014. The HDI measures a country's achievements on three basic dimensions of human development that are longevity, education and income. Qatar was the top ranked Arab country and came in 32nd place globally among 188 countries. It was followed by Saudi Arabia in 39th place, the UAE (41st) and Bahrain (45th); while the lowest ranked Arab countries were Mauritania, which came in 156th place worldwide, Yemen (160th), Sudan (167th) and Djibouti (168th). The rankings of nine Arab countries regressed, with Libya posting the steepest decrease of 11 spots year-on-year, while the rankings of nine Arab countries were unchanged year-on-year. Algeria and Qatar were the only Arab countries to post an improvement in their rank with a rise of one spot each. Further, the United Nations considered that Qatar, Saudi Arabia, the UAE, Bahrain and Kuwait have a 'very high' level of human development; while it placed Oman, Lebanon, Jordan, Algeria, Libya and Tunisia among countries with a 'high' level of development. Further, Egypt, Palestine, Iraq, Morocco, Syria and Mauritania had a 'medium' level of human development; while Yemen, Sudan and Djibouti came in the 'low' level category.

Source: *UNDP, Byblos Research*

POLITICAL RISK OVERVIEW - December 2015

EGYPT

Protests erupted in the southern city of Luxor and criticisms of security forces' brutality persisted following the death of a man in police custody. Egypt's prosecutors referred four police officers and five low-ranked policemen to the criminal court for their involvement in the case. Egyptian authorities claimed that there was no evidence of a terrorist plot behind the Russian airplane crash in October 2015. President Abdel Fattah el-Sisi called on the newly-elected Parliament to convene in January 2016, more than three years after the Islamist-dominated Parliament was dissolved. Egypt's top court ordered the retrial of Muslim Brotherhood leader Mohammed Badie, overturning his death sentence.

IRAN

The International Atomic Energy Agency (IAEA) released on December 2 its "final assessment" about past and present outstanding issues regarding Iran's nuclear program. The report concluded that Iran worked on a "range of activities relevant to the development of a nuclear explosive device", despite Tehran's denial of any work on a nuclear weapons program. The IAEA decided to close the inquiry into the possible military dimensions of Iran's nuclear program. The unanimous decision by the 35-nation group ended the 12-year probe, while it allowed inspectors to continue monitoring Tehran's program. The government announced plans to export most of its enriched uranium stockpile to Russia and Kazakhstan as part of the July 2015 nuclear agreement in order to secure relief from international sanctions.

IRAQ

Iraqi government forces, backed by U.S.-led coalition airstrikes, regained control of the central neighborhoods of Ramadi in the Anbar province that was seized by the Islamic State (IS) militant group in May 2015. IS militants conducted coordinated assaults on several Kurdish Peshmerga locations near the city of Mosul, but were repelled by Kurdish forces and coalition airstrikes. Turkey deployed about 150 to 300 soldiers and 25 tanks in Iraq's Ninewa Province without Baghdad's approval. Prime Minister Haider al-Abadi denounced Turkey's move as a violation of sovereignty and called on Turkish authorities to withdraw their troops from Iraq. Grand Ayatollah Ali Sistani condemned foreign intervention in Iraq. Violence and acts of terrorism in Iraq led to 980 deaths and 1,244 injuries in December 2015.

DEM REP CONGO

President Joseph Kabila delivered his annual 'State of the Nation' address on December 15 amid continued political tensions. He called for a national political dialogue to discuss the presidential elections process in 2016, and criticized opposition parties for rejecting the talks. More than 27 high-profile Congolese figures, including former Governor of Katanga province Moïse Katumbi, formed a coalition party named 'Citizen Front 2016' aimed at preventing Mr. Kabila from running for a third term. The UN Secretary General appointed Lieutenant General Derrick Mbuyiselo Mgwebi as Force Commander of the UN's Organization Stabilization Mission in the DRC (MONUSCO).

LIBYA

Libya's two rival governments, the Tripoli-based General National Congress and the Tobruk-based House of Representatives, signed on December 17 a UN-brokered agreement. The agreement, which was endorsed by the UN Security Council on December 23rd, aims to establish a new national unity government in Tripoli headed by Prime Minister Fayeze Serraj in a "first step" towards ending the country's crisis. Also, lawmakers from the rival parliaments who support the UN-backed agreement will remain in office under a new power-sharing framework. Clashes between forces loyal to the Libyan National Army that opposes the UN-brokered agreement and local groups who support the new government increased in northeastern Libya.

SOUTH SUDAN

The chairman of the Joint Monitoring and Evaluation Commission (JMEC), Festus Mogae, who is tasked to oversee the full implementation of South Sudan's peace agreement, urged the involved parties to speed up the implementation of the peace deal and to form a transitional government of national unity as soon as possible. The JMEC convened for the second time with representatives from the government, the Sudan People's Liberation Movement in opposition (SPLM-IO) and former detainees to discuss processes towards the formation of a unity government as per the peace accord. In violation of the peace deal, President Salva Kiir expanded the country's constitutionally-recognized 10 states to 28 and appointed their new governors.

SUDAN

The government and the Sudan People's Liberation Movement-North (SPLM-N) rebel group claimed that the informal talks held with the support of the African Union made some progress, but some main issues remain unclear. Both sides agreed to resume discussions in January 2016. The government announced that the National Dialogue will be extended until February 10th, and announced a ceasefire until the end of January. The Sudanese government completed the first stage of a plan aimed at collecting heavy weapons from the Darfur region. Fighting between government and rebel forces continued in the Blue Nile and South Kordofan states.

SYRIA

Russia expanded its airstrikes to areas held by anti-Islamic State (IS) rebels in northern Syria, as part of the multi-front offensive undertaken by President Bashar al-Assad's regime and its allies. The opposition conference in Saudi Arabia that attempted to bring together rebel groups fighting the Assad regime generated minor breakthrough towards a more coherent rebel representation. All parties signed a final statement that called for maintaining the unity of Syria and building a civil representative government that would take charge after a transitional period. President al-Assad and his associates would then have to step down. But the prospects of President al-Assad agreeing to cede power to the opposition remain highly unlikely. A meeting between the opposition and the regime is tentatively scheduled for late January. The UN Security Council unanimously approved a resolution endorsing an international roadmap for a peace process in Syria.

TUNISIA

The government dismissed five senior officials, including the Secretary of State for Security and the Interior Ministry's top security chief following the November 2015 bomb attack on a bus in the capital city of Tunis. The government extended the State of Emergency for two additional months. Tensions within President Beji Caid Essebsi's Nidaa Tounes party grew stronger as the party's General Secretary Mohsen Marzouk resigned. Former President Moncef Marzouki launched a new political party a year after he was defeated in the presidential elections.

YEMEN

The second round of UN-brokered peace talks between the exiled government and Huthi rebels was held in Switzerland but failed to produce a diplomatic breakthrough, as parties disagreed over prisoner exchanges and as the ceasefire agreement was repeatedly violated. Huthi and allied military forces increased their cross-border attacks into Saudi Arabia, including a rocket attack near the southwestern region of Bab al-Mandeb that killed two senior Saudi and Emirati army commanders. The government, backed by the Saudi-led coalition, launched an offensive on Huthi strongholds in the north, gaining territory in the Hajjah, Jawf and Ma'rib governorates, and advanced towards the Sanaa province.

Source: International Crisis Group, Newswires



OUTLOOK

EMERGING MARKETS

Oil exporters to tighten fiscal policy in 2016

The Institute of International Finance anticipated that the macro-economic policy frameworks of oil-exporting countries would be tested in 2016. It noted that most oil-exporters have made substantial progress in adjusting their economies to the drop in oil prices, but it expected the low oil price environment to put further pressure on these countries. It anticipated Nigeria, Russia and Mexico to return to their potential growth rates in the second half of 2016, supported by cuts in public spending, adjustment to their exchange rate regimes and lower imports. But it considered that Saudi Arabia and the UAE would have to implement additional measures, given that the high weight of the hydrocarbon sector in their economies exposes them to a further slowdown in activity in 2016. It projected non-hydrocarbon growth in Saudi Arabia to be significantly affected by the spillovers from low oil prices, which would test the Kingdom's determination to increase its oil market share by keeping oil prices low.

Further, the IIF anticipated that slow economic activity and decreased hydrocarbon revenues would force oil-exporters to further tighten their fiscal policy. It expected the fiscal deficit to narrow in Russia and Mexico in 2016 and to be broadly unchanged in Saudi Arabia, the UAE and Nigeria. It noted that Nigeria, Russia and Mexico have partially adjusted their budgets to lower oil prices, which means that they would be able to avoid further sharp adjustments in 2016 unless oil prices fall further. It added that fiscal adjustments need to be more ambitious in Saudi Arabia, the UAE and Venezuela, which would constrain their economic activity. In parallel, it expected currencies in GCC economies to further appreciate against other currencies due to the stronger US dollar, and for their interest rates to rise in line with increases in U.S. rates. It anticipated that the flexible exchange rate regimes in Nigeria, Russia and Mexico would allow them to keep their current account balances broadly unchanged in 2016. In contrast, it said that fixed exchange rates and low oil prices would further widen the current account deficits in GCC economies this year.

Source: *Institute of International Finance*

MENA

Growth to pick up to 5% in 2016

The World Bank projected real GDP growth in the developing countries of the Middle East & North Africa region at 5.1% in 2016, up from a June forecast of 3.7%, and relative to growth rates of 4.8% for developing nations and 2.9% for the global economy. It attributed the acceleration in economic activity to an expected rapid rebound in Iran's real GDP growth following the lifting of international sanctions. It added that the outlook reflects slightly higher growth rates in Iraq and Algeria, and a more modest improvement among oil-importers. In addition, it assumed that oil prices would stabilize and security conditions would improve in some MENA countries. It expected the region's developing oil-exporters to grow by 6.2% in 2016 compared to a growth rate of 1.7% in 2015, and projected real GDP growth in developing oil-importers at 3.5% in 2016, unchanged from the preceding year. The Bank's growth forecast for the MENA region becomes 3.8% in 2016 when including GCC economies. It projected economic growth in GCC countries at 2.7% in 2016, un-

changed from the previous year. Further, the Bank anticipated the fiscal deficit in the region's developing oil-exporters to start narrowing in 2016 due to fiscal consolidation following the drop in oil prices. But it did not expect the budget adjustments to be sufficient to stabilize government debt levels in the absence of a significant rise in oil prices. It noted that some MENA countries, such as Iraq, could face difficulties in attracting enough foreign capital to finance their current account deficit, given the expected tightening in external financing conditions.

The Bank indicated that the outlook is subject to significant downside risks that include an escalation of violence and social unrest, and a further decline in oil prices. It noted that security risks and political uncertainty from spillovers of regional conflicts have negatively affected consumer, business and investor confidence. It added that additional drops in oil prices would limit oil-exporters' economic activity, and would put further pressure on their already wide fiscal and external imbalances.

Source: *World Bank*

IRAN

Outlook dependent on lifting of sanctions and implementation of structural reforms

The International Monetary Fund projected Iran's real GDP to range between a contraction of 0.5% and a growth rate of 0.5% in the fiscal year that ends in March 2016, depending on the timing of the lifting of economic sanctions. It indicated that the country's economic activity has slowed down since the fourth quarter of FY2014/15 due to the sharp decline in global oil prices, tight corporate and bank balance sheets, and the postponement of consumption and investment decisions ahead of the expected lifting of economic sanctions. But it forecast growth to accelerate to 4.3% in FY2016/17, supported by higher oil production, lower costs for trade and financial transactions, and restored access to its foreign assets. It estimated that most of the acceleration in growth would depend on the spillovers to the rest of the economy from higher oil production. It expected non-hydrocarbon real GDP to grow by 2.8% in FY2016/17 following a 0.1% contraction in FY2015/16, while it projected hydrocarbon GDP to expand by 17% in FY2016/17 relative to a growth rate of 0.5% in FY2015/16. It forecast the inflation rate to average 11.5% in FY2016/17, down from 15.1% in FY2015/16.

Further, the Fund forecast the country's current account surplus to widen from \$4.5bn, or 1.3% of GDP in FY2015/16 to \$8.5bn or 2.1% of GDP in FY2016/17. Also, it welcomed the authorities' commitment to unify the foreign exchange market by September 2016, and encouraged the prompt removal of foreign exchange restrictions and of multiple currency practices. The IMF indicated that risks to the outlook are significant and are tilted to the downside. First, it pointed out that uncertainties associated with the post-sanctions regime, along with the implementation of global anti-money laundering and combating the financing of terrorism counter-measures, could constrain foreign direct investment and capital inflows. Second, it said that the return of Iranian oil to the global market could exert further downside pressure on oil prices, which would force additional fiscal adjustment. Third, it noted that the lack of progress on the policy framework and structural reforms would reduce prospects for macroeconomic stability.

Source: *International Monetary Fund*



ECONOMY & TRADE

SAUDI ARABIA

Ratings affirmed, outlook revised to 'negative'

Capital Intelligence affirmed Saudi Arabia's long-term foreign and local currency ratings at 'AA-' and its short-term foreign and local currency ratings at 'A1+'. It revised the outlook from 'stable' to 'negative' on the long-term ratings. It attributed the outlook revision to the ongoing deterioration of the country's public finances, as well as to its expectation that the government's balance sheet would weaken significantly over the coming years. It indicated that it would likely downgrade the ratings over the next 12 months, as a result of the impact of lower oil prices on the Kingdom's public and external finances, and consequently on the country's capacity to absorb economic shocks. It expected the fiscal balance to post a deficit of about 20% of GDP in 2015 and to continue registering large deficits during the 2016-17 period. But it anticipated refinancing risks to be low due to the appetite of local banks and pension funds for government securities, as well as to the large government deposits at the Saudi Arabian Monetary Authority (SAMA) that are currently equivalent to more than 50% of GDP. It pointed out that the country's balance-of-payments has weakened, as it expected the current account balance to shift from a surplus of 10% of GDP in 2014 to a deficit of about 3.5% of GDP in 2015, and to remain in deficit during the 2016-17 period. It added that the country's official foreign assets at SAMA regressed from \$732bn at end-2014 to \$648bn at end-October 2015, and expected them to decrease further.

Source: *Capital Intelligence*

EGYPT

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Egypt's long-term foreign and local currency Issuer Default Ratings (IDR) at 'B', with a 'stable' outlook. It also affirmed Egypt's Country Ceiling, short-term foreign currency IDR and senior unsecured bonds at 'B'. The agency indicated that the ratings are supported by the country's low external debt level and its progress in the implementation of economic reforms; but are constrained by a wide fiscal deficit, elevated public debt level, low coverage of imports and a volatile political environment. Fitch noted that fiscal consolidation has helped narrow the fiscal deficit, excluding grants, from 17.6% of GDP in the fiscal year that ended in June 2014 to 12.5% of GDP in FY2014/15. It projected the deficit to narrow further in FY2015/16 as a result of the implementation of new fiscal measures and the restriction of the public-sector wage bill. However, it anticipated the fiscal deficit to remain wide due to higher social expenditures and spending commitments in the constitution. It estimated the public debt level at 93.7% of GDP by the end of June 2015, and forecast it to fall by about five percentage points by the end of June 2017 due to a moderate narrowing of the fiscal deficit and a stronger growth in nominal GDP. Further, the agency noted that foreign exchange rationing continues and that foreign currency reserves currently cover less than three months of current external payments. It indicated that improvements in the balance-of-payments have been set back by a negative shock to the tourism industry, and that unmet demand for foreign currency declined but remains significant. The agency considered that there is a lack of clarity about the exchange rate policy, but it anticipated a further devaluation of the Egyptian pound.

Source: *Fitch Ratings*

NIGERIA

Economic activity slows down, reforms needed

The International Monetary Fund estimated Nigeria's real GDP to have decelerated to about 3.25% in 2015 from an annual average rate of 6.8% over the past decade, and expected a slight recovery in economic activity in 2016. It said that the drop in global oil prices, lower demand from emerging markets and tightening global financial conditions have significantly reduced Nigeria's export receipts and government revenues. It noted that non-hydrocarbon sector activity has slowed down, while financing local investments has become harder. Also, it indicated that poverty, inequality, and unemployment levels remain too high, while authorities need to deal with the Boko Haram insurgency. Further, the Fund considered that improving the infrastructure, especially power, transportation and housing, is crucial to raise the economy's competitiveness. It noted that other measures include broadening the revenue base, particularly to create additional fiscal space to offset the impact of lower oil prices. It called for careful decisions on borrowing, public spending and managing the cost of fuel subsidies. It anticipated that this would require a package of measures involving business-friendly monetary policy, flexible exchange rate policy and disciplined fiscal policy, as well as the implementation of structural reforms. It welcomed the authorities' efforts to address corruption, especially the decision to publish monthly data on the finances and operations of the National Petroleum Corporation. It noted that transparency and the rule of law would be crucial to reduce constraints to the country's growth.

Source: *International Monetary Fund*

CÔTE d'IVOIRE

Sovereign ratings upgraded, outlook 'stable'

Fitch Ratings upgraded Côte d'Ivoire's long-term foreign and local currency Issuer Default Ratings from 'B' to 'B+', with a 'stable' outlook. It affirmed the Country Ceiling at 'BBB-' and the short-term foreign currency IDR at 'B'. It attributed the upgrade to receding political and security risks following the October 2015 presidential elections, to strong growth prospects and to better public finance management. It noted that the risks of major security incidents that would affect the country's macroeconomic performance or ability to honor its commitments have receded. It projected real GDP growth to average more than 8% during the 2015-17 period, above the median growth rate of 4.6% among 'B'-rated sovereigns. It said that economic activity would be supported by the diversified agricultural base, by the extractive sector as well as by the rising public investment in infrastructure. Further, it estimated authorities to have fully repaid domestic arrears to suppliers and state-owned companies by the end of 2015. It forecast the fiscal deficit to average about 3.6% of GDP during the 2015-17 period, in line with the 'B'-median of 3.8% of GDP for 2015, reflecting the large public-sector wage bill and the growing public investments. It projected the public debt level to moderately increase from 38% of GDP in 2014 to 41.3% of GDP in 2015 and to stabilize at about 40.7% of GDP between 2016 and 2017, supported by strong nominal GDP growth and moderate fiscal deficits.

Source: *Fitch Ratings*



BANKING

EMERGING MARKETS

Banks' credit profile to be affected by market conditions

Fitch Ratings indicated that a slowdown in economic activity across emerging markets (EMs), maturing loan books, lower commodity prices, weaker currencies, capital outflows and greater political risks are weighing on the credit profiles of EM banks. It added that 21% of EM banks had a 'negative' outlook at the end of September 2015 due to the previously mentioned factors and to the 'negative' outlooks assigned to many EM sovereign ratings. But it expected limited negative rating actions on EM banks in the near future, reflecting the banks' significant loss-absorption capacity, the anticipated positive economic growth in most EMs and the availability of sovereign support. It noted that the impairment of banks' financial metrics in most EM economies has so far been limited or manageable despite more challenging operating conditions. In parallel, Fitch indicated that foreign currency risks are greater in Emerging Europe, the Middle East & Africa region than in other EM regions. It noted that dollarization ratios are high in Russia, the Commonwealth of Independent States (CIS), Turkey and Nigeria, and that currency depreciation has increased pressure on the banks' asset quality and capital. It added that short-term external debt is an additional risk for Turkish banks. Further, it pointed out that the greatest asset quality problems are in CIS economies and the southern countries of Central & Eastern Europe (CEE).

Source: Fitch Ratings

SAUDI ARABIA

Banks face new operating environment

Fitch Ratings indicated that financial metrics of Saudi Arabian banks was sound in the first half of 2015, due to business growth and lower loan impairment charges. But it noted that the banks' prospects are under pressure due to the adverse effect of lower oil prices on government spending, and the latter's negative impact on the rest of the economy. It anticipated the evolving operating environment to persist over the next two years, as lower government spending would slow down loan growth, which would weigh on profitability and weaken asset quality at a later stage. It projected credit growth at around 7% to 8% in 2016, down from 9% in 2015 and 13.5% in 2014. It said that margins would remain under pressure in 2016 due to the low interest rate environment and strong competition in the market. It noted that an increase in interest rates would benefit all banks in Saudi Arabia and would help margins return to normal levels. It anticipated the level of loan impairment charges to increase marginally in 2016 and 2017, but it did not expect the rise to be significant. It anticipated that banks would tighten underwriting standards, especially in more stressed segments such as contracting, construction and retail. Further, Fitch expected the banks' liquidity to tighten slightly in 2016, with marginally lower quasi-government deposits and an increase in deposit pricing. It considered that Saudi Arabian banks benefit from large volumes of liquid assets, including government securities and deposits placed at the Saudi Arabian Monetary Agency (SAMA), which would help them maintain their strong liquidity levels.

Source: Fitch Ratings

OMAN

Credit risks at high level

Standard & Poor's Banking Industry Country Risk Assessment (BICRA) classified Oman's banking sector in 'Group 5', with its industry and economic risk scores at '5' each. 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 sectors. It noted that other countries in the same group include Brazil, China, Colombia, India, Panama, Peru, Poland, South Africa, Spain and the UAE. S&P said that Oman's economic risk score indicates that its economic resilience and credit risk in the economy are at "high risks", and that its economic imbalances are at "low risks". It said that credit risks are rising due to banks' high risk appetite for retail lending, along with households' elevated debt burdens. But it noted that these risks are mitigated by the relatively low leverage in the economy and adequate private sector debt capacity. Further, it mainly attributed the low potential of economic imbalances to the moderate increase in the stock of domestic credit in 2015 and to the relatively stable real estate market. In parallel, S&P said that the industry score indicates that the country faces "intermediate risks" in its institutional framework and in its system-wide funding, and "high risks" in its competitive dynamics. It expected the banks' cost of funds to be sensitive to a potential liquidity tightening from low oil prices. S&P said that the trend for economic risks is 'negative' due to rising credit risks for the banks, while that for industry risks is 'stable'.

Source: Standard & Poor's

JORDAN

Bank ratings affirmed, outlook 'stable'

Capital Intelligence affirmed at 'BB-' the long-term foreign currency ratings of Arab Bank (AB), the Housing Bank for Trade & Finance (HBTF), Jordan Islamic Bank (JIB), Cairo Amman Bank (CAB), Jordan Ahli Bank (JAB), Bank ABC and Jordan Commercial Bank (JCB), with a 'stable' outlook. Also, it affirmed the banks' short-term foreign currency ratings at 'B'. The agency indicated that the banks' foreign currency ratings are capped at the sovereign level, reflecting their substantial holdings of government debt. Further, the agency maintained the Financial Strength Rating (FSR) of AB and HBTF at 'BBB+', that of Bank ABC at 'BBB', that of JIB and CAB at 'BBB-' and that of JAB and JCB at 'BB'. It revised the outlook from 'stable' to 'positive' on JCB's FSR, mainly due to the significant improvement in its asset quality and profitability. It kept the outlook at 'stable' on the remaining banks' FSR. The agency indicated that AB's FSR is supported by its ample liquidity, sound capital adequacy ratio, diversified balance sheet, and an almost full loan-loss reserve coverage for NPLs. But it noted that the bank's FSR is constrained by the uncertainty surrounding the court verdict on a terrorism financing case it faces in the U.S. and the resulting impact on the bank's capitalization and reputation. AB's FSR is also constrained by its high NPL ratio and related-party exposure, as well as by high credit risks. Further, the agency anticipated that the difficult domestic operating environment and increased geopolitical risks would continue to weigh on the asset quality of banks in Jordan.

Source: Capital Intelligence



Oil prices at lowest level since 2004

ICE Brent crude oil one-month future prices averaged \$53.6 per barrel (p/b) in 2015, down by 46.1% from an average of \$99.4 p/b in 2014 and constituted the lowest annual level since 2004. Brent oil prices dropped to their lowest level in 11 years to close at \$34.2 p/b on January 6 due to pressure from an oversupplied market, which outweighed the deterioration of diplomatic relations between Saudi Arabia and Iran, two of the largest oil producers worldwide. Also, the economic slowdown in China and the strength of the US dollar ahead of further increases in U.S. interest rates later this year are adding downward pressure on oil prices. Prices are forecast to average \$51 p/b in 2016 and \$53 p/b in 2017 as the oil market is expected to remain oversupplied, given that Saudi Arabia and other major producers are still producing crude oil at near-record levels, and due to the expected return of Iranian oil to the market. In parallel, the Bloomberg Energy Total Return Sub-Index dropped by 10.5% in December and by 39% in 2015, while the Petroleum Sub-Index decreased by 14.4% last month and by 39.4% in 2015. Also, the Bloomberg WTI Crude Oil Total Return Sub-Index regressed by 15% in December and by 44.4% last year, while the Brent Crude Oil Sub-Index fell by 17.7% last month and by 45.6% in 2015.

Source: BMI Research, Bloomberg Indexes, Byblos Research

ME&A's steel output down 2% in first 11 months

The Middle East & Africa region's steel production totaled 38 million tons in the first 11 months of 2015, down by 1.8% from 38.7 million tons in the same period of 2014, and accounted for 2.6% of global steel output. Iran produced 14.8 million tons in the first 11 months of 2015, equivalent to about 39.1% of the region's total output. It was followed by South Africa with 7 million tons (18.3%), Saudi Arabia with 5.3 million tons (13.8%) and Egypt with 5 million tons (13.2%).

Source: World Steel Association, Byblos Research

OPEC production down 1% in December 2015

Preliminary figures show that the Organization of Petroleum Exporting Countries' (OPEC) output reached 31.62 million barrels per day (b/d) in December 2015, down by 0.5% from 31.79 million b/d in November. Saudi Arabia accounted for 32.1% of total OPEC production during the covered month, followed by Iraq (13.3%), Iran (9.2%) and the UAE (9.1%). Further, the figures show that oil output from Angola, Iran, Kuwait and Qatar increased in December, while those from Iraq, Libya, Nigeria, Saudi Arabia, the UAE and Venezuela posted monthly decreases. Also, oil production in Algeria and Venezuela remained unchanged month-on-month.

Source: Thomson Reuters

Nigeria's hydrocarbon export receipts down 10% in November 2015

Nigeria's crude oil & condensate export receipts totaled \$4.54bn in the first 11 months of 2015, of which \$3bn were generated from crude oil exports, \$1.26bn from gas exports and \$282.4m from other receipts. In parallel, authorities used \$3.94bn in hydrocarbon receipts to pay international oil companies, while they transferred the balance of \$607.8m to the Federation Account. Hydrocarbon receipts reached \$402.5m in November 2015, down by 9.7% from \$445.8m in the preceding month.

Source: Nigerian National Petroleum Corporation

Base Metals: Copper prices down 20% in 2015

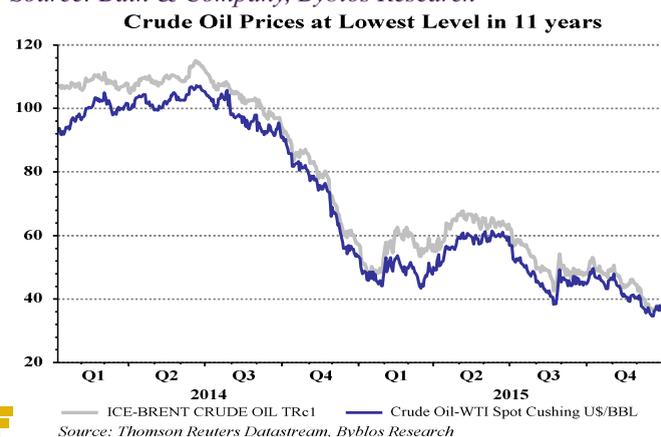
The LME cash price of copper reached its 17th-lowest level since end-2014 to close at \$4,619 per ton on January 6, 2016, as weak Chinese manufacturing data raised concerns about demand from the world's largest copper consumer and about prospects for global economic growth in 2016. Copper prices averaged \$5,509 per ton in 2015, down by 19.7% from \$6,863 per ton in 2014. The drop in prices in 2015 was partly due to a stronger US dollar and to growing concerns of a Chinese economic slowdown. Prices are forecast to further decrease to an average of \$5,400 per ton in 2016 due to weaker Chinese demand and lower production costs. In parallel, global demand for refined copper is estimated to have decreased by 1.5% year-on-year to 16,810 thousand tons in the first nine months of 2015. On a regional basis, demand for refined copper rose by about 3% in Africa and by 1.5% in the Americas, while it declined by 60% in Oceania and by 10% in Europe, and was nearly unchanged in Asia. The metal's global refined production rose by 1.5% to 16,845 thousand metric tons in the first nine months of 2015. China was the main contributor to the growth in refined supply during the covered period, followed by the Philippines and Indonesia. The refined copper market posted a production surplus of 35,000 metric tons in the first nine months of 2015 relative to a deficit of 452,000 tons in the same period of 2014.

Source: International Copper Study Group, Byblos Research

Precious Stones: Rough diamond production up 2% in 2015

Global rough diamond production is estimated at 127 million carats in 2015, reflecting a rise of 1.6% from 124.8 million carats in 2014. In contrast, the cutting and polishing activity in the diamond industry slowed significantly in 2015 due to accumulated diamond jewelry stocks and reduced demand for polished diamonds. Global diamond jewelry sales are estimated to have increased by 2% in 2015 relative to a growth rate of 4% in 2014, due to a steady rise in sales in the U.S. that has offset weaker demand in China. In parallel, the volume of recycled polished diamonds is estimated at between \$1bn and \$1.2bn, accounting for 3% to 5% of the wholesale market for polished diamonds. The recycled diamond channel may become more prominent in the long term as the supply of rough diamonds contracts and as prices of polished diamonds continue to rise. In parallel, several risk factors could affect the diamond market in the long run, including global economic shocks, geopolitical risks, change in consumer preferences, technical disruptions in supply and the impact of commodity prices on major producing countries, among others.

Source: Bain & Company, 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	0.25-0.50	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
Emerging Markets					
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	9.25	17-Dec-15	Raised 50bps	N/A
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



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

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BYBLOS BANK GROUP

LEBANON

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

SYRIA

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

IRAQ

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

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

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

UNITED ARAB EMIRATES

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

ARMENIA

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

CYPRUS

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

BELGIUM

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

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

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

SUDAN

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

NIGERIA

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

DEMOCRATIC REPUBLIC OF CONGO

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

ADIR INSURANCE

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

