

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate debt of \$9.5 trillion maturing in 2016-20

Standard & Poor's estimated that \$9,508bn in corporate debt worldwide would mature between 2016 and 2020, with \$1,751bn due in 2016, \$1,930bn in 2017, \$1,872bn in 2018, \$1,864bn in 2019 and \$2,092bn in 2020. It noted that about 64% of the maturing corporate debt is denominated in US dollars, which means that the strengthening of the dollar could provide a refinancing challenge for companies that earn revenues in another currency. The U.S. has \$4,117bn in maturing debt during the covered period or 43.3% of the total; followed by Europe with \$3,725bn (39.2%), other developed countries with \$1,000bn (10.5%) and emerging markets with \$665bn (7%). Further, non-financial corporate debt that matures during the 2016-20 period totals \$5,552bn and accounts for 58.4% of the debt that matures during the covered period. In parallel, investment grade corporate debt totals \$7,245bn or 76.2% of corporate debt that matures during the covered period. Maturing corporate debt in the telecommunications sector totals \$574bn and accounts for 10.3% of total non-financial maturing corporate debt, followed by consumer products with \$543bn (9.8%), the healthcare sector with \$506bn (9.1%), utilities with \$468bn (8.4%) and media & entertainment with \$429bn (7.7%). S&P noted that the funding conditions for corporate issuers are currently tightening due to the drop in commodity prices and to the markets' volatility. As such, it expected investors to increasingly focus on the credit quality of issuers seeking funding.

Source: Standard & Poor's

MENA

Sovereign borrowing from commercial sources at \$134bn in 2016

Standard & Poor's projected the aggregate long-term sovereign borrowing from commercial sources by the 13 rated countries in the MENA region at \$134bn in 2016, which would reflect a decrease of 6.5% from \$143.2bn in 2015. It attributed the drop to an expected decline in borrowing by the Egyptian government due to fiscal consolidation. Egypt would account for 25.4% of total commercial long-term borrowing in 2016 compared to 30.3% last year, followed by Saudi Arabia (23.3%), Iraq (21.8%) and Lebanon (9.9%). S&P said that \$53bn, or 39.6% of total sovereign borrowing, would refinance maturing long-term debt, which would result in net borrowing requirements of \$80.9bn in 2016. In parallel, S&P forecast the total sovereign commercial debt stock of the 13 countries at \$667.3bn at the end of 2016 relative to \$582.4bn at end-2015, and consists of \$163bn in short-term debt and \$504.3bn in medium- and long-term debt. Egypt accounts for the highest share of the commercial debt stock with 49%, followed by Lebanon (10.8%), Morocco (9%) and Saudi Arabia (8.6%). Further, gross long-term sovereign commercial borrowing would be equivalent to 7% of the aggregate GDP of the 13 economies at the end of 2016, while the total commercial debt stock would be equivalent to 35.1% of their GDP.

Source: Standard & Poor's

Equity markets down 7% in first two months of 2016

Arab stock markets regressed by 6.6% and Gulf Cooperation Council (GCC) markets dropped by 7.1% in the first two months of 2016, compared to increases of 5.7% and 7.3%, respectively, in the same period of 2015. Arab and GCC stock markets improved by 5.3% and 6.1%, respectively, in February 2016 from the preceding month. In comparison, global equities contracted by 7%, while emerging market equities dropped by 7.1% in the first two months of 2016. Activity on the Damascus financial market grew by 12.7% in the first two months of 2016 and posted the best performance among Arab markets in the covered period. It was followed by the Tunis stock market with a 4.9% increase, the Dubai financial market with a 2.8% improvement and the Abu Dhabi equities exchange with a 1% growth. In contrast, activity on the Iraqi stock market dropped by 15.5%, the Egyptian equity market regressed by 12.3%, the Saudi stock market contracted by 11.9%, the Beirut stock exchange regressed by 10.3%, the Kuwait securities market fell by 7.3%, the Qatar stock exchange decreased by 5.1%, the Khartoum financial market contracted by 4.7%, the Bahrain bourse declined by 3.1% and the Amman stock exchange fell by 0.9%. Activity on the Oman, Palestine and Casablanca stock markets was nearly unchanged in the covered period. In parallel, the Iranian securities exchange rose by 25.7% in the first two months of 2016.

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

Quality of living varies across region

The 2016 Mercer survey on the quality of living in 230 cities around the world shows that Dubai is the city with the highest living standards in the Middle East & North Africa region, and ranked in 75th place globally. It is followed by Abu Dhabi (81st), Tel Aviv (104th), Muscat (107th) and Doha (110th) as the best cities for overall quality of living in the region; while Nouakchott (220th), Damascus (224th), Khartoum (226th), Sana'a (228th) and Baghdad (230th) are the region's least appealing cities in terms of living conditions. The study evaluates the cities on the basis of 39 key quality-of-living determinants grouped in 10 categories that include political, economic and socio-cultural factors, in addition to healthcare & sanitation, schools & education, public services & transportation, recreation, consumer goods, housing, and the natural environment. Based on the 221 cities that were included in both the 2010 and 2016 surveys, the rankings of 12 cities in the MENA region improved, 10 declined and three were unchanged from the 2010 survey. Amman's rank rose by seven spots and constituted the best improvement regionally. In contrast, the ranks of Damascus and Tripoli fell by 42 and 40 spots, respectively, representing the steepest and second-steepest declines in the world. Also, 13 cities in the MENA region ranked in the bottom third globally in 2016 and six cities ranked among the bottom 20 cities worldwide. The survey is conducted annually to help multinational companies assess international hardship allowances for their expatriate workers.

Source: Mercer, Byblos Research

POLITICAL RISK OVERVIEW - February 2016

EGYPT

Hundreds of people gathered outside Cairo's Security Directorate on February 18 after a policeman shot and killed a taxi driver. President Abdel Fattah el-Sisi called for drafting a new law or amending existing legislations to hold any policeman accountable for abuses on citizens amid mounting public anger over police brutality. President El-Sisi declared the completion of Egypt's transition to a democratic rule. But he noted that challenges remain, including the country's slow economic activity. Clashes between security forces and militant groups continued in and around the city of Cairo. An Egyptian court overturned the death sentences of 149 prisoners accused of attacking a police station in August 2013, and ordered a retrial for the defendants.

IRAN

Iranians voted on February 26 to elect the new members of Parliament, the country's legislative body, and members of the Assembly of Experts, a clerical council empowered with choosing the nation's Supreme Leader. The preliminary results of the parliamentary elections show that moderate conservatives, reformers and centrists won the majority of seats in the 290-member legislature, while hardliners won about 23% of total parliamentary seats. Run-offs will take place in April in 59 districts. President Hassan Rouhani and former President Akbar Hashemi Rafsanjani, along with 50 of their allies, won seats in the Assembly of Experts, giving them a majority in the 88-member body. The U.S. indicated that Russia's reported plan to sell combat aircraft to Iran would violate a UN arms embargo if it occurred without the UN Security Council's approval.

IRAQ

Clashes between Iraqi tribesmen and Islamic State (IS) militants erupted in the city of Fallujah, but have reportedly stopped after the IS detained more than 12 of the city's residents. Sunni fighters, backed by Kurdish forces and U.S.-led air strikes, recaptured on February 3 a village in northern Iraq that was held by IS militants. Iraqi authorities deployed thousands of soldiers to a military base near the northern Makhmur area to launch a military operation and retake the city of Mosul. IS suicide bombers continued their attacks in and around Baghdad. Prime Minister Haidar al-Abadi indicated that he is ready to resign as part of a comprehensive reshuffle of his Cabinet aimed at replacing key governing posts based on sectarian lines with technocrats. Violence and acts of terrorism in Iraq led to 670 deaths and 1,290 injuries in February 2016.

DEM REP CONGO

Youth activists and political opposition supporters held a general strike throughout the DRC on February 16th, to reject a possible third term for President Joseph Kabila. Authorities arrested at least 35 protestors before and during the strike. The Independent National Electoral Commission said on February 11 that the election of provincial governors in 21 of the country's 26 provinces will be held on March 26th. The Congolese Army and the UN Organization Stabilization Mission in the DRC resumed military cooperation against the Allied Democratic Forces militia and the Democratic Forces for the Liberation of Rwanda fighters.

LIBYA

Libya's Presidential Council named a revised line-up in mid-February for a unity government of 18 members under the UN-backed plan aimed at ending the conflict. A previous Cabinet line-up of 32 ministers was rejected by the internationally-recognized Parliament, the House of Representatives (HoR), for being too large. The U.S. and the UN expressed concerns about reported intimidation of members of Parliament (MPs) by those who oppose the proposal. Lawmakers from the HoR said that they support the unity government proposal, but were "forcibly prevented" from putting it to a vote of confidence due to the lack of a quorum, with less than the required 89 MPs showing up.

SOUTH SUDAN

The August 2015 peace deal between the government and Sudan People's Liberation Movement/Army-In Opposition (SPLM/A-IO) made some progress. President Salva Kiir appointed on February 11 SPLM/A-IO leader Riek Machar as First Vice President in accordance with the peace deal. The government and the armed opposition faction of the SPLA-IO agreed to form an interim government in the first week of March. The UN welcomed the government's commitment to implement transitional security arrangements for Juba in accordance with a proposal by the Joint Monitoring and Evaluation Commission, including the arrival of 1,370 SPLA-IO troops in Juba.

SUDAN

The government accepted the African Union High Implementation Panel's invitation to the March 16-18 meeting with armed opposition groups in Addis Ababa. The government's military campaign in the South Kordofan and Blue Nile states against rebels continued with aerial bombing and ground offensives. The Sudan People's Liberation Movement-North claimed that it killed more than 200 government soldiers in separate attacks in the Blue Nile state and 23 soldiers during an ambush of a logistics convoy in the South Kordofan state. About 41 opposition groups launched a new political coalition named the Future Forces of Change to achieve their shared goal for regime change.

SYRIA

The U.S. and Russia announced that the temporary cessation of hostilities in Syria took effect on February 27, with both the al-Assad regime and the opposition complaining of deal breaches. The truce allows for continued attacks against the Islamic State (IS) and the al-Qaeda-linked Nusra Front militant groups. Russian jets have reportedly intensified attacks on anti-regime Syrian rebel positions, hours before the cessation of hostilities came into force. The UN hopes that the cessation of hostilities will allow humanitarian aid to be sent into besieged areas and provide an opportunity to revive the peace talks. The UN special envoy for Syria plans to resume peace talks on March 9 if a cessation of hostilities "largely holds." Pro-regime airstrikes and advances around the city of Aleppo in early February prompted tens of thousands of civilians to flee to the Turkish border.

TUNISIA

President Beji Caid Essebsi consulted with former and current prominent political figures on how to avoid a political crisis, following social unrest in January 2016. The protestors called for action against youth unemployment, regional inequalities and clientelism in filling public-sector jobs, while they also called for a new government. Authorities lifted on February 4 a nationwide curfew imposed on January 22 following the worst social unrest in the country since its 2011 revolution. President Essebsi extended the state of emergency imposed in November 2015 until March 22, 2016. Tunisia completed the construction of a 125-mile barrier along its border with Libya to prevent Islamist militants from entering the country. The United Kingdom announced that it will send troops to Tunisia to help prevent Islamic State fighters from moving into the country from Libya.

YEMEN

Fighting between the Saudi-backed coalition and the Huthi/Saleh bloc continues over and around the strategic Fardhat Nihm military base, located to the northeast of the rebel-held capital Sanaa. The military stalemate has persisted as disagreement over ceasefire conditions delays the next round of UN talks. The warring parties are divided over whether a new round of peace talks should be convened with or without a new cessation of hostilities. The Islamic State and the al-Qaeda in the Arabian Peninsula continued to expand their military operations and influence in the southern parts of the country.

Source: *International Crisis Group, Newswires*



OUTLOOK

GCC

Subsidy reforms insufficient to offset drop in oil prices

Moody's Investors Service considered that subsidy reforms in Gulf Cooperation Council (GCC) economies would not be sufficient to compensate for the projected 67% fall in global oil prices between 2014 and 2016. It said that the UAE increased fuel prices in June 2015 and linked them to global oil prices. It noted that, between December 2015 and January 2016, Saudi Arabia, Bahrain and Qatar announced a one-off price increase in fuel prices, while Oman has instituted a pricing formula and updates prices on a monthly basis. It added that Kuwait announced fuel subsidy reforms that will come into effect in March 2016. The agency estimated fuel subsidy savings in Oman at 1.1% of GDP in 2016, followed by Bahrain (0.9% of GDP), Saudi Arabia (0.8% of GDP) and Qatar and the UAE (0.1% of GDP each). It considered that fiscal savings would be higher in the medium term for countries where domestic fuel prices are linked to global oil prices, or in the event of further domestic price hikes. It estimated that Saudi Arabia's fuel subsidy savings would rise to 1.5% of GDP if it increases fuel prices to the UAE's price level. Overall, the agency estimated the aggregate savings from the increase in fuel prices at 3% of GDP for GCC countries in 2016, relative to an average fiscal deficit of 13% of GDP in GCC economies.

In parallel, Moody's indicated that GCC countries have started to implement additional adjustment measures, such as curbing capital and non-strategic spending. It added that GCC governments have initiated reforms to other subsidies, such as diesel, gas, water and power. Also, it noted that GCC economies are considering other measures, such as increasing revenue streams through taxes. It considered that Bahrain, Oman and, to a certain extent, Saudi Arabia are the most vulnerable to the downturn in global oil prices given their very high fiscal breakeven oil prices and their relatively low fiscal reserves. As such, it expected fiscal adjustment measures to be more pronounced in 2016 in the three countries. It anticipated Kuwait, Qatar and the UAE to take a more gradual approach to fiscal consolidation.

Source: Moody's Investors Service

NIGERIA

Growth outlook dependent on policy response to low oil prices

BMI Research projected Nigeria's real GDP growth at 3.4% in 2016 and to average 5% during the 2017-19 period under its base scenario that assumes that oil prices would average \$40 p/b in 2016 and gradually increase to \$65 p/b by 2019. It anticipated Nigeria's policy responses to continue to make macroeconomic conditions more challenging in coming years. It said that investors are becoming increasingly wary because of the loose fiscal policy, as well as the authorities' unorthodox monetary policy measures and their refusal to devalue the currency. It noted that if authorities continue to defend the peg, it would lead to a decline in foreign currency reserves from \$29.1bn at end-2015 to \$26.2bn at the end of 2016. Still, it considered that a currency devaluation is inevitable and projected the naira to trade at NGN230 against the US dollar in the second quarter of 2016 relative to a current rate of between NGN197 and NGN199 per dol-

lar. It anticipated that the Central Bank of Nigeria would cut interest rates by 100 basis points to 10% before the end of 2016, which, along with a loose fiscal policy and currency devaluation, would keep the average inflation rate at 9.3% in 2016. It expected the gradual rise in oil prices to improve real GDP growth to 4.5% in 2017 and help increase foreign currency reserves to \$27.2bn.

Under a scenario whereby global oil prices average \$30 p/b in 2016 and gradually increase to \$60 p/b by 2019, BMI Research projected real GDP growth at 2.5% in 2016 and at an average of 4.8% between 2017 and 2019. Under this scenario, it assumes that the authorities' policy response to lower oil prices would be rapid as they would increase the policy rate to 13%, allow the naira to depreciate to NGN305 per dollar at the end of 2016, maintain spending on infrastructure, and freeze current expenditures. It anticipated that the currency devaluation would increase the inflation rate to 12.5% in 2016, which would also weigh on private consumption. But it considered that the government's prudent policy response would reassure investors in the non-oil sectors from 2017 onwards. This, along with sustained capital spending, would support economic activity and help rebuild foreign currency reserves. It noted that this would widen the fiscal deficit from 2.6% of GDP in 2015 to 4% of GDP in 2016 and 3.5% of GDP in 2017, and increase the external debt level to 7.8% of GDP in 2017. It considered that authorities would seek emergency budget support and funding from the IMF.

Source: BMI Research

AFRICA

Positive growth prospects in 2016

The United Nations projected growth in Africa at 4.4% in 2016 compared to an estimated growth rate of 3.7% in 2015, and relative to growth rates of 2.9% for the global economy and 4.3% for developing economies. It noted that economic activity would be supported by rising domestic demand, better macroeconomic management, increasing public investment, a developing services sector, and the strengthening of trade and investment ties with emerging economies. It said that major challenges for Africa include weaker growth in China and the Eurozone, low commodity prices and currency depreciation. It added that higher interest rates in the U.S. could divert investment flows from Africa. Also, it noted that weather-related shocks and security issues pose additional risks for Africa's growth performance. It forecast the inflation rate to average 6.7% in 2016, down from 7.5% in 2015.

The United Nations projected East Africa's economic growth to accelerate from 6.2% in 2015 to 6.8% in 2016, driven by sustained FDI inflows, infrastructure spending and growing domestic markets. Further, it forecast growth in West Africa at 5.2% this year, up from 4.4% last year. Still, it noted that growth remains lower than in previous years due to depressed oil prices. In addition, it expected economic activity in Central Africa to accelerate from 3.4% in 2015 to 4.3% in 2016, reflecting investment in energy and infrastructure, strong services sector and a rise in oil production. Also, it projected real GDP growth in North Africa to rise from 3.5% in 2015 to 4.1% in 2016, supported by some improvement in political and economic stability in Tunisia and Egypt. Finally, it forecast real GDP growth in Southern Africa to accelerate from 2.5% last year to 3% in 2016.

Source: United Nations



ECONOMY & TRADE

MENA

IMF recommends new taxes for region's oil exporters and importers

The International Monetary Fund claimed that taxation has risen to the top of the policy agenda of many governments in the Middle East & North Africa region. It pointed out that higher public revenues would create fiscal space that would allow for more spending on drivers of potential growth, and would help avoid volatility in public expenditures and pro-cyclical fiscal policies. First, it estimated that oil-exporters in the MENA region lost more than \$340bn in oil revenues in 2015, equivalent to about 20% of their aggregate GDP. It said that oil-exporters need to strengthen their fiscal frameworks and reform their tax systems by reducing their heavy reliance on oil receipts and by increasing non-hydrocarbon sources of revenues. It said that this would support growth and job creation, and would simultaneously maintain debt sustainability and strengthen resilience. It estimated that a simple tax system, which initially focuses on a value-added tax, could raise up to 2% of GDP in revenues per year for GCC economies. Also, it called on authorities to consider corporate income, property and excise taxes, and to continue to develop tax administration capacity that could pave the way for the introduction of a personal income tax. Second, the IMF estimated that regional oil-importers generate tax revenues of about 13% of their non-oil GDP, lower than 17% of non-oil GDP in other emerging and developing countries. It noted that oil-importers could increase revenues by broadening the tax base, making the personal income tax progressive and eliminating privileged income tax regimes.

Source: *International Monetary Fund*

OMAN

Ratings downgraded on lower oil prices

Moody's Investors Service downgraded Oman's long-term issuer rating from 'A1' to 'A3', due to the negative impact of lower oil prices on the country's public finances, external position and economic activity. It also lowered Oman's foreign currency bond ceiling from 'Aa3' to 'A2', its foreign currency deposit ceiling from 'A1' to 'A3' and its local currency country risk ceilings from 'Aa3' to 'A2'. The agency placed the ratings on review for further downgrade, reflecting the uncertainty over the pace and effectiveness of the government's policy response to the low oil price environment. It indicated that Oman's credit profile significantly weakened, mainly because of its elevated fiscal and external breakeven oil prices. It added that the country has relatively weak asset buffers, with the government's financial assets covering about three years of public spending. Further, Moody's expected the fiscal deficit to widen to about 17% of GDP in 2016 and to narrow gradually to around 13% of GDP in 2018, in case authorities implement the fiscal adjustment measures outlined in the 2016 budget. Also, it forecast the government debt level to rise from 5% of GDP in 2014 to more than 35% of GDP by 2018, and for the government's foreign assets to drop from 85% of GDP in 2015 to around 55% of GDP by 2018. It noted that this would significantly weaken the government's net creditor position from 73% of GDP in 2015 to 19% of GDP by 2018. In parallel, the agency projected the current account deficit to widen from 16% of GDP in 2015 to 25% of GDP in 2016.

Source: *Moody's Investors Service*

IRAQ

Sovereign ratings affirmed, outlook 'stable'

Standard & Poor's affirmed Iraq's long-term foreign and local currency sovereign credit ratings at 'B-' with a 'stable' outlook. Also, it affirmed the short-term ratings at 'B', and the transfer and convertibility assessment at 'B-'. S&P indicated that the ratings are constrained by the ongoing war with Islamic State militants, weak political institutions, sectarian divisions, wide fiscal and external deficits, and a rapidly rising debt level. It expected substantial fiscal and external pressures to persist in coming years despite an anticipated increase in oil production. It estimated Iraq's fiscal deficit to have widened from 5.5% of GDP in 2014 to 18% of GDP in 2015 and forecast it at 14% of GDP in 2016, reflecting lower hydrocarbon receipts and high military and humanitarian expenditures. It anticipated that the government would finance its needs in 2016 through domestic debt issuance, in addition to external financing from multilateral and bilateral creditors, as well as from a possible Eurobond offering. As such, it projected the public debt level to rise from an average of 43% of GDP during the 2012-15 period to 78.4% of GDP in the next four years. Also, it expected the current account balance to shift from an average surplus of 5.7% of GDP during the 2012-15 period to an average deficit of 5.1% of GDP between 2016 and 2019, and to be financed by drawing down foreign currency reserves and through external borrowing. Further, the agency expected the Central Bank of Iraq to maintain the dinar's peg against the US dollar, but with minor fluctuations. It projected foreign currency reserves to decrease from 8.8 months of current account payments in 2015 to 6.6 months in 2016 and 5.1 months in 2017.

Source: *Standard & Poor's*

TURKEY

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Turkey's long-term foreign and local currency Issuer Default Ratings (IDR) at 'BBB-' and 'BBB', respectively, with a 'stable' outlook. It maintained the short-term foreign currency IDR at 'F3' and the Country Ceiling at 'BBB'. It noted that the affirmation of the ratings reflect heightened geopolitical risks, very large external vulnerabilities and financing needs, comfortable growth levels relative to similarly-rated peers, as well as a double-digit inflation rate. It projected the fiscal deficit to widen from 1.2% of GDP in 2015 to 2% of GDP in 2016 due to pre-election spending commitments. But it did not expect the widening of the deficit to reverse the downward trend in the public debt level. In parallel, the agency indicated that Turkey's net external debt reached about 38.4% of GDP at end-2015, significantly higher than the median of 3.4% of GDP among similarly-rated peers, and reflecting the financing of large current account deficits. But it said that lower oil prices have driven a cyclical narrowing in the current account deficit, which it forecast at a seven-year low of 3.5% of GDP in 2016. Further, it estimated Turkey's gross external financing needs at \$197bn in 2016, which exposes the country to fluctuations in global financial market conditions. It added that gross foreign currency reserves stood at \$115.1bn at end-2015, but net reserves totaled about \$38bn. It noted that banks have sufficient sources of foreign currency liquidity to absorb a severe financing shock. It added that the external debt rollover rates continue to exceed 100%.

Source: *Fitch Ratings*



BANKING

GCC

Banks to be directly and indirectly affected by low oil prices

Moody's Investors Service anticipated that the widening gap between reduced oil receipts and high government spending in Gulf Cooperation Council countries could have direct or indirect negative credit implications for GCC banks. First, it said that the direct channel consists of a weakening in the government's capacity and willingness to provide support to banks. It noted that this would occur in case GCC governments continue to incur large deficits to a point that would affect their creditworthiness. Also, it indicated that lower sovereign financial reserves could lead to a shift in policy towards more selective support for banks, mainly for more systemically important and government-owned banks. It pointed out that Bahraini and Omani banks are already facing pressure on their credit profiles, mainly because of their weaker domestic economies and the limited resources of their governments. Second, Moody's said that the low oil price environment would affect banks on the liabilities and assets side. On the liabilities side, it noted that liquidity has been tightening due to significantly lower deposit inflows from the government and its related entities. It added that the liquidity squeeze has already pushed banks to compete more aggressively for deposits in some countries, which is increasing their funding costs and impacting their profitability. Further, the agency indicated that risks on the assets side have so far been limited, as bank lending to the energy-related sector is at about 5% of total loans across GCC countries. However, it noted that a significant slowdown in public spending would negatively affect lending growth and corporate earnings.

Source: *Moody's Investors Service*

UAE

Ratings on six banks affirmed, outlook 'stable'

Fitch Ratings affirmed at 'AA-' the long-term Issuer Default Ratings (IDR) of National Bank of Abu Dhabi (NBAD) and HSBC Bank Middle East (HBME), and at 'A+' the IDR of Emirates NBD (ENBD), First Gulf Bank (FGB), Abu Dhabi Commercial Bank (ADCB) and Union National Bank (UNB). It maintained the 'stable' outlook on the ratings. It said that HBME's long-term IDR reflects the expected support from its parent company HSBC Holdings in case of need. It noted that the long-term ratings on the remaining five banks reflect the strong ability and willingness of the authorities to support the banking sector, given the country's large sovereign wealth funds, the government's stake in a number of banks and the moderate size of the sector relative to the country's GDP. In parallel, the agency maintained at 'a-' the Viability Ratings of NBAD, at 'bbb' that of FGB, UNB and HBME, and at 'bb+' that of ADCB and ENBD. It indicated that the six banks continue to be profitable, even though some of them have started to experience pressure on margins due to a modest tightening of liquidity in the third quarter of 2015. It added that the liquidity squeeze has stabilized, and that the UAE market is very liquid and banks can increase their customer deposits if they raise interest rates. It considered the banks' funding and liquidity profiles to be strong, and their capital ratios to be adequate. But it noted that lending concentrations pose a potential risk for the banks' capitalization. It indicated that the banks' buffers would

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absorb moderate unexpected credit losses, given their high levels of pre-impairment operating profit. Further, it expected the banks' asset quality metrics to be stable this year.

Source: *Fitch Ratings*

OMAN

Loan restructuring and asset quality deterioration to drive credit cost

Regional investment bank EFG Hermes considered that Omani banks have little room to absorb a deterioration in asset quality, given their aggregate non-performing loans coverage of 125% at the end of 2015. It noted that the low provisioning buffer makes earnings vulnerable to a rise in provisioning costs. It expected corporate loan restructuring to increase, as the slowdown in economic activity and the slower payment cycle weigh on firms' cash flow. It anticipated that the Central Bank of Oman's decision to ask banks to provide a 15% provisioning charge on restructured loans would increase the provisioning cost over the short term. However, it estimated that the cost of provisioning would reverse in 2017 if the restructured loans perform as per the revised terms. Further, it noted that the banks' asset quality trends have remained manageable over the past 12 months; but it expected asset quality to deteriorate, which should drive a second wave of provisioning in the second half of 2016 and in 2017. It considered the contracting sector to pose a key asset quality risk for banks. In addition, it pointed out that capital levels across banks are sufficient, but it expected stringent capital requirements to constrain lending growth and to weigh on profitability. In parallel, EFG indicated that the sector's liquidity contracted sharply in 2015. It expected the liquidity squeeze and the increase in the funding cost to weigh on the banks' net interest spreads this year. It noted that banks have started to raise lending rates, which should partially mitigate the pressure from higher funding costs.

Source: *EFG Hermes*

MOROCCO

Capital-to-assets ratio at 9%, NPLs on the rise

The aggregate capital-to-assets ratio of banks operating in Morocco reached 9% at the end of June 2015, up from 8.8% at end-2014 and 8.6% at end-2013. The sector's liquid assets represented 14.4% of total assets at the end of June 2015 relative to 13.3% at the end of 2014 and 12.5% at the end of 2013; while they were equivalent to 14% of total short-term liabilities at end-June 2015 compared to 17.7% at end-2014 and 17.4% at end-2013. Further, the banks' lending to the private sector accounted for 91% of total loans at the end of June 2015, unchanged from 2014. In parallel, foreign currency loans accounted for 2.9% of total loans at end-June 2015, down from 3.9% at end-2014. The sector's deposit-to-loan ratio was 102.5% at end-June 2015 relative to 100.8% at the end of 2014 and 96.2% at the end of 2013. Also, the sector's non-performing loans ratio was 7.2% at the end of June 2015, up from 6.9% at end-2014 and 5.9% at the end of 2013; while the specific provisions-to-NPLs ratio increased to 66% at end-June 2015 from 65% at end-2014 and 64% at end-2013. In parallel, the banks' return on assets was 1% on an annualized basis in June 2015 relative to 0.9% in 2014; while their annualized return on equity was 10.6% in June 2015 compared to 10.2% in 2014.

Source: *International Monetary Fund*

Crude oil prices to gradually increase in 2016

ICE Brent crude oil front-month prices closed at \$35.97 per barrel (p/b) at the end of February, constituting an improvement of 3.5% from the end of January and a decline of 3.5% from the end of 2015. Further, crude oil prices reached their highest level in eight weeks at \$36.93 p/b on March 2, as various oil producers announced their willingness to freeze production at the January level. In parallel, the International Energy Agency (IEA) considered that oil prices have bottomed out and expected them to rise throughout 2016 and into 2017, as investment cuts help reduce the market oversupply. It forecast the market to begin rebalancing by 2017 onwards, as sustained low oil prices would lead oil production in the U.S. to decline. It added that if U.S. producers withstand the current low oil price environment, then the rebalancing of the market would not materialize prior to 2018. However, it expected the increase in prices to be capped in the medium term, as a rise in oil prices to between \$40 p/b and \$50 p/b would make the U.S. shale oil production economically viable again.

Source: IEA, Wall Street Journal, Byblos Research

Iraqi crude oil exports down 8% in February 2016

Preliminary figures released by Iraq's Ministry of Oil show that Iraqi crude oil exports reached 93.54 million barrels in February 2016, down by 8.1% from 101.8 million barrels in the preceding month. Also, the country's oil exports averaged 3.23 million barrels per day (b/d) in February, down by 1.8% from 3.29 million b/d in January 2016. Iraq generated about \$2.2bn in oil export receipts in the covered month, based on an average oil price of about \$23 per barrel. The figures do not include the oil that is being independently exported from Iraq's Kurdistan region since mid-2015. This has prevented the Iraqi federal government from generating additional revenues from the nearly 600,000 b/d that the Kurdish region currently produce.

Source: Iraq's Ministry of Oil, Byblos Research

Angola's oil export receipts down 54% in 2015

Figures released by the Angolan state oil company Sonangol indicate that Angola's crude oil production reached 649.5 million barrels in 2015, up by 6% year-on-year and equivalent to an average daily output of 1.78 million barrels. Further, Angola's oil exports reached 223.6 million barrels last year and generated \$11.18bn in revenues that decreased by 54% year-on-year. The steep decline in oil export earnings was due to a 12% decrease in the volume of exports and a 48% drop in average global oil prices year-on-year. In parallel, natural gas production fell by 8% to 507,293 metric tons in 2015.

Source: Sonangol

Middle East's gold demand down 8% in 2015

The Middle East region's demand for gold totaled 288.8 tons in 2015, down by 7.6% from the preceding year, and equivalent to 8.4% of global demand for the metal. The region's demand for gold reached 86.5 tons in the first quarter, 68.5 tons in the second quarter, 71.2 tons in the third quarter and 62.6 tons in the fourth quarter of 2015. Saudi Arabia's demand for gold was 84.5 tons last year and represented 29.3% of the region's total demand. It was followed by Iran with 70.9 tons (24.5%), the UAE with 58.4 tons (20.2%) and Egypt with 41.4 tons (14.3%).

Source: World Gold Council, Byblos Research

Base Metals: Aluminium prices to ease in 2016

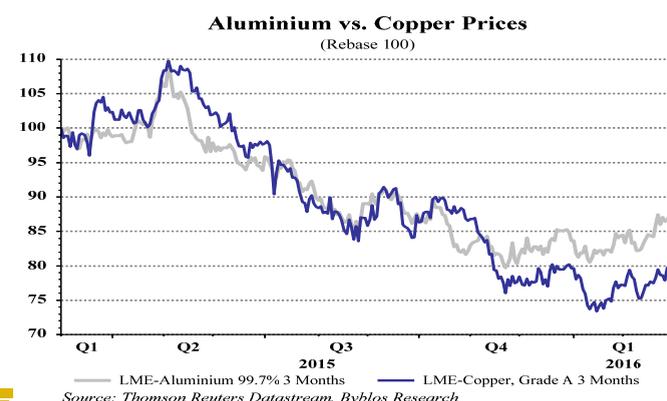
The LME three-month aluminium future prices closed at \$1,589 per metric ton on March 2, constituting its highest level in five months, driven by investors' optimism that global economic growth will pick up this year. The price increase was supported by better-than-expected U.S. manufacturing data, as well as by China's cutting the banks' reserve requirement ratio and implementing structural reforms that helped real estate prices rise. However, the price increase is expected to be short-lived and would not be sustainable in the long-run. As such, aluminium prices are forecast to average \$1,500 per metric ton in 2016, which would reflect a drop of 10.8% from an average of \$1,682 per metric ton in 2015 due to a very large inventory stockpile in the market. The aluminium market has benefitted the most from the recent financial turmoil and has gained market share from copper and zinc, given its low production cost. But global aluminium stocks grew to around 15 million tons, which is weighing on the metal's price. In addition, global demand for the metal is projected to grow by 4.9% in 2016 to 59.4 million tons, while aluminium production is expected to rise by 3% to 59 million tons this year. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index increased by 3.3% in February 2016 and by 1.9% in the first two months of 2016, while the Aluminium Sub-Index grew by 3.3% last month and by 3.9% from end-2015.

Source: Sucden Financials, Thomson Reuters, Byblos Research

Precious Metals: Gold prices post highest monthly growth rate in four years

Gold prices closed at \$1,233 a troy ounce at the end of February, up by 10.4% from the previous month, and constituting the highest monthly growth rate since January 2012. The double-digit rise is due to increased investors' demand for the safe haven asset on the back of weak Chinese manufacturing results and news of downside risks to the U.S. economic outlook. The metal's price also grew by 16% from the end of 2015 amid global financial market volatility and concerns of a global economic slowdown. However, prices were nearly unchanged in the first two days of March to close at \$1,235 a troy ounce on March 2, as better-than-expected U.S. manufacturing data strengthened the US dollar and added pressure on the metal's price. Goldman Sachs forecast gold prices to drop for a fourth consecutive year and to reach \$1,000 per troy ounce by the end of 2016. It expected the U.S. Federal Reserve to raise interest rates this year, which would push investors to shift positions away from the safe haven asset towards yield-bearing assets.

Source: Wall Street Journal, Goldman Sachs



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								
Africa													
Algeria	-	-	-	-	BB+	-12.2	25.4	3.6	15.8	-	-	-15.6	1.0
Angola	B	Ba2	B+	-	B+	-1.4	53.0	36.4*	90.8	7.3	14.4	-5.6	2.0
Egypt	B-	B3	B	B-	B-	-10.3	92.7	20.7	154.6	10.0	302.8	-3.8	2.6
Ethiopia	B	B1	B	-	B+	-2.8	23.5	25.4*	159.6	4.3	634.6	-9.3	4.1
Ghana	B-	B3	B	-	B+	-5.3	72.4	44.3	110.4	10.3	371.8	-7.4	7.7
Ivory Coast	-	Ba3	B+	-	B+	-3.5	45.1	29.0	62.9	2.7	169.6	-2.9	2.9
Libya	-	-	B	-	B-	-47.7	108.8	17.4	38.9	-	-	-44.8	-3.8
Dem Rep Congo	B-	B3	-	-	CCC	0.0	21.5	16.0*	41.6	2.1	6.5	-7.7	4.6
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	64.4	32.7	114.4	6.3	185.6	-8.0	4.8
Nigeria	B+	Ba3	BB-	-	BB-	-4.7	13.8	5.6	80.2	0.7	63.2	-3.8	1.2
Sudan	-	-	-	-	CC	-1.3	74.0	43.5	-	-	-	-6.9	1.6
Tunisia	-	Ba3	BB-	-	BB+	-5.5	56.2	84.8	179.6	15.7	423.9	-12.7	4.1
Burkina Faso	B-	-	-	-	B+	-3.0	32.2	23.8*	-	-	-	-7.8	0.8
Rwanda	B+	-	B	-	B+	-3.1	34.8	27.0*	-	-	-	-9.6	3.2
Middle East													
Bahrain	BB	Baa3	BBB-	BBB-	BBB	-11.3	67.6	159.0	-	24.6	-	-3.3	-0.2
Iran	-	-	-	BB-	BB-	-2.8	16.4	1.9	8.8	-	-	-1.8	-
Iraq	B-	(P)Caa1	B-	-	CC+	-17.5	79.1	54.7	178.3	-	-	-12.4	-
Jordan	BB-	B1	-	BB-	BB+	-3.2	92.5	76.6	187.5	10.5	177.3	-1.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-	-7.1	12.5	28.9	-	10.5	107.6	-16.5	-8.4
Lebanon	B-	B2	B	B	B-	-8.4	142.2	165.5*	-	23.4	151.1	-16.2	1.3
Oman	BBB	A3	-	A-	A-	-14.5	10.5	25.3	41.1	5.6	-	-11.8	-1.0
Qatar	AA	Aa2	AA	AA-	AA-	-4.3	44.0	113.7	254.2	24.9	-	-13.6	-1.8
Saudi Arabia	A-	Aa3	AA	AA-	AA-	-12.7	16.1	17.1	53.5	4.2	-	-11.0	0.8
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-	-2.1	51.9	48.3	50.9	4.0	-	2.4	1.1
Yemen	-	-	-	-	CCC	-35.3	-	43.9	-	-	197.2	-10.5	-0.2

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-	-3.9	48.3	81.6	168.2	23.6	612.8	-6.4	3.8
	-	Negative	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-6.0	47.1	22.9	112.4	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-0.2	22.8	127.9	325.8	33.6	824.6	-2.2	3.5
	Negative	Positive	Stable	-	Negative								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB-	-1.6	29.6	89.9	135.0	28.0	236.3	0.2	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-2.6	41.5	49.4	101.0	14.4	224.0	-1.5	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.9	21.0	40.4	98.2	19.6	150.3	5.4	-1.7
	Negative	-	Negative	-	Negative								
Turkey	BB+	Baa3	BBB-	BB+	BB-	-0.8	32.6	54.4	154.2	19.8	405.8	-4.7	0.7
	Negative	Negative	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-3.7	92.1	139.5	211.4	22.4	663.6	-1.7	1.1
	Negative	Negative	-	-	Negative								

*to official creditors

Source: International Monetary Fund; IHS Global Insights; Institute of International Finance; Moody's Investors Service; Byblos Research - The above figures are forecasts for 2016



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	01-Mar-16	No change	05-Apr-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	29-Feb-16	No change	28-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-Mar-16	No change	01-Apr-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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