

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### **Sovereign creditworthiness deteriorates slightly since global financial crisis**

Standard & Poor's indicated that sovereign creditworthiness around the world has slightly deteriorated since the start of the global financial crisis in 2008. It said that the average long-term sovereign rating currently ranges between 'BBB' and 'BBB-' compared to just below 'BBB+' in mid-2008. But it noted that the average sovereign rating becomes marginally above 'A+' when the ratings are weighted by nominal GDP, slightly lower than the 'AA-' peak in mid-2008. S&P attributed the downward trend in the average ratings to the eroding credit quality of rated sovereigns, as well as to newly-rated sovereigns in emerging or frontier markets that are in the lower rating categories, mainly in the 'B' segment. It pointed out that it has lowered two sovereign ratings per month on average and upgraded only one sovereign per month during the previous five years. In parallel, S&P indicated that about 53% of all its rated sovereigns are investment grade, the lowest such level on record. It noted that the share of 'AAA' ratings has gradually dropped from over 15% in 2008 to 10% at the end of December 2015, the lowest percentage on record. Further, the agency said that 'negative' outlooks still outnumber 'positive' trends, indicating that the number of downgrades would likely exceed upgrades in the coming 12 months and that the downgrade trend may be even more pronounced this year than it was in 2015.

Source: Standard & Poor's

##### **Number of corporate defaults reaches record high in 2015**

Standard & Poor's indicated that 112 rated corporate issuers defaulted globally in 2015 compared to 60 defaults in 2014. It noted that the number of defaults last year was the highest since the 268 defaults in 2009. On a regional basis, 66 companies defaulted in the United States in 2015, equivalent to 59% of total defaults, followed by firms in emerging markets with 25 defaults (22.3%), Europe with 16 defaults (14.3%), and other developed nations with five defaults (4.5%). The agency indicated that defaults in emerging markets reached their highest level in six years, mainly due to eight corporate defaults in Brazil and seven in Russia. The agency indicated that 29 companies from the oil & gas sector defaulted in 2015, followed by 17 issuers from the natural resources sector, and 13 issuers from each of the consumer products and banking sectors. It added that 36 corporates defaulted in 2015 because of debt-distress exchanges, 32 firms missed their interest or principal payments, 22 companies filed for bankruptcy and 11 corporates defaulted because of regulatory intervention. Also, four corporates defaulted because of either judicial reorganization, judicial recovery, administration appointment or de facto debt-for-equity swaps. The agency added that seven corporates did not disclose the reason for their default. It pointed out that the substantial drop in oil prices affected the profitability of oil & gas companies and had a spillover effect on the broader range of speculative-grade rated firms.

Source: Standard & Poor's

#### MENA

##### **Cost of living increases in most Arab cities**

The 2016 Cost of Living survey, produced by crowd-sourced global database Numbeo, ranked Kuwait City as the most expensive city among 23 Arab cities and the 31st most expensive among 498 cities worldwide. It was followed by Dubai (192nd), Doha (197th), Dammam (216th) and Beirut (229th). Damascus was the least expensive Arab city and ranked in 447th place globally. It was preceded by Algiers (443rd), Tunis (431st), Alexandria (412th) and Casablanca (401st). Numbeo assesses the cost of living in each city based on a global Consumer Price Index (CPI) that cover groceries, restaurants, transportation and utilities, as well as on a Rent Index that is an estimate of the rent for apartments in a given city, and benchmarks both indices against New York City. Based on the same cities included in the 2015 and 2016 surveys, the rankings of 19 out of 21 Arab cities rose, reflecting a year-on-year increase in the cost of living in these cities. In contrast, the rankings of only two cities regressed from the 2015 survey. Dubai's ranking increased by 53 spots, posting the highest rise in the cost of living in the region; while Tripoli's rank regressed by 21 spots, registering the steepest decline in the region. Further, the Rent Index showed that Dubai had the highest apartment rents regionally, while rents in Tunis were the lowest. Numbeo uses data from official sources and from residents' input to compute the indices.

Source: Numbeo, Byblos Research

##### **Illicit financial outflows at \$708bn between 2004 and 2013**

Global Financial Integrity, a non-profit research and advocacy organization, estimated the cumulative illicit financial flows (IFFs) from the Middle East & North Africa region at \$707.7bn between 2004 and 2013, equivalent to 9% of cumulative IFFs from developing countries. The organization defines IFFs as funds that are illegally earned, transferred or utilized. IFFs are calculated as the sum of two components that are Gross Excluding Reversals (GER) and Hot Money Narrow (HMN). IFFs from the MENA region grew at a CAGR of 10.6% during the covered period, as they reached \$38.9bn in 2004, \$44.2bn in 2006, \$98.7bn in 2008, \$65.6bn in 2010, \$85.3bn in 2012 and \$96.2bn in 2013. They averaged \$70.8bn annually between 2004 and 2013. In parallel, illicit outflows from the region on a GERs basis, or those transferred through the deliberate misinvoicing of external trade, totaled \$507bn between 2004 and 2013 and grew by a CAGR of 8.8% during the covered period. Illicit outflows through the deliberate misinvoicing of external trade accounted for 71.6% of total illicit outflows from the region and for 7.7% of total GERs from developing countries. Also, illicit outflows from the MENA region on an HMN basis, or those that were channeled through balance-of-payments leakages, totaled \$200.7bn between 2004 and 2013, and grew at a CAGR of 26.2% during the period. Illicit outflows channeled through balance-of-payments leakages accounted for 28.4% of total illicit outflows from the region and for 15.4% of cumulative HMNs from developing countries.

Source: Global Financial Integrity, Byblos Research

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# OUTLOOK

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## WORLD

### Several risks to affect banks' credit quality in 2016

Standard & Poor's identified six risks to the global banking sector's credit quality in 2016, with varying impacts across regions. First, it indicated that a weaker Chinese economy in 2015 and volatile commodity prices have had a negative impact on the banks' credit quality globally. It expected this trend to worsen in the event of a steeper-than-expected slowdown in the Chinese economy in 2016. It noted that the emergence of an unexpected negative economic scenario for China would create significant spillover effects on the banks' credit quality worldwide, especially in Asia-Pacific. Second, it said that higher interest rates and volatile currencies and commodity prices constitute a risk for banks' credit quality this year. It noted that a higher interest rate environment would test the banks' lending standards after a prolonged period of low rates. It added that Middle Eastern and Russian banks are the most exposed to lower oil prices.

Third, it indicated that geopolitical risks that could negatively impact the banks' credit quality include an escalation of terrorist threats, conflicts in the Middle East, the European refugee crisis, the exit of the U.K. from the European Union that could lead to credit market volatility, and an escalation in extreme and nationalistic views that challenge Europe's economic and political integration. Fourth, it pointed out that regulatory trends would continue to have an important impact on banks' credit quality in 2016. It expected banks to accumulate additional loss-absorbing capacity this year, which would counterbalance the reduced government support that occurred in 2015. Finally, the agency cited lower market liquidity and cybersecurity risks as emerging threats that could affect the banks' credit quality in 2016.

*Source: Standard & Poor's*

## EMERGING MARKETS

### Growth outlook varies across regions

The World Bank projected real GDP growth in developing economies at 4.8% in 2016, down from its June forecast of 5.4% and relative to a growth rate of 4.3% in 2015. It said that the modest acceleration in economic activity is based on sustained momentum in developed economies, a stabilization of commodity prices, accommodative monetary policy in major economies and a gradual slowdown in the Chinese economy. It noted that developing economies would continue to suffer from low commodity prices, weak global trade, slow productivity growth, and would face rising borrowing costs.

The Bank projected economic growth in developing East Asia & the Pacific at 6.3% in 2016, down from 6.7% in its June 2015 forecast. It also reduced its projection to 4.2% in 2016 from 4.5% for Sub-Saharan Africa due to lower commodity prices and infrastructure constraints. It lowered its growth forecast for developing Europe & Central Asia to 3% in 2016 from 3.4% previously due to spillovers from Russia and the ongoing tensions in Ukraine. In addition, it projected economic output to grow by 0.1% in Latin America & the Caribbean relative to a previous forecast of a 2.4% growth, reflecting persistently weak commodity prices and domestic challenges. In contrast, it raised its forecast to 5.1% from 3.7% for the MENA region, supported by the expected pickup in Iran's economic activity. It maintained

its growth forecast at 7.3% in 2016 for South Asia due to improved conditions in India.

The Bank indicated that risks to the outlook persist and are more tilted to the downside than in June 2015. First, it said that a slowdown in China's economic activity, and widespread weakness across Brazil, Russia, India and South Africa could have substantial spillovers on other emerging and developing economies. Second, it pointed out that financial market turbulence due to rising borrowing costs from the increase in U.S. interest rates or to rising risk aversion could significantly impact capital flows to the more vulnerable emerging and developing economies. It noted that commodity exporters and countries with large imbalances and policy uncertainty are the most exposed to these risks.

*Source: World Bank*

## SAUDI ARABIA

### Fiscal deficit to narrow to 13% of GDP in 2016 due to reforms

The Institute of International Finance projected Saudi Arabia's fiscal deficit to narrow from an estimated deficit of 15.9% of GDP in 2015 to 12.6% of GDP in 2016, based on an average oil price of \$45 per barrel (p/b) for the year. It attributed the narrowing of the deficit to lower public spending and the mobilization of additional non-hydrocarbon revenues that would more than offset the decline in hydrocarbon income. It anticipated the authorities' measure to reduce the fiscal breakeven oil price from \$97 p/b in 2015 to about \$80 p/b in 2016.

The IIF projected public expenditures to drop by 14% due to lower capital spending and the fading impact of the one-off bonus salary payment that occurred in 2015. It anticipated authorities to restrain public-sector wages and to prioritize the procurement of goods & services. Further, it noted that authorities have announced key adjustment measures that will be implemented in 2016 onwards and that will support non-hydrocarbon revenues. It considered the government's planned measures to be ambitious, and would improve the medium-term fiscal outlook substantially, even if they are partially implemented. It added that the measures include raising fees for public services, introducing new taxes such as the recent levy on land, and privatizing public assets. It noted that authorities intend to gradually increase fuel, water and electricity prices over the next five years, which would address implicit subsidies that amounted to 8% of GDP in 2015. It estimated that the recent increase in gasoline prices could increase Aramco's transfers to the budget by 0.8% of GDP, while the increase in electricity tariffs would save 0.6% of GDP in spending. It estimated that the potential introduction of a 5% value-added tax could increase public revenues by about 1.5% of GDP, while potential privatization receipts could exceed 10% of GDP.

In parallel, the IIF projected Saudi Arabia's real GDP to slow down from 3.3% in 2015 to 1.2% in 2016 due to reduced public spending and weaker business sentiment. It forecast the public debt level to rise from 5.8% of GDP in 2015 to 16.1% of GDP in 2016. It cautioned that the fiscal deficit would widen to 16.9% of GDP in 2016 if oil prices further decrease to an average of \$35 p/b this year. In this case, it forecast real GDP growth at 1% in 2016 and the debt level at 19.8% of GDP.

*Source: Institute of International Finance*



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# ECONOMY & TRADE

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## AFRICA

### Financing conditions to become more challenging

Standard & Poor's anticipated that debt servicing cost of most Sub-Saharan Africa's (SSA) governments would absorb an increasing share of their public revenues over the next three years. It attributed the increase in debt servicing costs in SSA countries to external factors, including the depreciation of SSA currencies that has inflated foreign currency debt for several sovereigns in 2015. It added that several SSA central banks have responded to their currency depreciation by raising interest rates, which is increasing domestic borrowing costs. Also, it considered that the continued tightening of global liquidity conditions would raise the future refinancing cost of US dollar-denominated debt. In addition, it indicated that higher debt servicing cost reflects domestic factors related to the governments' fiscal performance. It anticipated the fiscal performance of most SSA sovereigns to deteriorate over the next three years, due to the rise in public spending and to the slow growth in revenues from lower commodity prices. As such, the agency anticipated that many SSA sovereigns will face difficult policy choices in coming years. It pointed out that some sovereigns would implement fiscal policies to support domestic economic conditions, given the limited effectiveness of monetary policies. It added that front-loaded consolidation can be politically difficult to implement but would help keep debt levels and debt servicing costs under control. Also, it noted that SSA sovereigns could implement looser fiscal policies but potentially at a cost of more expensive financing and constrained choices in the future.

Source: Standard & Poor's

## GCC

### Increase in interest rates to have limited impact on economic activity

Fitch Ratings indicated that Saudi Arabia, Bahrain and Kuwait's decision to increase their interest rates by 25 basis points, in line with the rise in U.S. interest rates, reflects their commitment to maintain their exchange rate pegs. It did not consider that the interest rate hikes in the three countries resulted from immediate market pressures. It anticipated that central banks in Gulf Cooperation Council (GCC) countries would seek to broadly maintain the spreads between their policy rates and the U.S. Federal Reserve's funds rate. The agency expected higher policy rates to have a limited impact on economic activity in GCC countries compared to the adverse effect of lower global oil prices. It projected the non-hydrocarbon growth rate in GCC economies to decelerate from 5% in 2014 to about 4% between 2015 and 2017 due to weak domestic confidence and reduced spending plans. Also, it forecast the GCC's median real credit growth to decelerate from over 8% in 2014 to 4% by 2017, reflecting spillovers from lower oil prices rather than higher interest rates. In parallel, Fitch indicated that the markets do not expect a currency devaluation in any of the GCC economies that could exert pressure on the government's foreign assets. It noted that the international reserve coverage ratio in Bahrain is the lowest among Fitch-rated GCC sovereigns at 3.6 months of current external payments in 2015, while it is the highest in Saudi Arabia at 25.6 months of current external payments.

Source: Fitch Ratings

## IRAQ

### Reforms essential to maintain stability

The International Monetary Fund indicated that Iraq continues to face a number of challenges that include the drop in global oil prices that has caused severe balance-of-payments and fiscal crises, and the ongoing conflict with Islamic State (IS) militants that is constraining domestic resources. It said that authorities are addressing the fall in public revenues with a mix of fiscal adjustment and financing. But it noted that the composition of the fiscal adjustment is far from ideal, as most of the adjustment is coming from capital spending rather than from current items. It considered that authorities need to reduce current expenditures in the medium term, including the oversized public-sector wage bill, in order to make room for investment spending that is conducive to non-hydrocarbon growth. It added that authorities need to continue investing in the oil sector, as it is essential to generate hydrocarbon revenues to finance most of the public spending. Further, it indicated that the government requires indirect financing from the Central Bank of Iraq, given that other sources of financing are not immediately available. It welcomed the authorities' commitment to prevent the accumulation of arrears in 2016 in contrast to the \$3.5bn accumulated last year. In parallel, the Fund said that the authorities are appropriately maintaining the peg with the US dollar, which provides a key anchor to the economy. The IMF considered that risks to the government's policies are mainly related to a further drop in oil prices, the extension of the conflict with IS militants, political tensions, and poor policy implementation. It projected the fiscal deficit to narrow from 14.5% of GDP in 2015 to 10.2% of GDP in 2016.

Source: International Monetary Fund

## TURKEY

### Markets less optimistic than government about medium-term prospects

Citi indicated that Turkey's revised Medium-Term Program (MTP) for 2016-18 is based on more optimistic trajectories than the market consensus for the country's macroeconomic indicators. It noted that authorities revised upwards their forecast for real GDP growth from 4% in 2016 and 4.5% in 2017 in October 2015 to 4.5% and 5%, respectively. It considered the government's growth forecast to be considerably more ambitious than current market expectations. Also, it said that the revised MTP forecasts a narrower current account deficit due to lower oil prices, as it projected the deficit at 3.9% of GDP in 2016 relative to 4.9% of GDP previously and at 3.7% of GDP in 2017 compared to 4.7% of GDP in October 2015. It noted that it is difficult to achieve these outcomes in the context of strong economic activity and an expected reversal in net gold exports this year. Further, Citi said that authorities revised upward their inflation target from 6.5% at the end of 2016 to 7.5% at the end of the year, but it noted that this figure is still below the 9% rate that Citi projects for end-2016. It added that it is unlikely that the inflation rate would drop to 6% by the end of 2017 and to 5% at end-2018, as projected in the revised MTP. In parallel, Citi noted that the MTP projects a fiscal deficit of 1.3% of GDP for 2016 and 1% of GDP for 2017. But it considered these targets to be ambitious due to government measures and the difficult economic environment.

Source: Citi



# BANKING

## SAUDI ARABIA

### Ratings on major banks affirmed

Capital Intelligence affirmed at 'AA-' the long-term foreign currency rating and the Financial Strength Rating (FSR) of National Commercial Bank (NCB), Al Rajhi Banking & Investment Corporation (ARB), Samba Financial Group (SAMBA) and Riyad Bank. It revised the outlook on the four banks' long-term foreign currency rating from 'stable' to 'negative', following a similar action on Saudi Arabia's sovereign ratings, while it maintained at 'stable' the outlook on all banks' FSR. The agency said that NCB's FSR is supported by its strong liquidity, improving asset quality, steady profitability and strong franchise, but that it is constrained by its relatively higher-than-average cost structure, lower-than-average capital ratios and high levels of concentration in its loans and funding. Further, it indicated that ARB's FSR reflects its strong deposit-gathering capability, solid liquidity levels, significantly better asset quality and strong capital adequacy. But it noted that ARB's FSR is constrained by the decrease in its net financing margin and profitability, as well as by a high dividend payout ratio. In parallel, it indicated that SAMBA's FSR is supported by its very strong capital ratios, solid liquidity level and improving asset quality, but is constrained by the bank's relatively weak operating profitability and its high level of loan concentration. Also, it said that Riyad Bank's FSR is supported by its very strong capital profile, robust growth in customer deposits, improved liquidity levels and growing operating profitability. But it noted that the FSR is constrained by the bank's NPLs, a softening economy and the high level of related-party exposure.

Source: Fitch Ratings

## UAE

### Banking sector to face challenging environment

Standard & Poor's indicated that the current deterioration in operating conditions for banks in the UAE is different from the 2008/09 financial crisis as it expects oil prices this time to remain low for a prolonged period of time. Also, it noted that bank regulations in the UAE and underwriting practices at UAE banks are currently stronger, while government-related entities have stronger balance sheets than in the past. S&P expected operating conditions for UAE banks to gradually deteriorate over the next several quarters or years. It anticipated businesses and governments to adopt a conservative stance as a result of low oil prices, which would weaken spending for infrastructure and private-sector investments, and weigh on bank lending. Also, it noted that lower oil prices are eroding government and public-sector deposits, which constitute the main funding source of UAE banks. As such, it projected loans to drop and liquidity to tighten in the banking sector. It added that UAE banks have increased their funding from abroad due to lower deposits, and are likely to continue this trend over the coming quarters. It forecast credit growth to slow down to about 5% to 6% in 2016 from an estimated 8% in 2015, with further downside risks. Also, it anticipated UAE banks to be risk-averse regarding lending to small and medium-sized enterprises, retail, and real estate. In parallel, S&P forecast non-performing loans at UAE banks to increase in coming quarters and credit losses to rise despite healthy loan-loss coverage ratios. It anticipated that these trends would negatively affect the banks' profitability in 2016.

Source: Standard & Poor's

## IRAN

### Banking sector in urgent need of reforms

The International Monetary Fund indicated that Iranian banks are under-capitalized and their asset quality is weak, with high non-performing loans, low provisioning and inadequate risk management systems. It added that several weak state-owned banks have increasingly relied on liquidity injection from the Central Bank of Iran, while the share of equity in banks' funding profiles has dropped. Also, it noted that the government has accumulated arrears to suppliers over the past two years, which contributed to the rise in NPLs and to higher bank credit to the government, as some contractors discounted government obligations with banks. The Fund welcomed the authorities' effort to address the financial sector's challenges, including their assessment of the banking sector's situation that revealed substantially higher levels of NPLs. It called for the restructuring of NPLs, such as through a centralized asset management company. Also, it encouraged authorities to ratify the draft bills that would strengthen the frameworks for prudential supervision and monetary policy. Further, it said that the CBI has mandated higher provisions and restricted dividend payments to protect the banks' capital. It noted that it is crucial for undercapitalized banks to present clear recapitalization plans. In addition, the Fund encouraged authorities to continue issuing government securities at marketable terms to repay or restructure these arrears. But it cautioned from the inflationary implications of clearing arrears with cash. In parallel, the IMF indicated that strengthening the anti-money laundering and combating the financing of terrorism framework would facilitate the re-integration of the Iranian financial system into the global economy, lower transaction costs and reduce the size of the informal sector.

Source: International Monetary Fund

## CÔTE D'IVOIRE

### NPL ratio at 11%, provisions at 74.5%

Figures released by the International Monetary Fund indicate that the risk-weighted capital adequacy ratio of banks operating in Côte d'Ivoire reached 9.6% at the end of June 2015, above the minimum regulatory threshold of 8%, and relative to 10.1% at the end of 2014 and 9.2% at end-2013. Seven out of the 24 banks in Côte d'Ivoire failed to meet the minimum regulatory capital requirements at the end of June 2015, but authorities have asked them to present a program and timeline for full compliance. The banking sector's liquid assets accounted for 49% of total assets at the end of June 2015, while they were equivalent to 63.7% of total deposits. Also, the banks' loans were equivalent to 52.4% of their total assets at the end of June 2015. The sector's loans-to-deposits ratio stood at 68.4% at the end of June relative to 72.8% at the end of 2014. The sector's NPL ratio was 10.6% at end-June 2015, down from 11.3% at end-2014. Also, the banks' provisions-to-NPLs ratio stood at 74.5% at end-June compared to 77.1% at end-2014. The banks' NPLs net of provisions were equivalent to 3.3% of total loans, and to 32.1% of capital at end-June 2015, up from 2.9% of total loans and 28.2% of capital at end-2014. The IMF noted that authorities have made progress in restructuring state-owned banks, but it urged authorities to take prompt actions to restructure the remaining public banks to minimize the related fiscal costs.

Source: International Monetary Fund



# ENERGY / COMMODITIES

## Oil market uncertainties to persist in 2016

ICE Brent crude oil front-month prices reached their lowest level since February 2004 to close at \$30.3 per barrel (p/b) on January 13, constituting a decline of 18.7% from the end of 2015 and of 73.7% from its most recent peak of \$115.1 p/b in June 2014. The steep drop in prices is mainly due to the large market oversupply that started in 2014. In parallel, Qatar National Bank (QNB) indicated that the oil market balance is slowly adjusting, as low prices drive consumption higher and push high-cost oil producers out of the market. It added that the pace of this adjustment process and the impact of potential new shocks will determine oil prices in 2016. QNB's baseline scenario expects oil demand to rise by 1.2 million barrels per day (b/d) in 2016, Iranian exports to increase by 0.6 million b/d by June 2016, the U.S. shale oil supply to drop by 0.4 million b/d and OPEC to maintain production at its current level of 31.7 million b/d. The bank noted that these factors would reduce the oversupply in the market from 1.6 million b/d to 0.8 million b/d. As such, oil prices would average \$44 p/b this year, down by 18.5% from an average of \$54 p/b in 2015. Also, under the bank's pessimistic scenario, oil demand is expected to grow by 0.9 million b/d, U.S. oil producers would sustain their production at current levels, Iranian production would rise by one million b/d by the end 2016, and other OPEC countries would increase their production during the year. In this case, the bank expects the excess market supply to widen and oil prices to drop by 37% to an average of \$36 p/b in 2016. In contrast, under the optimistic scenario, oil prices are forecast to drop by only 7.4% to an average of \$50 p/b this year.

Source: QNB Economics, Byblos Research

## Spending on E&P to drop in 2016

Barclays Capital expected global oil & gas companies to reduce their spending on exploration and production (E&P) by about 15% in 2016 if crude oil prices trade between \$45 per barrel (p/b) and \$50 p/b. But it said that the cuts could reach up to 20% if oil prices trade near \$40 p/b. In parallel, Moody's Investors Service forecast capital spending in upstream E&P to decline by at least 20% to 25% in 2016 if global oil and gas prices remain weak.

Source: Barclays Capital, Moody's Investors Service

## Kurdish oil exports averaged 492,117 b/d in 2015

The Kurdistan Regional Government's (KRG) crude oil exports totaled 179.6 million barrels in 2015, equivalent to an average of 492,117 barrels per day (b/d). About 77.2% of crude oil exports were extracted from fields operated by the KRG, while 22.8% came from fields operated by Iraq's North Oil Company. In parallel, KRG crude oil exports totaled 18.11 million barrels in December 2015, up by 0.5% from 18 million barrels in November.

Source: KRG Ministry of Natural Resources

## Algeria's energy export receipts down 45% in first nine months of 2015

Algeria's oil and gas exports reached 74.7 million tons of oil equivalent in the first nine months of 2015, reflecting a decrease of 2.9% from the same period of 2014. The drop is attributed to a 1.9% fall in output and to a 7.5% rise in domestic consumption. The country's energy export receipts dropped by 45% year-on-year to \$25.8bn in the first nine months of last year, and are expected to fall to \$34bn in full year 2015 and to \$26.4bn in 2016.

Source: Thomson Reuters

## Base Metals: Copper prices to drop for fifth consecutive year in 2016

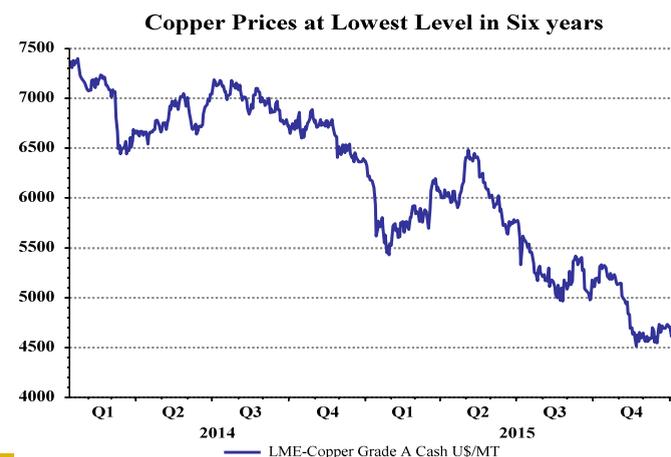
The LME cash price of copper reached its lowest level since May 2009 to close at \$4,342 per ton on January 12, 2016 due to mounting concerns of weaker economic activity in China, the world's largest copper consumer. Copper prices are forecast to average \$4,350 per ton in 2016, which would reflect a fall of 18.2% from an average of \$5,509 per ton in 2015. This would constitute the fifth consecutive annual drop since 2011. The projected decline in prices this year is due to lower consumption for the metal from China and to sustained oversupply in the market. Upside risks to the price outlook include positive data out of China and the United States. According to the International Monetary Fund, the probability of the 12-month forward copper prices dropping below \$4,410 per ton decreased to 59.2% from 64% in November 2015; while the probability of copper prices rising above \$6,614 per ton declined to 5.3% from 9.2% previously amid weak demand, particularly from China. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index increased by 3.4% last month and decreased by 27% in full year 2015, while the Copper Sub-Index rose by 4.3% in December and regressed by 25.1% last year.

Source: Barclays Capital, Bloomberg Indexes, IMF

## Precious Metals: Gold prices down 8% in 2015, lowest annual average in six years

Gold prices averaged \$1,160 a troy ounce in 2015, down by 8.4% from an average of \$1,265.8 an ounce in 2014, and constituted the lowest annual average in six years. The drop in gold prices was mainly due to the strengthening of the US dollar and to expectations of U.S. interest rate hikes. Prices are forecast to average \$1,100 a troy ounce in the first quarter of 2016, \$1,050 an ounce in the second quarter, \$1,000 a troy ounce in the third quarter and \$980 a troy ounce in the fourth quarter of the year. According to the International Monetary Fund, the probability of the 12-month forward gold prices dropping below \$1,000 a troy ounce increased to 43.2% from 37.7% in November 2015, while the probability of gold prices rising above \$1,200 a troy ounce decreased to 17% from 21% previously, reflecting a drop in investor demand for the metal. In parallel, the Bloomberg Precious Metals Total Return Sub-Index regressed by 0.9% last month and by 11.5% in 2015, while the Gold Sub-Index declined by 0.5% in December and by 10.9% last year.

Source: Deutsche Bank, International Monetary Fund, Bloomberg Indexes, Byblos Research



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Africa</b>													
Algeria	-	-	-	-	BB+	-14.8	16.6	1.6	7.3	1.0	-	-18.5	1.1
Angola	B+	Ba2	B+	-	B+	-3.5	57.4	38.3*	101.7	13.5	-	-7.6	-1.8
Egypt	B-	B3	B	B-	B-	-10.3	92.7	20.7	154.6	6.1	-	-3.8	-
Ethiopia	B	B1	B	-	B+	-2.8	22.6	24.5*	-	-	-	-12.5	3.5
Ghana	B-	B3	B	-	B+	-7.3	72.8	44.9	117	-	-	-8.7	8.2
Ivory Coast	-	Ba3	B+	-	B+	-3.7	47.9	38.8	-	-	-	-2.3	-2.1
Libya	-	-	B	-	B-	-60.8	61.8	16.3	38.7	6.5	-	-53.7	-
Dem Rep Congo	B-	B3	-	-	CCC	0.5	19.7	14.9*	-	3.4	-	-7.5	4.7
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.7	61.6	43.4	114.2	16.8	-	-2.0	2.6
Nigeria	B+	Ba3	BB-	-	BB-	-3.9	11.9	4.9	39.2	0.5	-	-1.6	0.4
Sudan	-	-	-	-	CC	-1.8	71.5	57.8	-	-	-	-5.8	-
Tunisia	-	Ba3	BB-	-	BB+	-6.5	54.4	81.5	173.0	11.5	-	-13.5	2.3
Burkina Faso	B	-	-	-	B+	-2.5	33.2	23.3*	-	-	-	-7.9	0.5
Rwanda	B+	-	B	-	B+	-3.2	32.7	25.9*	-	-	-	-10.6	3.3
<b>Middle East</b>													
Bahrain	BBB-	Baa3	BBB-	BBB-	BBB	-12.7	59.3	165.4	-	-	-	-2.6	-
Iran	-	-	-	B+	BB-	-3.1	15.7	1.8	8.2	-	-	-0.8	-
Iraq	B-	(P)Caa1	B-	-	CC+	-21.9	66.9	51.6	169.6	-	-	-13.5	-
Jordan	BB-	B1	-	BB-	BB+	-3.9	92.8	75.4	188.8	-	-	-2.7	-
Kuwait	AA	Aa2	AA	AA-	AA-	7.0	10.4	34.8	50.6	-	-	9.7	-
Lebanon	B-	B2	B	B	B-	-7.6	140.1	162.4	-	18.3	-	-14.9	5.5
Oman	BBB+	A1	-	A	A-	-15.6	8.3	22.1	35.5	-	-	-12.5	-
Qatar	AA	Aa2	AA	AA-	AA-	1.5	39.9	101.0	180	-	-	4.4	-
Saudi Arabia	A+	Aa3	AA	AA-	AA-	-21.0	8.2	16.5	41.6	-	-	-2.8	-
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-	-4.0	-	46.5	48.9	-	-	2.6	-
Yemen	-	-	-	-	CCC	-	-	-	-	-	-	-	-



# 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	IHS								
<b>Asia</b>													
Armenia	-	Ba3	B+	-	B-	-3.9	48.2	80.5	264.7	5.8	-	-4.9	3.1
	-	Negative	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-1.9	43.2	8.3	32.9	2.7	-	3.1	-
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-7.2	65.3	19.5	14.5	6.9	-	-1.4	-
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB+	Baa2	BBB+	-	BBB-	-3.2	18.1	79.8	284.8	54.3	-	-3.3	-2.5
	Stable	Positive	Stable	-	Negative								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BBB-	-2.0	28.6	101.2	142	23.2	-	1.0	-
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-1.8	40.9	65.4	133.5	21.1	-	-0.7	-
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-5.7	20.4	40.4	120.2	23.3	-	5.0	-
	Negative	-	Negative	-	Negative								
Turkey	BB+	Baa3	BBB-	BB+	BB-	-0.8	32.1	54.0	128.0	31.4	-	-4.5	-
	Negative	Negative	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-4.2	94.4	122.0	199.0	28.4	-	-1.7	-
	Negative	Negative	-	-	Negative								

\*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	27-Jan-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	18-Dec-15	No change	29-Jan-16
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	20-Jan-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	1.63	17-Dec-15	Cut 13bps	31-Mar-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	16-Dec-15	No change	03-Feb-16
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	22-Dec-15	No change	19-Jan-16
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	20-Jan-16
Ghana	Prime Rate	26.00	16-Nov-15	Raised 100bps	25-Jan-16
Angola	Base rate	11.00	21-Dec-15	Raised 50bps	25-Jan-16
Mexico	Target Rate	3.25	17-Dec-15	Raised 25bps	04-Feb-16
Brazil	Selic Rate	14.25	25-Nov-15	No change	20-Jan-16
Armenia	Refi Rate	8.75	22-Dec-15	Cut 100bnps	N/A
Romania	Policy Rate	1.75	07-Jan-16	No change	05-Feb-16
Bulgaria	Base Interest	0.01	30-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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