

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### **Tight lending conditions in fourth quarter of 2015**

The Emerging Markets Lending Conditions Index was 45.9 in the fourth quarter of 2015 relative to 45 in the preceding quarter and remained below the 50 mark, which reflects continued tight lending. The Trade Finance Index increased to 49.5 in the fourth quarter from 46.6 in the previous quarter, while the Demand for Loans Index rose to 48.6 in the fourth quarter of 2015 from 47.1 in the preceding quarter. Further, the Credit Standards Index improved to 45.4 in the fourth quarter of 2015 from 44.4 in the third quarter. In contrast, the Funding Conditions Index regressed to 41.4 in the fourth quarter of 2015 from 42 in the third quarter, while the Non-Performing Loans (NPLs) Index dropped to 42.7 in the covered quarter from 43.2 in the third quarter of 2015, with banks in Emerging Asia, the Middle East & North Africa (MENA) and Latin America expecting a further increase in NPLs in the first quarter of 2016. The Lending Conditions Index in Emerging Europe was the highest globally at 50.7 compared to 46.9 in the third quarter of 2015, while that for Emerging Asia improved to 45.7 in the fourth quarter from 42.7 in the third quarter of 2015. Also, the Lending Conditions Index for Sub-Saharan Africa dropped from 46 in the third quarter of 2015 to 45.5 in the fourth quarter; that for Latin America decreased to 43.7 in the fourth quarter of 2015 from 44.5 in the preceding quarter and that in the MENA region declined to 42.8 in the fourth quarter of the year from 45.8 in the preceding quarter.

Source: *Institute of International Finance*

#### MENA

##### **Developing and retaining talent varies across Arab world**

The INSEAD Global Talent Competitiveness Index for 2015-16 ranked the UAE in 23rd place among 109 countries globally and in first place among 10 Arab countries. It was followed by Qatar (24th), Saudi Arabia (42nd), Kuwait (51st), Jordan (70th), Tunisia (73rd), Lebanon (77th), Egypt (88th), Morocco (93rd) and Algeria (104th). The GTCI measures a country's ability to attract, develop and retain talent. It is a composite of six pillars grouped in two sub-indices that are the Talent Competitiveness Input Sub-Index and the Talent Competitiveness Output Sub-Index. A higher score on the index reflects a country's better performance in terms of talent competitiveness. The Arab countries' average score stood at 42.57 points, lower than the global average score of 46.4 points. In parallel, Qatar (17th), the UAE (18th), and Saudi Arabia (36th) were the top ranked Arab countries on the Talent Competitiveness Input Sub-Index that covers the policies, resources and efforts that a country can use to promote its talent competitiveness. Further, Saudi Arabia (45th), the UAE (47th) and Qatar (53rd) led Arab countries on the Talent Competitiveness Output Sub-Index, which measures the quality of talent that results from domestic policies, resources and efforts.

Source: *INSEAD, Byblos Research*

##### **Level of economic freedom improves**

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2016, a broad indicator of economic freedom in 178 countries, shows that economic freedom in Arab countries improved from the 2015 index. The region's average level of economic freedom stood at 62.3% relative to the global average level of 60.7%. The Gulf Cooperation Council (GCC) countries had an average score of 68.2%, while non-GCC Arab countries had an average of 57.9%. The index evaluates individual economies on the basis of 10 equally-weighted broad factors of economic freedom. The rankings of four Arab countries improved, seven declined and three were unchanged; while the level of economic freedom improved in nine countries, regressed in four economies and was unchanged in one Arab country. Bahrain remains the Arab country with the highest level of economic freedom, ranking as the 18th freest economy in the world, and is the only country in the region to rank among the top 20 worldwide. It is followed by the UAE (25th), Qatar (34th) and Jordan (46th) as the highest ranked countries in the region. In contrast, Egypt (125th), Mauritania (128th) and Algeria (154th) are the lowest ranked regional economies. Three economies came in the "mostly free" category, five countries had economies that are "moderately free" and six were "mostly unfree". Also, the economy of Algeria was upgraded to the "mostly unfree" economy category from the "repressed" category.

Source: *Heritage Foundation, Byblos Research*

##### **Corruption perception varies across region**

Global non-governmental organization Transparency International included 22 countries in the Middle East & North Africa region (MENA) on its 2015 Corruption Perception Index (CPI), which measures the perceived level of public sector corruption in 168 countries worldwide. The rankings are based on scores that range between zero and 100, with lower scores reflecting economies perceived as more corrupt. Qatar was perceived as the least corrupt country in the region and ranked in 22nd place globally. It was followed by the UAE (23rd), Israel (32nd), Jordan (45th), and Saudi Arabia (48th); while Syria and Yemen (154th each), Libya and Iraq (161st each), and Sudan (165th) were perceived as the most corrupt countries in the region. MENA countries received an average score of 38 points in 2015, lower than the global average of 43 points. The MENA region's average score was higher than the scores of Sub-Saharan Africa and of Eastern Europe & Central Asia (33 points each), but was lower than the average scores of the EU & Western Europe (67 points), Asia Pacific (43 points) and the Americas (40 points). Also, GCC countries received an average score of 56.3 points in the 2015 survey compared to 54.3 points in the 2014 survey, while non-GCC Arab countries had an average score of 28.6 points relative to 27.4 points in the 2014 survey. Transparency International considered that political corruption is the main challenge in the MENA region.

Source: *Transparency International*

# OUTLOOK

## MENA

### **Economic growth contingent on conflicts resolution**

The World Bank projected real GDP growth in the developing countries of the Middle East & North Africa region at 5.1% in 2016, unchanged from its October forecast, and significantly up from an estimated growth rate of 1.6% in 2015. 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 forecast takes into account a political resolution of the conflicts in Yemen and Libya and to some extent in Iraq and Syria, which would drive reconstruction activity, support investments and lead to higher oil exports. It expected the region's developing oil-exporters to grow by 6.3% in 2016 compared to a growth rate of 0.4% in 2015, and projected real GDP growth in oil-importers at 3.2% in 2016, down from 3.5% in the preceding year. It noted that the region's oil importers have not been able to take full advantage of low oil prices because they are facing either spillovers from regional conflicts and/or insecurity from terrorist attacks domestically. The Bank's growth forecast for the MENA region becomes 4.1% in 2016 when including GCC economies. Further, the Bank expected the fiscal deficit in the MENA oil-exporters to narrow from 9.7% of GDP in 2015 to 5.7% of GDP in 2016, while it projected the deficit in oil-importers to narrow from 7.3% of GDP in 2015 to 6.9% of GDP in 2016. It estimated that Iraq would lose more than \$40bn in both 2015 and 2016, if oil prices remain at about \$30 to \$35 p/b this year.

In parallel, the World Bank estimated output losses of the war in Syria and spillovers to Turkey, Lebanon, Jordan, Iraq, and Egypt at close to \$35bn, with Syria and Iraq incurring most of the losses. It noted that Syria's real per capita income is 23% below the level that could have been achieved in the absence of war, while Iraq's income level is 28% lower than without the war. Also, it estimated forgone per capita income growth from the spillovers of the Syrian war at 1.5% in each of Turkey, Egypt and Jordan, and at 1.1% for Lebanon.

*Source: World Bank*

## TURKEY

### **Funding and asset quality are main risks for banking sector**

Standard & Poor's anticipated funding and asset quality vulnerabilities to constitute the main risks for Turkish banks in 2016. It noted that these vulnerabilities could lead to significant problems if policy uncertainty and the external environment lead to economic stress and eroded confidence. S&P indicated that the Turkish banking industry's risks have increased due to the banks' heavy reliance on external debt that exposes them to the rapidly changing dynamics of international capital markets. It estimated the Turkish banks' gross external debt to have more than doubled since the end of 2010 to about \$200bn at the end of 2015, with half of it having short-term maturities. Also, it pointed out that external and domestic policy uncertainty exacerbate the vulnerability of the banks' funding positions. It noted that Turkey is more susceptible to actions by the U.S. Federal Reserve than by the European Central Bank, given that its foreign funding is mostly in US dollars.

Further, the agency indicated that the banks' asset quality are vulnerable to potential subdued growth prospects, as well as to policy and geopolitical developments. It cautioned that restructured and rescheduled loans, which account for about 1% of total loans, could become non-performing if economic or political risks intensify. Also, it expected credit growth to decelerate from 18.5% in 2015 to less than 16% in 2016 in the absence of lira depreciation. It attributed the slowdown in lending growth to monetary tightening, macroprudential measures that target consumer credit and lower demand for credit. In addition, it noted that the banks' asset quality has remained relatively stable in 2015 despite the 26% currency depreciation during the year. It added that this reflects the long-term nature of foreign currency lending, corporate hedging and loan restructuring. However, it considered that sustained pressure on the lira is a concern for the banks' asset quality. In parallel, it expected the banks' capitalization to come under further pressure as regulatory changes come into force in June 2016. It also projected the banks' earning margins to come under pressure due to regulatory tightening, moderate business growth, higher credit cost and tighter lira liquidity.

*Source: Standard & Poor's*

## SAUDI ARABIA

### **Non-oil growth to slow to 2.6% in 2016**

Jadwa Investment expected economic activity in Saudi Arabia to continue to slow down in 2016, driven by slower growth in the hydrocarbon and non-hydrocarbon sectors. It forecast the Kingdom's real GDP to decelerate from 3.4% in 2015 to 1.9% in 2016. It also projected real hydrocarbon GDP to grow by 0.9% this year, down from a growth rate of 3.1% in 2015. It attributed the slower growth in the hydrocarbon sector to a marginal rise in crude oil production relative to a more pronounced increase of 4.3% in 2015, as the Kingdom continues to cover its growing domestic energy consumption as well as maintain its market share in the global oil market. Also, Jadwa forecast non-oil private sector activity to slow down from a growth rate of 3.7% last year to 2.6% in 2016, as reduced government spending would negatively impact business activity. It pointed out that the non-oil private sector would continue to be the engine of growth in the economy, along with corporate lending and domestic consumption. It noted that the wholesale & retail and transport sectors are likely to be among the fastest growing sectors in 2016.

In parallel, Jadwa Investment indicated that Saudi authorities reduced the 2016 budget by SAR20bn to SAR840bn, which reflects the government's determination and ability to support economic activity despite the subdued oil price environment. It projected the fiscal deficit to widen from 15% of GDP in 2015 to 17.8% of GDP in 2016 as the budget foresees an annual decrease of 28.1% in revenues despite a contraction of 2.3% in expenditures. Jadwa pointed out that financing the deficit in the short term will mainly be through drawing down the stock of foreign assets at the Saudi Arabia Monetary Agency (SAMA) and via local and foreign debt issuances. It expected SAMA's foreign reserves to decline from \$612bn at the end of 2015 to \$500bn at end-2016. It also forecast the current account to post a deficit of 12% of GDP in 2016 relative to a deficit of 6.3% of GDP in 2015.

*Source: Jadwa Investment*



# ECONOMY & TRADE

## NIGERIA

### **Economic policies have downside risks to public finances and economic growth**

Fitch Ratings indicated that Nigeria's policy response to the drop in oil prices has downside risks to public finances and economic activity. It said that the government's economic policy includes an increase in public spending and state-related investment, revenue-side reforms, such as improved tax collection, as well as an accommodative monetary policy. It noted that the government is seeking funding from the World Bank and the African Development Bank and is considering a Eurobond issuance in the first half of 2016. Further, it indicated that the Central Bank of Nigeria (CBN) introduced exchange controls and restrictions on foreign currency, and resisted pressure for further devaluation of the naira last year, among other measures. In contrast, Fitch considered that rising borrowing and higher interest payments would further weigh on the country's fiscal position. It added that authorities would start phasing out fuel subsidies in 2016, which would partly contain the deterioration in public finances. Further, it considered that the authorities' unpredictable and unorthodox foreign exchange policy makes raising external financing more difficult, as it would discourage private and multilateral investors. It added that the persistent spread between the retail and official interbank exchange rates reflects unmet demand for US dollars in the economy. It anticipated that the private sector's inability to access sufficient hard currency would outweigh the benefits of the planned fiscal stimulus. It considered that the CBN would be unable to defend the naira indefinitely.

*Source: Fitch Ratings*

## DEM REP CONGO

### **Ratings affirmed, outlook revised to 'negative'**

Standard & Poor's revised the outlook on the Democratic Republic of Congo's (DRC) 'B-' long-term foreign and local currency sovereign credit rating from 'stable' to 'negative'. It also lowered the transfer & convertibility assessment to 'B-' from 'B'. The agency attributed the outlook revision to a potentially higher-than-expected rise in external vulnerabilities in the coming 12 months, as well as to political uncertainty and a potential rise in political tensions in the run up to the November 2016 presidential and legislative elections. It said that the sharp decline in copper prices has weakened the country's external position and that the economy remains vulnerable to a further drop in the metal's price and demand. It projected the current account deficit to widen from 8.5% of GDP last year to 10.4% of GDP in 2016. It pointed out that the economy continues to be dependent on FDI inflows, but it noted that political instability and volatility in commodity prices pose a threat to these inflows. Further, it said that foreign currency reserves fell to \$1.2bn at the end of 2015, equivalent to 1.1 months of current account payments (CAPs) and forecast them to cover 0.9 months of CAPs by 2016, which makes the economy very vulnerable to external shocks and raises the possibility of a devaluation of the Congolese franc. Further, S&P anticipated that the upcoming elections would constitute a risk to the ratings, as election delays or claims of electoral fraud would destabilize an already weak institutional and business environment, and would strain ties with international donors.

*Source: Standard & Poor's*

## UAE

### **Ratings on three emirates affirmed**

Standard & Poor's affirmed at 'AA/A-1+' the long- and short-term foreign and local currency sovereign credit ratings of the Emirate of Abu Dhabi and at 'A/A-1' those of the emirates of Ras Al Khaimah (RAK) and Sharjah. It also maintained the 'stable' outlook on all the long-term ratings. The agency indicated that Abu Dhabi's exceptionally strong net asset position provides a buffer to counter the negative impact of low oil prices on economic activity, on government revenues and on external accounts. It projected Abu Dhabi's fiscal deficit to widen from 2.5% of GDP in 2015 to an annual average of 5% of GDP during the 2016-19 period, but it forecast the Emirate's net fiscal position to remain strong at about 320% of GDP over the same period. Further, S&P indicated that RAK's ratings are supported by its strong medium-term economic outlook, which is driven by its supply of material, such as stone, mica, glass and ceramics, to large infrastructure projects in the GCC region and by rising non-GCC demand for its exports. It added that RAK's diversified economic base acts as a buffer against lower regional demand and that the government has a strong balance sheet. It forecast the Emirate's fiscal surplus at 2.5% of GDP in 2016 and for its public debt level to decline from 21.6% of GDP last year to 17.1% of GDP in 2016. In parallel, the agency noted that the Emirate of Sharjah's ratings are supported by its sustained growth and low government debt, estimated at 11.4% of GDP at the end of 2015. It said that Sharjah's economy is relatively well-diversified, which should insulate it from the impact of low oil prices on regional demand. It forecast the Emirate's fiscal deficit at 1.8% in 2016.

*Source: Standard & Poor's*

## KUWAIT

### **Substantial foreign assets to support economic activity and smooth fiscal adjustment**

The Institute of International Finance projected Kuwait's real GDP growth to accelerate marginally from 1% in 2015 to 1.4% in 2016, supported by the non-oil economy. It expected the non-hydrocarbon sector to expand by 3.2% in 2016, driven by public investments, and for hydrocarbon output to be broadly flat. It noted that the recent improvement in the working relationship between the Cabinet and Parliament, as well as the new public-private partnership law, have improved prospects for the execution of the \$130bn five-year development plan. It anticipated that Kuwait's large foreign assets, estimated at about \$630bn, or 400% of GDP in 2015, and its low public debt level of 6% of GDP would provide a cushion to smooth the needed fiscal adjustment and to support economic activity in the context of prolonged low oil prices. The IIF projected the fiscal balance, including investment income, to shift from a surplus of 0.5% of GDP in the fiscal year that ends in March 2016 to a deficit of 7.1% of GDP in FY2016/17, based on an average oil price of \$35 p/b, and to widen to 20% of GDP this year when excluding investment income. Also, it expected the current account balance to shift from a surplus of 5% of GDP in 2015 to a deficit of 16.5% of GDP in 2016. It anticipated authorities to announce reforms to fuel, electricity and water subsidies in coming months, and to impose a corporate income tax and a value-added tax.

*Source: Institute of International Finance*



# BANKING

## WORLD

### Revised market risk framework costly for banks using internal models approach

Fitch Ratings anticipated that the Basel Committee on Banking Supervision's revision of the internal models approach, which are used by most banks with large trading books to calculate market risk capital requirements, would be costly. It said that the model revision should improve risk assessment capabilities, lead to higher capital charges for hard-to-model trading positions and make it easier to compare banks' results. But it noted that changes to the model's approval process and governance would require substantial investment in technology and risk management. It indicated that banks would need to build, validate and run multiple new models on a daily basis, instead of running a single-wide model for a range of stressed and unstressed risk factors. It noted that this would increase the number of model reviews and operational runs, add to subsequent data analysis and reporting procedures, and require additional risk personnel. It pointed out that the amount of additional regulatory capital that banks would need to cover potential market risks following the revisions is uncertain. Further, the agency indicated that the Basel Committee's assessment of 44 banks that use internal models shows that the median market risk capital requirements fell by 3% under the revised approach. But it noted that the market risk capital charges under the revised approach were 28% higher for a sample of 12 internationally active banks with large trading books. The revised market risk framework will come into force in 2019.

Source: Fitch Ratings

## EGYPT

### Foreign currency measures to delay devaluation

Regional investment bank EFG Hermes anticipated that the Egyptian authorities' comprehensive approach to resolve foreign currency shortages in the country would delay the expected devaluation of the currency from the first quarter of 2016 to later in the year. It noted that the authorities' framework aims at strengthening domestic demand, rationalizing imports in favor of local products and reintroducing export subsidies. It estimated that the announced measures could potentially cut imports by between \$2.5bn and \$4bn, which would narrow the current account deficit by about 16% to 25% and, in turn, ease the pressure on foreign currency reserves. Overall, EFG indicated that authorities do not see much benefit from a weaker Egyptian pound at this stage, and that currency devaluation would result in volatility and higher inflation, which would not lead to higher capital inflows. However, it considered that such measures would limit import growth for a short period of time before accelerating due to the economy's pent-up demand and capital investments. It added that these measures are only short-term policy targets and do not negate the economy's need for a currency adjustment. It anticipated authorities to only devalue the currency once they have built a liquidity shield that could come from bilateral sources, international institutions and Eurobond issues, among other sources. It expected authorities to devalue the pound to EGP9 against the US dollar by the end of 2016 from a current rate of about EGP7.8 per dollar.

Source: EFG Hermes

## JORDAN

### Resident private sector lending up 5% in 2015

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD47.1bn or \$66.5bn at the end of 2015, constituting a rise of 5% from the end of 2014 and compared to a growth rate of 4.8% in 2014. Resident private sector claims grew by 4.8% from end-2014 to JD18.7bn, while credit facilities to the non-resident private sector regressed by 1% to JD477.1m, leading to an increase of 4.6% in overall private sector credit facilities in 2015. Lending to the resident private sector accounted for 39.6% of total assets at end-2015. In parallel, resident private sector deposits reached JD25.8bn at end-2015, constituting an increase of 7.6% from the end of 2014 relative to a rise of 8% in 2014. Also, deposits of non-bank financial institutions rose by 23% from end-2014 to JD443.2m. The government's deposits totaled JD1.3bn, down by 6.3% from end-2014, while those of public non-financial institutions increased by 43.3% to JD352.4m. Further, claims on the public sector grew by 4.5% to JD11.5bn in 2015, with claims on the central government accounting for 97% of the total. Claims on the public sector accounted for 24.4% of total assets at end-2015. Further, the banks' reserves at the Central Bank of Jordan totaled JD7.4bn or \$10.4bn, up by 7.3% from JD6.9bn at end-2014. Also, deposits with foreign banks reached JD33bn or \$4.6bn at the end of 2015, down by 0.9% from end-2014, while the sector's foreign liabilities dropped by 1% from end-2014 to JD6.7bn. Total assets were equivalent to 181.2% of GDP, private sector loans to 73.7% of GDP and private sector deposits to 99.2% of GDP in 2015.

Source: Central Bank of Jordan, Byblos Research

## TUNISIA

### Banking sector risk assessment maintained

Standard & Poor's maintained Tunisia's Banking Industry Country Risk Assessment (BICRA) in 'Group 9', its industry risk score at '9' and its economic risk score at '8'. 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. S&P noted that other countries in BICRA's 'Group 9' include Argentina, Cambodia, Kenya and Vietnam. The agency indicated that Tunisia's economic risk score reflects its "extremely high risks" in credit risks in the economy, "very high risks" in its economic resilience and "intermediate risks" in its economic imbalances. It noted that the slowdown in Europe's economic activity as well as local political and security risks have negatively affected the banks' financial performance and asset quality. Further, S&P pointed out that the industry score reflects the country's "extremely high risks" in its institutional framework, "very high risks" in its system-wide funding and "high risks" in its competitive dynamics. It forecast lending to grow by about 5% and for the NPL ratio to stabilize at about 16% in the next 12 to 24 months. It said that banking regulation, supervision and the regulatory track-record remain weak, with delays in the creation of the Asset Management Company for the banks' distressed assets. S&P indicated that the trend for economic and industry risks is 'stable'.

Source: Standard & Poor's



# ENERGY / COMMODITIES

## Oil market volatility to persist in 2016

ICE Brent crude oil front-month prices closed at \$30.3 per barrel (p/b) on February 10, constituting a decrease of 18.7% from the end of 2015 and a drop of 12.7% from the end of January 2016. The sustained drop in oil prices is attributed to uncertainties over future growth in global demand, rising global inventories and a strong US dollar. In parallel, global demand for petroleum and other liquids, which include crude oil, natural gas liquids, biofuels, and liquids derived from other hydrocarbon sources, is projected to grow by 1.3% in 2016 relative to a growth rate of 1.5% in 2015, while global production is forecast to increase by 0.5% in 2016 compared to a growth rate of 2.5% last year. As such, the oil market oversupply is expected to drop from an average of 1.84 million b/d in 2015 to about one million b/d in 2016. The sustained market oversupply is projected to add downward pressure on oil prices in the medium term. The U.S. EIA forecast Brent oil spot prices to average \$32.81 p/b in the first quarter, \$36 p/b in the second quarter, \$39 p/b in the third quarter and \$42 p/b in the fourth quarter of the year. In parallel, Goldman Sachs expected oil prices to trade at between \$20 p/b and \$40 p/b and to remain highly volatile over the next six to nine months. However, Goldman indicated that oil prices could drop below \$20 p/b as the search for a level that brings supply and demand back into balance makes prices even more volatile.

Source: U.S. Energy Information Administration, Goldman Sachs

## Nigeria's hydrocarbon export receipts down 51% in December 2015

Nigeria's crude oil & condensate export receipts totaled \$4.74bn in 2015, of which \$3.2bn were generated from crude oil exports, \$1.3bn from gas exports and \$282.8m from other receipts. In parallel, authorities used \$4.13bn in hydrocarbon receipts to pay international oil companies, while they transferred the balance of \$607.8m to the Federation Account. Hydrocarbon receipts reached \$197.2m in December 2015, down by 51% from \$402.5m in the preceding month.

Source: Nigerian National Petroleum Corporation

## Power demand to rise by 10% per year by 2020

The Arab Petroleum Investments Corporation (APICORP) expected power demand in the Arab region to grow by 9.9% annually until 2020. It said that a shortage of gas in some Arab countries and the increasing reliance on liquid fuels have added to the urgency of energy diversification. It expected net hydrocarbon importing countries and the UAE to continue to accelerate the development of their renewable energy sectors. But it said that financing has become more challenging in the current environment and these countries need to develop their regulatory framework to attract investment into the sector.

Source: APICORP

## OPEC's oil basket price down 21% in January 2016

The Organization of the Petroleum Exporting Countries' oil reference basket price reached \$26.5 per barrel (p/b) in January 2016, constituting a decrease of 21.2% from \$33.6 p/b in December 2015. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at \$31.57 p/b in January, followed by Algeria's Saharan Blend at \$31.28 p/b and Indonesia's Minas at \$30.8 p/b. Also, all 13 prices included in the OPEC reference basket fell last month.

Source: OPEC, Byblos Research

COUNTRY RISK WEEKLY BULLETIN

## Base Metals: Copper prices to drop by 21% in 2016

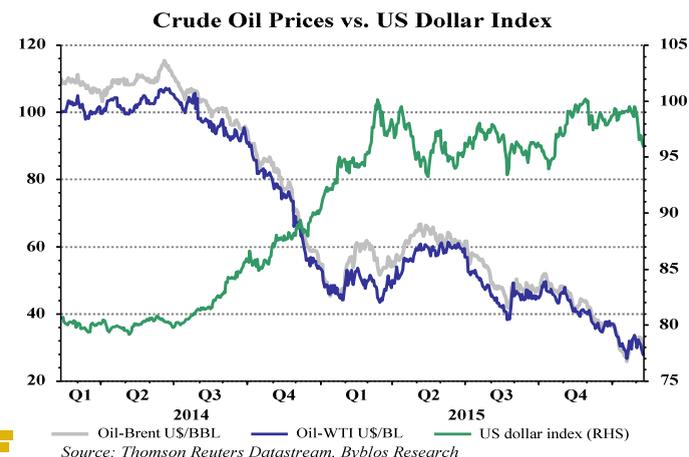
The LME cash price of copper averaged \$4,513 per ton in the first six weeks of 2016, constituting decreases of 4% from the end of 2015 and of 29% from the end of 2014. The drop is mainly due to weaker economic activity in China, the world's largest copper consumer, slowdown in global demand for the metal, and further producer cost deflation. Prices are forecast to average \$4,384 per ton in the first quarter, \$4,357.5 per ton in the second quarter, \$4,354.5 in the third quarter and \$4,352 per ton in the fourth quarter of 2016. Overall, copper prices are expected to average \$4,362 per ton in 2016, which would reflect a fall of 20.8% from an average of \$5,510 per ton in 2015. According to the International Monetary Fund, the probability of the 12-month forward copper prices dropping below \$3,310 per metric ton increased to 27.2% from 22.6% in December 2015, while the probability of copper prices rising above \$4,960 per ton decreased to 19.1% amid weak demand, particularly from China. The Bloomberg Industrial Metals Total Return Sub-Index decreased by 1.4% in January 2016, while the Copper Sub-Index regressed by 3.2% last month.

Source: International Monetary Fund, Byblos Research

## Precious Metals: Gold prices down 8.4% in 2015, global demand at \$157.1bn

Gold prices averaged \$1,160.1 a troy ounce in full year 2015, constituting a drop of 8.4% from an average of \$1,266.4 an ounce in 2014. Prices averaged \$1,218.5 a troy ounce in the first quarter, \$1,192.4 an ounce in the second quarter, \$1,124.3 a troy ounce in the third quarter and \$1,106.5 an ounce in the fourth quarter of 2015. Global gold supply decreased by 3.5% in 2015 to 4,258.3 tons, with mine production accounting for about 75% of the total. Total mine supply, which includes net producer hedging, contracted by 2.4% and recycled gold declined by 6.6% in 2015. In parallel, global gold demand regressed by 0.3% in 2015 to 4,212.2 tons, equivalent to \$157.1bn. Demand for gold jewelry totaled 2,414.9 tons, equivalent to \$90.1bn, in 2015 and constituted a decrease of 2.7% from 2,480.8 tons in 2014. It was followed by gold bar and coin investments with 1,011.7 tons (\$37.7bn), and demand from the technology sector with 330.7 tons (\$12.3bn). In addition, central banks have been net purchasers of gold for the sixth consecutive year, with total net purchases amounting to 588.4 tons in 2015. In fact, official sector institutions continued to diversify their reserve asset portfolios due to high economic and political risks, as well as to dropping oil prices, conflicts in the Middle East, and China's economic slowdown.

Source: World Gold Council, 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	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	-	-	-	BB-	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 estimates for 2015



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	27-Jan-16	No change	16-Mar-16
Eurozone	Refi Rate	0.05	21-Jan-16	No change	10-Mar-16
UK	Bank Rate	0.50	04-Feb-16	No change	17-Mar-16
Japan	O/N Call Rate	0.00-0.10	29-Jan-16	No change	15-Mar-16
Australia	Cash Rate	2.00	02-Feb-16	No change	01-Mar-16
New Zealand	Cash Rate	2.50	28-Jan-16	No change	10-Mar-16
Switzerland	3 month Libor target	-1.25(-0.25)	15-Dec-15	No change	17-Mar-16
Canada	Overnight rate	0.50	20-Jan-16	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	27-Jan-16	No Change	16-Mar-16
Taiwan	Discount Rate	1.63	17-Dec-15	Cut 13bps	31-Mar-16
South Korea	Base Rate	1.50	14-Jan-16	No change	16-Feb-16
Malaysia	O/N Policy Rate	3.25	21-Jan-16	No change	09-Mar-16
Thailand	1D Repo	1.50	03-Feb-16	No change	23-Apr-16
India	Reverse repo rate	6.75	02-Feb-16	No change	05-Apr-16
UAE	Overnight repo rate	1.25	17-Dec-15	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	0.50	16-Dec-15	Raised 25bps	N/A
Egypt	Overnight Deposit	9.25	29-Jan-16	Raised 50bps	17-Mar-16
Turkey	Base Rate	7.50	19-Jan-16	No change	23-Feb-16
South Africa	Repo rate	6.75	28-Jan-16	Raised 50bps	17-Mar-16
Kenya	Central Bank Rate	11.50	16-Jan-16	No change	14-Mar-16
Nigeria	Monetary Policy Rate	11.00	24-Nov-15	Cut 200bps	22-Mar-16
Ghana	Prime Rate	26.00	29-Jan-16	Raised 100bps	21-Mar-16
Angola	Base rate	12.00	01-Feb-16	Raised 100bps	01-Mar-16
Mexico	Target Rate	3.25	04-Feb-16	No change	18-Feb-16
Brazil	Selic Rate	14.25	20-Jan-16	No change	02-Mar-16
Armenia	Refi Rate	8.75	22-Dec-15	Cut 100bps	11-Feb-16
Romania	Policy Rate	1.75	05-Feb-16	No change	31-Mar-16
Bulgaria	Base Interest	0.00	01-Feb-16	Cut 1bps	01-Mar-16
Kazakhstan	Repo Rate	17.00	01-Feb-16	Raised 100bps	N/A
Ukraine	Discount Rate	22.00	28-Jan-16	No change	03-Mar-16
Russia	Refi Rate	11.00	11-Dec-15	No change	18-Mar-16



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