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# COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## WORLD

### More than half of banks raised trade finance capacity in 2014

The 2015 Global Survey on Trade Finance shows that 63.3% of the 482 surveyed banks globally reported an increase in their trade finance activity in 2014. It noted that the rise reflects the prevailing instability in the international trade market that results in more demand for trade finance instruments to cover potential default risks under cross-border commercial contracts. It added that 61.2 % of banks increased their capacity to satisfy their customers' demand for trade finance instruments. Further, the survey indicated that small- and medium-sized enterprises (SMEs) accounted for 45.8% of submitted trade finance applications, followed by large corporates (39.6%) and multinational companies (14.6%). It showed that 53% of declined applications were submitted by SMEs, while banks accepted 79% of trade finance transactions for larger corporates. It added that the rejection rate of trade finance proposals was the highest in Asia at 31% of all submitted proposals, followed by Africa (18%) and the Commonwealth of Independent States (15%). The survey attributed 70% of the declined transactions to Know Your Customer or anti-money-laundering regulations. It added that 46% of banks terminated their correspondent relationships because of the related costs and complexities of compliance. Also, 81% of banks cited anti-financial crimes compliance requirements as a significant obstacle to trade finance development, followed by low sovereign ratings (75%), low ratings of issuing banks (71%) and low ratings of the underlying company or obligor (62%). Also, 53% of banks believed that the difference in compliance requirements between jurisdictions is a key challenge to the trade finance industry.

*Source: International Chamber of Commerce Banking Commission*

## MENA

### Environmental performance below global average

The 2016 Environmental Performance Index indicated that Arab countries received an average score of 63.68 points on the index, lower than the global average of 67.37 points. The index assesses a country's performance on high-priority environmental issues that are divided into two core categories that are the Environmental Health and the Ecosystem Vitality. The categories measure how close a country comes to meeting internationally established targets or, in the absence of agreed targets, how nations compare to each other. The GCC countries had an average score of 67.09 points, while non-GCC Arab countries had an average score of 62.11 points. Tunisia came in first place among 19 Arab countries and in 53rd place among 180 countries globally, followed by Morocco (64th) and Jordan (74th) as the top ranked countries on the index, while Mauritania (160th), Djibouti (164th) and Sudan (170th) came in last place. In parallel, Tunisia (75th), Jordan (90th) and Algeria (93rd) were the top ranked Arab countries on the Environmental Health category, which measures environmental risks to human health. Further, Morocco (44th), Tunisia (48th) and Qatar (50th) led Arab countries on the Ecosystem Vitality category, which measures the ecosystem's health and the quality of natural resource management.

*Source: Columbia and Yale universities, World Economic Forum*

### Region's tax regimes complex and challenging

A PwC survey of 52 tax and finance executives at large companies operating in the Middle East shows that respondents consider that the region is a low taxed area. But respondents noted that the region's tax regimes can be complex and challenging to manage and that their implementation could be uncertain. The survey results show that 79% of participants said that Saudi Arabia presents the most difficult tax challenges for their company in the region, followed by Egypt (61%), Iraq (35%), Kuwait (29%) and Lebanon (23%). In addition, it indicated that 40% of participants noted that the withholding of taxes presents the biggest challenge for their companies, followed by transfer pricing regulations (31%), corporate taxes (29%), consumption taxes (20%) and tax retention payments (14%). Respondents considered that withholding taxes, the broad definition of Permanent Establishments, and claiming tax refunds or tax retention payments are the three areas of corporate taxes that present the most difficult challenges for them. The survey defines Permanent Establishments as the criteria that determine if a business is liable to pay taxes and file returns in a jurisdiction. In parallel, 60% of survey participants expected Gulf Cooperation Council countries to introduce a value-added tax by the end of 2017. Also, 60% of respondents believed that Bahrain and the UAE will start implementing a corporate income tax regime by the end of 2017. Further, 94% of participants considered that the introduction of a corporate tax in Bahrain and the UAE would impact the countries' appeal as a destination for investments.

*Source: PwC*

## IRAN

### FATF urges Tehran to address anti-money laundering deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that it remains "particularly and exceptionally" concerned about Iran's failure to address the risk of terrorist financing and the serious threat this poses to the integrity of the international financial system. It reiterated its call to all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. It also repeated its call to its members and other jurisdictions to apply effective counter measures to protect their financial sectors from the money laundering and terrorist financing (ML/FT) risks originating from Iran. The FATF also urged jurisdictions to protect against correspondent relationships being used to bypass or to evade counter measures and risk mitigation practices, and to take into account ML/FT risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction. It urged Iran to immediately and meaningfully address its AML/CFT deficiencies, in particular by criminalizing terrorist financing and effectively implementing suspicious transaction reporting requirements. It warned that, if Iran fails to take concrete steps to improve its AML/CFT regime, it will consider calling on all jurisdictions in June 2016 to strengthen counter measures.

*Source: Financial Action Task Force*

## EMERGING MARKETS

### Fiscal reforms still needed in most oil producers

Deutsche Bank anticipated that the fiscal breakeven oil prices of major emerging markets' (EM) oil producers would remain above the projected average oil price for 2016, despite fiscal adjustments. It projected Colombia's budget breakeven oil price to increase by $66.1 per barrel (p/b) to $173.6 p/b in 2016 and to be the highest among major EM oil producers. Also, it forecast Qatar's budget breakeven oil price to rise by $5.6 p/b to $54.9 p/b this year. In addition, it projected the budget breakeven oil price in Bahrain to drop by $7.6 p/b to $110.1 p/b this year, and to decline by $3.5 p/b to $85.4 p/b in Nigeria, by $10 p/b to $80.2 p/b in Oman, by $22.8 p/b to $77.6 p/b in Saudi Arabia, by $10 p/b to $73.9 p/b in Iran, by $7 p/b to $66.1 p/b in Russia, by $7.1 p/b to $62.3 p/b in the UAE, by $40.6 p/b to $54.8 p/b in Mexico and by $2.1 p/b to $47.2 p/b in Kuwait. It also projected the budget breakeven oil price of GCC economies at $65.2 p/b in 2016, down from $78.7 p/b in 2015 and $86.7 p/b in 2014.

Deutsche Bank anticipated that EM oil producers could finance their fiscal deficits by drawing down from fiscal reserves when possible, and/or by issuing more debt. It said that countries with limited buffers would require further adjustment, such as through currency devaluation or cuts in spending. It noted that Bahrain and Oman are the most vulnerable GCC countries because of their limited fiscal buffers that forced them to cut spending significantly. It added that Nigeria has an expansionary budget for 2016, but it expected authorities to devalue the currency this year.

In parallel, Deutsche Bank anticipated that the Kuwaiti government's assets would cover 122.2 years of current fiscal deficits, followed by the UAE (51.8 years), Qatar (45.2 years), Saudi Arabia (5.8 years), Iran (6.1 years), Mexico (4.9 years), Russia (3.4 years), Bahrain (2.2 years), Oman (1.5 years), Colombia (1.1 years) and Nigeria (0.1 years). It said that the last four countries would need to finance their deficits almost entirely through sovereign debt issuance and multilateral or bilateral support.
*Source: Deutsche Bank*

## EGYPT

### Banks' metrics to remain stable despite challenging operating environment

Fitch ratings indicated that it has a stable outlook on the Egyptian banking sector as it expected the banks' financial metrics to be broadly stable in 2016, despite the challenging operating environment. It noted that Egyptian banks have some of the highest exposure to sovereign debt among emerging market banks, which significantly increases the linkage between the banks and the sovereign's creditworthiness. Further, it anticipated the banks' profitability to be adequate in 2016 due to sustained strong credit growth and a stable net interest margin. It noted that banks would continue to compete for the limited number of strong corporate borrowers. It added that the banks' profitability would be driven by their large sovereign debt portfolios, which account for about two-thirds of their gross interest income. As such, it noted that a sudden and significant drop in government debt yields would damage the banks' profitability in the short term, but could help the banks adjust the structure of their balance sheet afterwards.

In parallel, Fitch indicated that the banks' asset quality metrics improved in 2015 due to accelerating credit growth and the slow accumulation of new impaired loans. It considered that a devaluation of the Egyptian pound this year is inevitable, which could lead to asset-quality problems if borrowers have insufficient revenues in foreign currency to service their debt. In addition, the agency considered that Egyptian banks maintain a strong funding and liquidity profile in local currency. But it noted that the banks' structural funding profile in foreign currency is significantly weaker, and estimated the sector's loan-to-deposits ratio in foreign currency to have increased from 60% in 2014 to about 70% in 2015. Overall, it projected the sector's loans-to-deposits ratio to remain below 45% in 2016.

Further, Fitch indicated that the Egyptian banking sector is relatively poorly capitalized due to the banks' challenging operating environment and significant lending concentrations. It noted that the sector's equity-to-assets ratio stood at 6.8% at end-June 2015, one of the weakest ratios in emerging markets. It expected the sector's capitalization to be broadly unchanged in 2016, which means that the banks would be vulnerable to large credit events.
*Source: Fitch Ratings*

## NIGERIA

### Challenging economic prospects, reforms needed

The International Monetary Fund indicated that the outlook on Nigeria's economy remains challenging amid the low oil price environment, continuous risk aversion by international investors and downside risks to the global economy. It said that the authorities' policy response has focused on supporting growth, while preserving the country's foreign currency reserves that reached $28.3bn at the end of 2015. It noted that the 2016 budget includes a significant shift in the composition of fiscal spending towards capital investment, and that the Central Bank of Nigeria has eased monetary conditions. The Fund projected Nigeria's real GDP growth to slightly accelerate from 2.8% in 2015 to 3.2% in 2016, and noted that growth could rebound to 4.9% in 2017 in case of an appropriate policy package. It forecast private sector credit growth to recover this year, which would also support economic activity. Further, the IMF projected the fiscal deficit to widen this year from an estimated 3.3% of GDP in 2015 before narrowing in 2017, while it expected the current account deficit to remain unchanged at 2.3% of GDP. It noted that key risks to the outlook include lower-than-budgeted oil prices, shortfalls in non-oil revenues, additional deterioration in the finances of the state and local governments, and a resurgence of security concerns.

In parallel, the IMF called on authorities to implement an integrated package of policies to address the sustained period of low oil prices. It noted that the policy package should target fiscal discipline, lower external imbalances, better efficiency of the banking sector and structural reforms to improve competitiveness. Also, it called on authorities to increase non-hydrocarbon revenues by improving revenue administration and broadening the tax base, to rationalize spending, to improve accountability and to gradually adjust sub-national budgets. Further, it considered that the exchange rate should reflect market forces, foreign currency restrictions should be lifted and the interbank foreign exchange market should improve.
*Source: International Monetary Fund*

# ECONOMY & TRADE

## MENA

### Insurers to weather challenging operating climate

Rating agency A.M. Best indicated that insurers in the Middle East & North Africa region have been resilient to political instability and low oil prices. It noted that many rated-insurers have successfully navigated through political instability and related economic and financial system risks, and have adopted a proactive and constantly evolving risk management approach. However, it noted that continued political instability over the medium term would require enhanced enterprise risk management capabilities and practices. Also, it anticipated that an extended period of low oil prices could weigh on insurers' growth and put pressure on their earnings. It said that a slowdown in public and private investments in the region would decelerate the growth rate of premiums. Also, it indicated that inward commissions from regional and global reinsurers for large property and engineering projects could drop due to a market slowdown. In addition, it considered that equity and real estate markets would be negatively affected by low oil prices, which would weaken the non-technical performance of insurers with large exposures to these markets. In parallel, it noted that a devaluation of GCC currencies would create significant challenges for the insurance sector over the medium term. Overall, A.M. Best did not expect the prevailing challenges to lead to a sudden deterioration in market conditions, which would allow insurers to adapt their strategies. It added that insurers have good balance sheets, which enables them to absorb market deficiencies over the near- to medium-term.

*Source: A.M. Best*

## GCC

### Governments seek alternative sources to fund infrastructure projects

Standard & Poor's projected a gap of about $50bn between planned capital spending on infrastructure projects and project contracts that would be awarded between 2016 and 2019 in Gulf Cooperation Council (GCC) countries. It anticipated that GCC economies would face challenges to finance their infrastructure spending through traditional sources. It expected deposit growth at GCC banks to decelerate, which would constrain the amount of bank funding available to support the infrastructure bill in coming years. As such, it anticipated that governments would either borrow directly or through government-related entities (GREs), or seek financial alternatives such as public private partnerships (PPPs). First, it anticipated that Gulf sovereigns could reverse their policy of deleveraging GREs in order to support infrastructure spending. Second, it cited domestic debt issuance as a measure to finance infrastructure projects as part of a larger goal for Gulf sovereigns to diversify funding sources, build debt capital markets, and slow the reduction of their foreign asset positions. Third, it pointed out that the region's governments are willing to increase the role of the private sector in financing infrastructure. It noted that Kuwait and Dubai introduced new PPP laws in 2015, while Oman is preparing regulations to enable the use of PPPs to develop major infrastructure and housing projects. It added that Saudi Arabia has already used PPPs in several projects, while the potential for PPPs in Qatar is significant given its $125bn infrastructure program.

*Source: Standard & Poor's*

### Agencies take rating actions on three sovereigns

Standard & Poor's affirmed Qatar's and Kuwait's long-term foreign and local currency ratings at 'AA' and their short-term ratings at 'A-1+', with a 'stable' outlook on the long-term ratings. It noted that it affirmed the ratings even though it reduced its oil price assumptions by about $19 p/b for the 2016-19 period. S&P anticipated that Qatar's large net asset position, estimated at about 125% of GDP in 2015, would provide a buffer to withstand the lower oil price environment. It expected Qatar's fiscal balance to shift from an average surplus of about 11.4% of GDP annually during the 2012-15 period to a deficit of about 4.1% of GDP between 2016 and 2019. Also, it forecast the current account balance to shift from an average surplus of 22.1% of GDP annually during the 2012-15 period to a deficit of 4.1% of GDP over the next four years. In parallel, S&P anticipated that Kuwait's substantial net asset position, projected at more than 400% its GDP at the end of 2016, would help it weather the additional drop in prices. It forecast Kuwait's fiscal surplus to narrow from an average of 24.5% of GDP annually over the past four fiscal years to about 8% of GDP annually between 2016 and 2019. Also, it projected the current account surplus to narrow from an average of 33.3% of GDP annually during the 2012-15 period to 11.4% of GDP during the 2016-19 period. In parallel, Capital Intelligence downgraded Oman's long-term sovereign ratings from 'A' to 'A-', and revised the outlook from 'stable' to 'negative'. It attributed its actions to the country's weaker-than-expected fiscal and external performance, as well as to its expectation that the country's credit fundamentals would gradually erode.

*Source: Standard & Poor's, Capital Intelligence*

## SYRIA

### Fiscal deficit at 28% of GDP, public debt at 156% of GDP in 2015

The Syrian Center for Policy Research (SCPR) estimated Syria's fiscal deficit to have narrowed from 41.2% of GDP in 2014 to 28.1% of GDP in 2015, reflecting the government's new fiscal policy that started in 2014. It noted that the new policy aimed to increase public revenues, mainly by liberalizing the prices of oil derivatives and basic goods like bread, as well as by raising indirect taxes and fees, such as consumption taxes and customs. As a result, it said that overall public expenditures regressed from 47.5% of GDP in 2014 to 33.5% of GDP in 2015. It pointed out that spending on public-sector wages and salaries decreased from 16% of GDP to 11.4% of GDP, spending on subsidies fell from 14% of GDP in 2014 to 5.6% of GDP in 2015 and capital expenditures dropped from 2.6% of GDP in 2014 to 1.9% of GDP in 2015; while military spending was at 13.2% of GDP last year. The SCPR estimated that the cut in subsidies and higher indirect taxes fueled inflationary pressure, which, in turn, reduced demand and raised the cost of production and imports. As such, it noted that the new fiscal policy contributed to a deeper recession in the economy. It estimated public revenues at 5.4% of GDP in 2015, down from 6.2% of GDP in 2014. In parallel, it pointed out that the public debt level regressed from 162% of GDP in 2014 to 156% of GDP in 2015. It noted that the high inflation reduced the real value of the domestic debt from 115% of GDP in 2014 to 93% of GDP in 2015, while currency devaluation increased the foreign debt from 47% of GDP in 2014 to 63% of GDP last year.

*Source: Syrian Center for Policy Research*

## JORDAN

### Construction and trade account for 42% of overall lending in 2015

Figures released by the Central Bank of Jordan indicate that credit facilities extended by commercial banks in Jordan totaled JD21.1bn, or $29.8bn, at the end of 2015, constituting an increase of 9.5% from JD19.3bn at end-2014 and compared to a rise of 1.8% in 2014. Credit in foreign currency accounted for 13.4% of the total at the end of 2015. The resident private sector accounted for 85.8% of total credit relative to 89.8% at end-2014; followed by the central government with 10.4%, up from 5.9% a year earlier; the non-resident private sector with 2.3% relative to 2.5% at end-2014; and public entities with 1.5%, down from 1.8% a year earlier. The distribution of credit by sector shows that construction represented JD4.9bn or 23.2% of the total in 2015, down from 23.6% a year earlier; while general trade represented JD3.9bn or 18.4% of the total relative to 19.1% a year earlier. They were followed by public services & utilities with JD3.2bn or 15.3% of the total; industry with JD2.1bn (10.2%); tourism, hotels & restaurants with JD593.1m (2.8%); financial services with JD515.2m (2.4%); transportation services with JD259.8m (1.2%); agriculture with JD217.1m (1%) and mining with JD170.2m (0.8%). Further, other sectors accounted for JD5.2bn, or 24.6% of total credit, of which JD178.5m were extended to buy shares. In parallel, loans & advances reached JD13.8bn at end-2015, followed by Islamic banks' receivables with JD4.7bn, overdrafts with JD2.2bn and discounted bills with JD256.4m.

*Source: Central Bank of Jordan, Byblos Research*

## SAUDI ARABIA

### Ratings on major banks downgraded

Standard & Poor's downgraded from 'A' to 'A-' the long-term foreign currency rating of National Commercial Bank (NCB), Al Rajhi Bank (ARB), Samba Financial Group (SFG), Saudi British Bank (SABB) and Riyad Bank. It also lowered from 'A' to 'BBB+' the long-term foreign currency rating of Arab National Bank (ANB) and Banque Saudi Fransi (BSF), and from 'BBB+' to 'BBB' that of the Saudi Investment Bank (SIB). The agency noted that the downgrades follow its similar action on Saudi Arabia's sovereign ratings and reflect the authorities' reduced capacity to provide timely and sufficient extraordinary support to the banks in case of need. It also noted that the banks' long-term ratings currently reflect their standalone credit profiles. It considered the banks' risk position to be 'moderate', while it estimated their funding to be 'average' and their liquidity to be 'adequate'. It assessed the capital and earnings of ARB and Riyad Bank as 'very strong', while it said that the remaining banks have 'strong' capital and earnings. S&P placed the ratings of NCB, ARB, SFG and Riyad Bank on CreditWatch negative due to the possible increase in economic risks in Saudi Arabia, which could intensify the pressure on the banks' capitalization. Also, it maintained the 'negative' outlook on SABB to reflect heightened economic risks in the Saudi economy. It expected ANB and SIB's capital position to remain stable and for their asset quality to be resilient, while it forecast BSF's business and financial profiles to be relatively unchanged over the medium term. It noted that such stability and resilience drove the 'stable' outlook on the three banks.

*Source: Standard & Poor's*

## ANGOLA

### Luanda no longer subject to monitoring for AML/CFT compliance

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Angola has made significant progress in improving its AML/CFT deficiencies. It said that Angola has established the legal and regulatory framework that was necessary to meet its commitments regarding the strategic deficiencies identified in its action plan of June 2010 and February 2013. As such, the FATF noted that Angola is no longer subject to monitoring under its on-going global AML/CFT compliance process. It noted that Angola will continue to work with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to address the full range of AML/CFT issues identified in its mutual evaluation report.

*Source: Financial Action Task Force*

## NIGERIA

### Outlook on major banks revised to 'negative', ratings affirmed

Fitch Ratings affirmed at 'B+' the long-term foreign currency Issuer Default Rating (IDR) on First Bank of Nigeria (FBN), United Bank for Africa (UBA), Guaranty Trust Bank (GTB) and Zenith Bank; at 'B' that on FBN Holdings (FBNH), Access Bank, Diamond Bank, Union Bank, Fidelity Bank and First City Monument Bank; and at 'B-' the IDR on Wema Bank. The agency revised the outlook to 'negative' from 'stable' on the long-term foreign currency IDRs of FBN, UBA, GTB and FBNH, while it maintained a 'stable' outlook on the remaining banks' IDRs. It mainly attributed the outlook revision on FBN, UBA and GTB's ratings to the authorities' weakening ability to support the banks' foreign currency obligations.

Fitch indicated that the 11 banks are operating in increasingly challenging and volatile conditions, as the drop in global oil prices led to subdued economic activity, a weaker currency and limited access to foreign currency. It added that these conditions, along with an uncertain policy response and external factors, are taking a toll on the banks' risk profiles. It anticipated that tight foreign currency liquidity, deteriorating asset quality and pressure on regulatory capital ratios would continue to pose challenges for Nigerian banks in 2016. It projected the banks' asset quality to weaken further and forecast the sector's non-performing loans ratio at between 6% and 7% this year. It noted that its forecast for the NPL ratio excludes potential significant impairments arising from the oil & gas sector. Also, it considered that a steep currency devaluation could negatively affect regulatory capital ratios, given the large share of foreign currency lending. It added that refinancing risks of Nigerian banks' foreign currency obligations have increased.

*Source: Fitch Ratings*

# ENERGY / COMMODITIES

## Crude oil prices to drop by more than 30% in 2016

The International Energy Agency (IEA) expects the oil market oversupply to continue to weigh on oil prices in the near-term. It also projects the market to balance from 2017 onwards as supply and demand for oil realign. However, it noted that despite the balancing of the market, the large stocks accumulated in recent years would still limit price increases. It said that a recovery in oil prices is unlikely in the short run, unless there is a larger-than-expected decline in non-OPEC oil production in 2016 or a major growth in demand. The IEA indicated that global oil demand increased by 1.7% to 94.4 million barrels per day (b/d) in 2015 mainly due to the steep fall in oil prices, and constituted one of the largest increases in recent years. However, demand growth was insufficient to absorb the large oil supply that reached 96.4 million b/d last year. It also forecasts global oil demand to increase by 1.2 million b/d to 95.6 million b/d this year and to reach 96.9 million b/d in 2017. In addition, it expects oil supply to grow by 0.3 million b/d to 96.7 million b/d in 2016 and to reach 97 million b/d next year. As such, the IEA forecasts the market oversupply to decrease from 2 million b/d in 2015 to an average of 1.1 million b/d in 2016 and 0.1 million b/d in 2017. In parallel, Fitch Ratings anticipates Brent and WTI crude oil prices to drop by more than 30% in 2016 to an average of $35 per barrel (p/b) each, and to gradually increase to $65 p/b in the long run.

*Source: IEA, Fitch Ratings, Byblos Research*

## Iran needs $200bn to modernize oil infrastructure

Moody's Investors Service expects Iran to face significant challenges in raising its oil production beyond 500,000 barrels per day in 2016. It considered that Iran needs to regain its customer base, attract investment to upgrade its oil fields and navigate a range of political risks. It pointed out that Iran needs between $150bn and $200bn in capital investment to modernize its ageing oil infrastructure. But the agency noted that global oil companies are currently unable to invest in new projects and need to cut capital spending through at least 2016 due to low oil prices. Moody's added that oil companies in the U.S. are prohibited from investing in Iran, as the U.S. maintains primary sanctions on the country related to terrorism and ballistic missile development.

*Source: Moody's Investors Service*

## M&A deals in metals sector at 12-year low in 2015

The total value of completed merger & acquisition (M&A) deals in the metals sector worldwide reached $11.4bn in 2015, constituting a drop of 32% from $16.8bn in 2014 and posted the lowest value since 2003. There were 321 M&A deals completed in the metals sector in 2015, down by 4.5% from 336 deals in 2014. There were 115 deals worth $3.3bn executed in the global steel industry, followed by the aluminium industry with 42 transactions worth $0.7bn and 164 deals in other metals industries for $7.5bn.

*Source: PwC*

## Middle East bar & coin demand down 10% in 2015

The Middle East region's demand for gold bars & coins totaled 64.6 tons in 2015, reflecting a drop of 10.2% from 71.9 tons in 2014, and accounting for 7.2% of global demand for bars & coins. Iran's demand for gold bars & coins was 32.4 tons in 2015 and represented 50.2% of the region's total demand. It was followed by Saudi Arabia with 15.7 tons (24.3%), the UAE with 8.5 tons (13.2%) and Egypt with 4.9 tons (7.6%).

*Source: World Gold Council, Byblos Research*

## Base Metals: Copper prices to drop further in 2016

The LME cash price of copper closed at $4,647 per ton on February 24, constituting an increase of 7.4% from its near six-year low level of $4,328 per ton on January 15, mainly due to prospects of improved industrial demand in China. However, the growth in prices is expected to be short-lived, as subdued global demand growth and a weak Chinese economy would weaken the metal's market further over the medium term. Goldman Sachs forecast copper prices to decline by 21.2% to an average of $4,339 per ton in 2016 and to drop by an additional 7.8% to $4,000 per ton in 2017. In parallel, global demand for refined copper is estimated to have decreased by 1.3% year-on-year to 20.76 million tons in the first 11 months of 2015. On a regional basis, demand for refined copper rose by about 1.5% in each of Africa and Asia, while it declined by 55% in Oceania, by 10% in Europe and by 1.5% in the Americas. The metal's global refined production rose by 1.6% to 20.81 million tons in the first 11 months of 2015. China was the main contributor to the growth in refined supply during the covered period. The refined copper market posted a production surplus of 51,000 metric tons in the first 11 months of 2015 relative to a deficit of 544,000 tons in the same period of 2014.

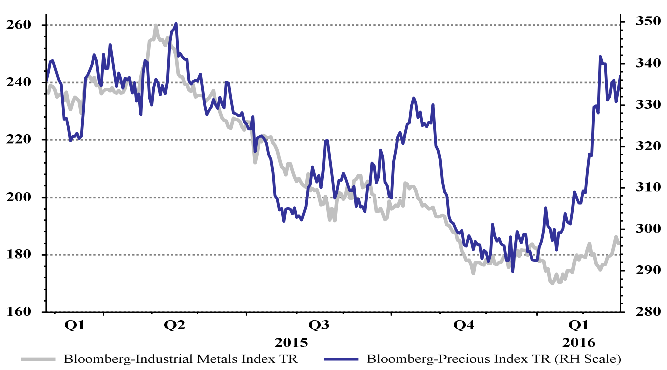
*Source: International Copper Study Group, Goldman Sachs*

## Precious Metals: Auto-catalyst demand to account for 83% of global palladium consumption

Palladium prices are forecast to average $580 per ounce in the first quarter of 2016, $620 per ounce in the second quarter, $650 per ounce in the third quarter and $660 per ounce in the fourth quarter. Overall, the metal's price is forecast to average $628 an ounce in 2016, reflecting a decrease of 9.2% from $692 per ounce in 2015, but to gradually increase to $670 an ounce in 2017, driven in part by an expected labor strike in South Africa. Global palladium production is forecast to average 8.9 million ounces in 2016, constituting a rise of 2.2% from 8.7 million ounces in 2015 and relative to a growth rate of 6.5% last year. Russia is expected to remain the world's largest producer of palladium and to account for about 29.6% of the metal's global production, followed by South Africa (26.8%) and North America (11.4%). In parallel, global palladium consumption is projected to increase by 5% to 9.5 million ounces in 2016, mainly driven by a rise in demand for vehicles and an increase in emission legislation. Auto-catalyst demand would account for 82.5% of the metal's global consumption in 2016, while that of electronics would be equivalent to 6.8% of the total. The palladium market is expected to remain undersupplied and to have an excess demand of 645,000 ounces in 2016.

*Source: Deutsche Bank, Byblos Research*

**Performance of Precious vs. Base Metals**




*Source: Thomson Reuters Datastream, Byblos Research*

# COUNTRY RISK METRICS

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

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

**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 |
| **Emerging Markets** | | | | | |
| China | One-year lending rate | 4.35 | 17-Dec-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 | 16-Feb-16 | No change | 10-Mar-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 | 23-Feb-16 | No change | 24-Mar-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-Mar-16 |
| Brazil | Selic Rate | 14.25 | 20-Jan-16 | No change | 02-Mar-16 |
| Armenia | Refi Rate | 8.75 | 11-Feb-16 | Cut 25bps | N/A |
| 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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