

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Venture capital investments up 13% to \$34bn in first quarter of 2016

Preliminary figures released by research provider Preqin indicate that investments by venture capital (VC) funds in start-up companies totaled \$34.3bn in the first quarter of 2016, constituting an increase of 28% from \$26.8bn in the fourth quarter of 2015 and a rise of 12.8% from \$30.4bn in the first quarter of last year. A total of 2,403 VC deals took place in the first quarter of 2016, up by 1.6% from 2,366 deals in the preceding quarter and by 1.3% from 2,371 deals in the same quarter last year. Preqin noted that 29% of the deals that were completed in the first quarter of this year were at the angel or seed stage. The number of VC deals in North America accounted for 39.8% of VC transactions worldwide, followed by China (18.8%), Europe (18.1%), India (12.1%) and Israel (2.3%), while the rest of the world represented the remaining 8.9% of transactions. The Internet sector attracted 25% of VC investments in the first quarter of 2016, followed by the software industry (18%), the telecommunications sector (17%) and healthcare (14%). In parallel, the aggregate value of exits from venture capital-backed companies reached \$17.2bn in the first quarter of 2016, down by 38.3% from \$27.9bn in the preceding quarter and by 2.8% from \$17.7bn in the same quarter of 2015. VC funds exited 265 investments in the first quarter of this year, down by 12.8% from 304 exits in the fourth quarter of 2015 and by 6% from 282 exits in the first quarter of last year. VC funds exited 205 investments through trade sales in the first quarter, equivalent to 77.4% of total exits, followed by IPOs and follow-ons with 28 investments (10.6%), and sale to other general partners and write-offs with 16 investments each (6% each).

Source: Preqin

EMERGING MARKETS

Total debt issuance at \$75bn in first quarter of 2016

Emerging markets issued \$74.9bn in sovereign and corporate bonds in the first quarter of 2016. Issuance in Asia reached \$29.7bn or 39.7% of the total, followed by Latin America with \$26.2bn (35%), Emerging Europe, the Middle East & Africa (EEMEA) with \$16.9bn (22.6%), and Gulf Cooperation Council (GCC) countries with \$2.1bn (2.8%). Further, EM corporates issued \$43bn in bonds in the first quarter of the year, equivalent to 57.4% of total sovereign and corporate bond issuance. Asia issued \$25.2bn or 58.6% of total corporate issuance, followed by Latin America with \$12.1bn (28.1%), the EEMEA with \$4.7bn (10.9%) and GCC countries with \$1bn (2.3%). In parallel, EM sovereigns issued \$31.9bn in Eurobonds, or 42.6% of total sovereign and corporate bond issuance in the covered period. Latin America issued \$14.1bn or 44.2% of total sovereign issuance, followed by the EEMEA region with \$12.2bn (38.2%), Asia with \$4.5bn (14.1%) and GCC economies with \$1.1bn (3.4%). Merrill Lynch projected sovereign bond issuance in emerging markets at \$121.5bn in 2016, which would constitute a rise of 41.6% from \$85.8bn in 2015. It expected issuance in Latin America to reach \$38bn, followed by the EEMEA region with \$35bn, Asia with \$14.2bn and GCC countries with \$9bn.

Source: Merrill Lynch

MENA

Equity markets down 5% in first quarter of 2016

Arab stock markets regressed by 4.6% and Gulf Cooperation Council (GCC) markets declined by 5.2% in the first quarter of 2016, compared to decreases of 0.8% and 0.3%, respectively, in the same quarter of 2015. Arab and GCC stock markets improved by 2.2% and 2.1%, respectively, in March 2016 from the preceding month. In comparison, global equities contracted by 0.5%, while emerging market equities grew by 4.3% in the first quarter of 2016. Activity on the Damascus Securities Exchange grew by 17.3% in the first quarter of 2016 and posted the best performance among Arab markets in the covered period. It was followed by the Tunis Bourse with a 7.5% increase, the Egyptian Exchange with a 7.4% improvement, the Dubai Financial Market with a 6.5% growth, the Casablanca Stock Exchange with a 4.5% rise, the Abu Dhabi Securities Exchange with a 1.9% increase, the Muscat Securities Market with a 1.1% growth and the Amman Stock Exchange with a 0.7% improvement. In contrast, activity on the Iraq Stock Exchange dropped by 26.3%, followed by the Saudi Stock Exchange with a 10% contraction, the Bahrain Bourse with a 7% decline, the Kuwait Stock Exchange with a 6.9% drop, the Palestine Exchange with a 5% decrease, the Beirut Stock Exchange with a 4.7% decline, the Khartoum Stock Exchange with a 4.3% contraction and the Qatar Stock Exchange with a 0.5% drop. In parallel, the Tehran Stock Exchange rose by 32.1% in the first quarter of 2016.

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

Tourism sector to account for 8.1% of GDP in 2016

The World Travel & Tourism Council expected the Middle East's tourism sector to account for 8.1% of GDP in 2016 and to rise to 9.2% of GDP in 2026. It forecast the broad tourism & travel (T&T) economy to generate demand of \$203.1bn in 2016 and to reach \$328.2bn by 2026 in constant 2015 prices. It projected the sector's real growth rate at 4.4% in 2016 and to average a real expansion rate of 4.9% annually during the 2016-26 period. The WTTC forecast leisure travel spending to total \$114.8bn in 2016 and to grow by a real rate of 4.9% annually to \$184.4bn in constant prices by 2026. It also forecast business travel spending to reach \$23.9bn this year, and to grow by a real rate of 4.4% annually to \$36.7bn in constant prices by 2026. It estimated capital investment in the T&T economy at \$43.9bn in 2016 and at \$74.5bn in constant 2015 prices within 10 years. Further, it forecast the export of tourism services at \$74.6bn this year and at \$123.2bn in constant 2015 prices by 2026, which would account for about 6.5% of the region's total exports in 2016 and for 6% of exports in 2026. It said the T&T industry will provide jobs to 6.1 million people, equivalent to 7.9% of the region's total employment in 2016, with the figure rising to 8.5 million jobs or 8.4% of employment by 2026.

Source: World Travel & Tourism Council

POLITICAL RISK OVERVIEW - March 2016

EGYPT

President Abdel Fattah el-Sisi convened an emergency security meeting to discuss the recent increase in militant attacks in the Sinai Peninsula. An Egyptian-led committee tasked with investigating the October 2015 crash of a Russian passenger plane in Sinai concluded that the plane was brought down intentionally. President al-Sisi swore in 10 new ministers on March 23 in a Cabinet reshuffle, including the finance, investment and justice ministers. The new Cabinet consists of 34 ministers. A judicial commission ordered a freeze on the assets of three investigative journalists and a top human rights advocate. The UN's High Commissioner for Human Rights expressed concerns over Egypt's prosecutions of human right activists.

IRAN

The Revolutionary Guards launched on March 8 several ballistic missiles from silos across the country as part of a military exercise, violating the UN Security Council Resolution 2311 and causing France and the U.S. to threaten new sanctions. Iran's UN ambassador denied the violation and Russia promised to veto new sanctions. Supreme leader Ayatollah Ali Khamenei indicated that Iran's missile program is essential to the country's future. President Hassan Rouhani made his first visit to Pakistan since he was elected in 2013.

IRAQ

Iraq's military campaign against the Islamic State (IS) militant group in the Anbar and Ninewa provinces continued. Also, Iraqi forces launched an offensive against IS militants to retake the city of Hit in the western province of Anbar. The IS group has reportedly launched two chemical attacks near the northern Iraqi city of Kirkuk, wounding 600 persons and causing hundreds more to flee. An IS rocket attack killed one U.S. marine stationed at the U.S. Makhmour base outside the IS's hub of Mosul. Thousands of protesters gathered in Baghdad to protest Prime Minister Haider Al-Abadi's delay in announcing a new Cabinet line-up. Prime Minister Abadi pledged on March 29 to carry out governmental reforms. Violence and acts of terrorism in Iraq led to 1,119 deaths and 1,561 injuries in March 2016.

DEM REP CONGO

The country's political crisis continued due to a lack of progress toward a dialogue between the ruling coalition and the opposition. The Independent National Electoral Commission (CENI) indicated that it will file a petition with the constitutional court to delay the country's November 2016 presidential and legislative elections due to extensive voter roll update. Also, a leading opposition group, the G7, endorsed former Governor of Katanga Province Moïse Katumbi as its presidential candidate. Mr. Katumbi urged President Joseph Kabila to step down from power once his second term in office comes to an end in December 2016. In parallel, candidates from the ruling party were elected as governors and deputy governors in 14 out of the nation's 21 newly-established provinces. The CENI said that the vote in the Sud Ubangui Province was delayed, while that in the Nord Ubangui Province was extended to a second round run-off. The final results will be published on April 12, 2016.

LIBYA

UN-backed Prime Minister Fayeza Seraj arrived on March 30 to Tripoli after the U.S. and several European countries recognized the new Government of National Accord (GNA) as the country's only legitimate government. Anti-GNA militias suspended flights at Tripoli's Mitiga airport and fired anti-aircraft munitions in the area, as clashes between anti- and pro-GNA groups were renewed in the city. The GNA still lacks support from the internationally-recognized Parliament and from powerful military factions in eastern Libya. Commanders of armed brigades in Tripoli rejected the GNA and denounced efforts being exerted by some parties to install that government in the capital.

SOUTH SUDAN

Initial steps to implement the August 2015 peace deal raised the prospects for the formation of a transitional government of national unity in April 2016. The first group of Sudan People's Liberation Movement/Army-In Opposition forces arrived in Juba on March 28 to prepare for the return of their leader, First Vice President-designate Riek Machar. President Salva Kiir dismissed Foreign Affairs Minister Barnaba Marial Benjamin without providing reasons for his decision. Under the peace agreement, former political detainees have previously nominated their leader Deng Alor Kuol to be the Foreign Minister in the transitional government.

SUDAN

The government and the African High-Level Implementation Panel (AUHIP) signed a roadmap agreement toward peace talks, a ceasefire in contested areas and to start a national dialogue. Four opposition groups including the rebel Sudan People's Liberation Movement-North (SPLM-N), the National Umma Party, the Justice and Equality Movement and Sudan Liberation Movement-Minni Minnawi declined to sign the agreement, describing the AUHIP-brokered deal as a "government document". Fighting between the Sudanese Army and SPLM-N forces intensified in the South Kordofan state. Sudan announced on March 29 the closure of its border with South Sudan.

SYRIA

Russian President Vladimir Putin ordered on March 14 the partial withdrawal of its armed forces from Syria, claiming that the military campaign has achieved its objectives in the country. He added that he could increase his military presence "within a few hours" if needed. Russia indicated that it was keeping its new air base in the coastal province of Latakia, in addition to the naval refueling station in the city of Tartus. Violence decreased substantially across the country, following the ceasefire agreement on February 27, despite regular breaches from warring parties. The decrease in violence enabled the return of peaceful anti-regime demonstrations in rebel-held areas. UN-mediated peace talks resumed on March 14, as the Syrian opposition announced that it is "not against" direct talks with the regime. The head of the regime's delegation reiterated on March 21 that he will not agree to opposition demands for President Bashar al-Assad to stand aside as part of rebuilding a new Syria. Attacks against the Islamic State (IS) and the al-Qaeda-linked Nusra Front militant group continued. Regime forces backed by Russian airstrikes recaptured the IS-held city of Palmyra.

TUNISIA

Islamic State fighters attacked on March 7 a police station and military barracks in the town of Ben Guerdane near the Libyan border, which killed at least 50 persons. Tunisian security forces killed at least 35 jihadists during the coordinated attacks. The government closed its two border crossings with Libya following the attacks and reopened them after two weeks. Tunisia extended for three months the State of Emergency imposed following the November 2015 bomb attack on a bus in Tunis.

YEMEN

The UN Special Envoy for Yemen announced on March 23 that the Saudi-led coalition and the Huthi/Saleh bloc agreed to a nation-wide cessation of hostilities beginning on April 10, in advance of the upcoming round of peace talks scheduled for April 18 in Kuwait. The talks aim to reach a comprehensive agreement, which will end the conflict and allow the resumption of inclusive political dialogue in accordance with UN Security Council Resolution 2216 and other relevant UN resolutions. Ceasefire agreements and commitment to talks in April raised hopes for a possible de-escalation of the conflict. Saudi Arabia announced that it exchanged prisoners with Yemen's Huthi movement.

Source: International Crisis Group, Newswires



OUTLOOK

MENA

Economic growth to decelerate without reforms

The International Monetary Fund indicated that the key challenges for non-Gulf Cooperation Council countries in the Middle East & North Africa region are to increase living standards and create more jobs, as their youth unemployment rate exceeds 20% and is the highest in the world. It estimated the average long-term growth prospects in non-GCC MENA oil exporters to decline by 3.25 percentage points during the 2015-20 period from the average growth rate during the 2003-07 period, and for the growth rate in MENA oil importers to drop by about 0.75 percentage points during the same period. As such, it called on authorities to improve the business environment by fighting corruption, as well as to lower the cost of doing business and reduce favoritism by reforming business regulations, tax codes and bureaucratic red tape. It added that the privatization of state-owned enterprises in the electricity, transport, services, telecommunications and banking sectors would improve the quality of services, lower their costs and reduce the government's liabilities and fraud.

Further, the Fund encouraged non-GCC MENA countries to develop their labor force by improving the quality of their education systems and by leveraging their widespread Diaspora. In addition, it considered that improving the soundness of banks, raising access to finance, and ensuring the legal rights of investors would help support the growth of small- and medium-sized enterprises (SMEs). It noted that financial markets' support for SMEs would help build physical capital and would shift growth models from state-dominated economies to private sector-driven ones.

In parallel, the IMF called for improving the quality of public infrastructure by reallocating spending from untargeted subsidies and public sector wages to infrastructure spending, by developing a platform to mobilize equity investment or donor grants, and by mixing concessional and non-concessional financing for infrastructure. The Fund estimated that these reforms could more than double the potential growth of non-GCC MENA countries in coming years from about 4% currently.

Source: International Monetary Fund

NIGERIA

Expansionary monetary policy and foreign exchange restrictions affecting economic activity

The International Monetary Fund projected Nigeria's real GDP growth to decelerate from an estimated 2.7% in 2015 to 2.3% in 2016 due to the adverse impact of low oil prices. It projected non-hydrocarbon growth to decelerate from 3.6% in 2015 to 3.1% this year, while it forecast hydrocarbon sector activity to shrink by 4.8% in 2016 following a 5.4% contraction last year. It expected the inflation rate to reach 12% at the end of 2016, up from 9.6% a year earlier. The IMF considered that the authorities' expansionary monetary policy, along with a relatively fixed exchange rate and foreign currency restrictions, are adversely impacting economic activity and are raising concerns about the authorities' commitment to their inflation objective. As such, it called for a credible adjustment to the drop in oil prices, such as through greater exchange rate flexibility and the removal of foreign currency restrictions.

In parallel, the Fund projected Nigeria's fiscal deficit to widen from 3.7% of GDP in 2015 to 4.4% of GDP in 2016, as it forecast oil & gas revenues to drop from 3.7% of GDP in 2015 to 1.5% of GDP in 2016. It urged the government to raise the value-added tax rate and broaden the tax base in order to increase non-hydrocarbon revenues. Also, it encouraged authorities to gradually adjust the budgets of local states and to strengthen the management of public finances. In addition, it called on officials to implement an independent price-setting mechanism to address petroleum subsidies. Further, the IMF forecast the current account deficit to deteriorate from 2.4% of GDP in 2015 to 2.8% of GDP in 2016, reflecting a 21.8% decline in exports. It expected the CBN's foreign currency reserves to drop from \$28.3bn at the end of 2015, or 5.2 months of imports cover, to \$21.5bn or 3.7 months of imports at end-2016. The IMF indicated that risks to the outlook include lower oil prices, shortfalls in non-hydrocarbon revenues, a further deterioration in the finances of state and local governments, deepening disruptions in private sector activity from foreign currency restrictions, and security concerns.

Source: International Monetary Fund

ANGOLA

Lower oil revenues taking toll on economy

Standard Chartered projected Angola's real GDP growth to decelerate from 3% in 2015 to 1.5% in 2016, reflecting reduced revenues from lower global oil prices. It noted that lower hydrocarbon prices have reduced capital spending, have resulted in foreign currency shortages that have constrained corporate activity, and have led to a deterioration in confidence. It said that the inflation rate reached 20.3% in January 2016, the highest level since 2006, due to the currency's depreciation and the cuts in subsidies. It projected the inflation rate to average 14% in 2016 relative to an average rate of 10.3% in 2015.

Standard Chartered indicated that authorities plan to maintain their current restrictive fiscal and monetary policies. It noted that the government's monetary policy has helped preserve foreign currency reserves, with the Banco Nacional de Angola's (BNA) net reserves standing at \$24bn at the end of January 2016. It added that the BNA has reduced its supply of foreign currency to the market, as it sold \$1.2bn in January and February 2016 relative to more than \$3bn in the same period last year. It anticipated the acute foreign currency shortage to persist without a sustained rebound in oil prices. As a result, it expected the gap between the official and parallel exchange rates to remain wide in coming months. It noted that the BNA devalued the kwanza by about 15% to AOA156.4 against the US dollar in early January 2016, while the kwanza has been trading at between AOA320 and AOA400 per dollar on the parallel market so far this year. It projected the kwanza to further depreciate to AOA170 per dollar at the end of 2016 if oil prices remain low.

Standard Chartered forecast the fiscal deficit to narrow from 5% of GDP in 2015 to 3% of GDP in 2016. It expected the government to cover most its financing needs from bilateral sources, with no plans to tap the markets. It considered that Angola still has some fiscal margin, as government deposits stood at \$10.3bn in February 2016. It projected the current account deficit to narrow from 7.6% of GDP in 2015 to 5.5% of GDP in 2016.

Source: Standard Chartered



ECONOMY & TRADE

GCC

Lifting non-trade barriers to add \$36bn to economy annually

EY estimated that the Gulf Cooperation Council could become the sixth largest economy in the world by 2030, in case real GDP growth across the six-member countries averages 3.2% annually over the next 15 years and assuming that GCC countries become one market. It noted that the GCC countries would currently be the ninth largest economy globally, similar to the size of Canada and Russia, if they were a single market. It considered that a single market without the existing bottlenecks and red tape would help sustain growth at about 3% annually. In parallel, EY estimated that removing non-tariff barriers that hold back intra-GCC trade, investment and productivity would increase the GCC's GDP growth rate by 3.4%, or by \$35.5bn annually. It said that Bahrain's GDP would grow by 4.1% (\$1.6bn) annually, followed by Saudi Arabia at 3.7% (\$18.5bn), Oman at 3.6% (\$2.8bn), the UAE at 3.5% (\$8.3bn), Kuwait at 2.7% (\$949m) and Qatar at 2.6% (\$3.3bn). It indicated that 64.8% of the overall increase in GDP would come from the removal of bureaucratic barriers, such as non-automated customs controls, non-harmonized standards, multiple permits and inadequate personnel. The remaining 35.2% would come from the removal of rent-creating barriers, such as commercial licensing regulations that protect domestic interests. In addition, EY noted that removing barriers to efficiency would make GCC companies more productive and would make GCC trade and investment relations with the rest of the world less costly. As such, it estimated that the immediate impact on intra-GCC trade of the removal of non-tariff barriers would generate only 4% of output gains, while the positive impact on activity with the rest of the world would generate 96% of output gains.

Source: EY

QATAR

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed at 'AA' Qatar's long-term foreign and local currency Issuer Default Ratings (IDRs), with a 'stable' outlook. It indicated that the ratings are supported by Qatar's large sovereign assets, fiscal adjustment efforts, hydrocarbon resources and high GDP per capita. But it noted that the ratings are constrained by the country's high reliance on the hydrocarbon sector, widening fiscal deficit and rising public debt level. It forecast the fiscal deficit at 10.4% of GDP in 2016 and 2.7% of GDP in 2017 due to lower hydrocarbon revenues and limited cuts in public spending. It indicated that the government plans to introduce a 5% value-added tax on most goods and services in 2018 and intends to draft a new law on public-private partnerships by the end of 2016 in order to finance several infrastructure projects. Fitch pointed out that the government plans to finance the deficit through debt issuance instead of drawing down the Qatar Investment Authority's (QIA) foreign assets. As such, it projected the public debt level to rise from 32% of GDP in 2015 to 44% of GDP in 2016. It forecast QIA's assets to rise from an estimated \$300bn at end-2015 to about \$330bn by the end of 2017. In parallel, the agency expected Qatar's non-hydrocarbon growth to decelerate from 8% in 2015 to 6% in 2016, as spending cuts would slow down the growth in private and public consumption.

Source: Fitch Ratings

SAUDI ARABIA

New sovereign wealth fund to reduce reliance on oil revenues

Standard Chartered Bank considered that Saudi Arabia's plans to sell shares in Saudi Aramco and to establish a \$2 trillion sovereign wealth fund could help centralize the government's assets under one arm and invest abroad the funds generated from the future sale of state assets. It noted that this would diversify the fund's investment portfolio and increase its returns. It anticipated that dividends from a wider range of investment holdings, both domestically and internationally, would reduce the government's reliance on hydrocarbon revenues. It considered that this strategy would take a long period of time to bear fruits, and noted that hydrocarbon revenues would remain the government's main source of capital financing in the near future. Also, it indicated that the authorities' plan to transform Saudi Aramco into an industrial conglomerate aims to diversify the company's revenue stream further into downstream activities and related industrial clusters. It added that Saudi Arabia intends to initially offer less than 5% of Saudi Aramco on the Saudi Stock Exchange in 2017 or 2018. It noted that authorities would transfer more assets to the Public Investment Fund (PIF), including the proceeds from the Saudi Aramco public offering. Standard Chartered estimated Saudi Arabia's financial assets at \$1.2 trillion currently that include \$593bn in foreign currency reserves, \$435bn in non-financial assets including land, \$85bn in listed companies owned by the PIF and \$56bn in government ownership of listed companies. Standard Chartered's estimate excludes the government's stake in non-listed firms, including Saudi Aramco, and the PIF's foreign assets.

Source: Standard Chartered Bank

GHANA

Growth set to rebound despite headwinds

Barclays Capital projected Ghana's real GDP growth to accelerate from 3.6% in 2015, its lowest level since 1994, to 5.7% in 2016, supported by higher oil production, a strong agricultural season and improved electricity supply. It forecast economic activity to further expand by 7.9% in 2017, as the TEN oil project reaches its full production capacity. Further, it expected the current account deficit to slightly narrow from 8.1% of GDP in 2015 to 7.9% of GDP in 2016, as higher oil and cocoa output would somehow offset the lower oil price environment. Also, it noted that lower energy prices would reduce imports in 2016 and support the current account balance. In addition, it projected the fiscal deficit to narrow from 7.3% of GDP in 2015 to 6.2% of GDP in 2016. But it noted that the government would miss its target deficit of 5.3% of GDP for the year due to lower oil receipts and potential tax revenue shortfalls. It expected the public debt level to regress from 70.7% of GDP in 2015 to 69.1% of GDP in 2016. It noted that risks of fiscal slippage from the November 2016 elections could lead to an increase in the public debt level. It considered that the November elections constitute an important test of the authorities' commitment to reforms, and any setback could lead to negative actions on the sovereign ratings and could affect investors' sentiment. In parallel, Barclays anticipated that the inflation rate would regress more rapidly from mid-2016 onwards to reach 14.9% at the end of 2016, but to be higher than the authorities' target of 10.1% for the end of the year.

Source: Barclays Capital



BANKING

GCC

Banks' funding under pressure

Moody's Investors Service indicated that persistently low global oil prices continue to put pressure on the funding of banks across Gulf Cooperation Council (GCC) countries. It said that liquidity conditions have become more challenging for GCC banks with the increase in government borrowing, the deceleration in deposit inflows and the rise in interest rates. It noted that aggregate deposits at GCC banks grew by about 3% in 2015, down from a 10% growth rate in 2014. Also, it expected the banks' liquid assets to decline by 20% in 2016, even though they still account for about 20% to 25% of the banks' total assets. It anticipated these trends to raise the banks' overall cost of funds and to weigh on their profitability. Further, Moody's indicated that lending growth has decelerated in GCC countries due to slower economic activity and falling business and consumer confidence. But it considered that the impact of the slowdown in lending growth on loan performance has been limited so far, and that the banks' capital buffers continue to be robust. In parallel, the agency pointed out that GCC governments are increasingly financing their fiscal deficits through banks, which has increased the banks' exposure to their respective sovereigns. It said that holdings of sovereign debt instruments would broadly be supportive of the banks' solvency profiles, given the high credit quality and higher yields associated with these instruments. But it noted that the increase of government borrowing from the banking sector could reduce the availability of lending to the private sector and increase concentration risks to various degrees in each market.

Source: Moody's Investors Service

SAUDI ARABIA

Agency takes rating actions on banks following banking sector's reassessment

Standard & Poor's downgraded Saudi Arabia's Banking Industry Country Risk Assessment (BICRA) from 'Group 3' to 'Group 4', as it reassessed the economic risks score from '4' to '5' and the industry risks score from '2' to '3'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. It attributed the increase in economic risks to the low oil price environment that has resulted in difficult operating conditions for Saudi banks. It expected credit conditions for banks in Saudi Arabia to deteriorate, which would lead to increased non-performing loans and credit losses, and lower profitability. It added that Saudi banks are exposed to high concentration risks in terms of sectors and borrowers. It noted that the trend in economic risks is 'stable' due to the banks' high loan-loss reserves and strong capitalization. Further, the agency indicated that the rise in industry risks reflects the banks' lower capacity to generate earnings to cover the risks. In parallel, S&P downgraded from 'A-' to 'BBB+' the long-term counterparty credit ratings of National Commercial Bank, Al Rajhi Bank, Samba Financial Group, Saudi British Bank and Riyadh Bank. It also affirmed at 'BBB+' the long-term counterparty rating of Arab National Bank and Banque Saudi Fransi, and at 'BBB' that of the Saudi Investment Bank. All banks' ratings have a 'stable' outlook.

Source: Standard & Poor's

IRAN

Banking sector in need of upgrade to meet economy's financing requirements

Consulting firm Darien Analytics indicated that the size of most Iranian banks would constrain their ability to meet the economy's financing needs as Iran develops and grows. It noted that Iranian banks are small relative to the size of the economy and compared to regional peers, with the two largest Iranian banks having assets of about \$50bn each relative to assets in excess of \$100bn for the largest GCC and Turkish banks. Also, it said that most banks suffer from unsophisticated management controls and information technology systems, as well as from inconsistent and lax accounting and auditing practices. It added that historical figures are frequently revised, non-performing loans are underestimated and currency devaluations prevent year-on-year comparisons. It pointed out that forcing larger banks to integrate small and weaker financial institutions could drain their resources and would not generate tangible benefits. As such, it considered that reforming large state-owned banks is the key macro-prudential challenge facing the Iranian financial system. It said that mergers between some of the larger private-sector banks would enable the creation of large institutions that would be able to provide large financing requirements. It noted that mergers between smaller banks would help create strong mid-sized financial institutions. It said that the combined assets of about 30 banks operating in Iran totaled \$511bn at the end of September 2015, with privately-owned banks representing about 66% of total assets.

Source: Darien Analytics

TURKEY

Negative outlook on banking sector

Moody's Investors Service maintained its negative outlook on the Turkish banking system due to the banks' dependence on external wholesale markets, as well as to slower domestic economic activity, increasing dollarization of liabilities and volatile sentiment towards emerging markets. It anticipated Turkey's subdued economic prospects to weigh on loan performance and banks' profitability, but it noted that the banking system remains well capitalized. It expected loan delinquency to rise to about 3.5% to 3.8% amid the depreciation of the Turkish lira and the slowdown in economic activity. It projected non-performing loans to rise from 3.1% at the end of 2015 to about 3.5% to 3.7% in coming months, with most NPLs coming from consumer loans and lending to small- and medium-sized enterprises. It noted that corporate loans have been resilient to the economic slowdown so far, but they remain vulnerable to the lira's depreciation and to a potential increase in their borrowing costs. Further, Moody's indicated that the Turkish banking sector's growth is vulnerable to changing investor sentiment, given the country's high external financing needs. It anticipated the banks' net interest margins to narrow due to rising borrowing costs, which would weigh on their profitability. In parallel, the agency noted that Turkish banks have solid capital buffers to absorb a rise in loan losses, with the sector's average Tier One capital ratio standing at 13.3% at the end of 2015. It expected the banking sector's capital ratios to remain broadly stable this year due to moderate credit growth, but it noted that they remain vulnerable to further lira depreciation.

Source: Moody's Investors Service



ENERGY / COMMODITIES

Crude oil prices to drop further in 2016

ICE Brent crude oil front-month prices closed at \$39.8 per barrel (p/b) on April 6, 2016, constituting an increase of 5.2% from the previous day; while WTI oil prices rose by 5% to close at \$37.7 p/b after U.S. crude oil inventories unexpectedly dropped from the highest level in 86 years. U.S. crude inventories fell by 4.94 million barrels last week, in contrast to analysts' expectations for an increase of 3.2 million barrels. Also, prices picked-up after Kuwait said that a potential deal between OPEC and non-OPEC producers to freeze output at January levels could be reached on April 17 without Iran's participation. Crude oil prices are expected to remain highly volatile in coming days amid speculation about a possible agreement at the meeting. Overall, Brent oil prices are forecast to average \$40 p/b in 2016, which would reflect a drop of 25.3% from an average of \$53.6 p/b in 2015. Further, WTI spot prices are expected to fall by 19% to an average of \$39.5 p/b this year. Upside risks to the price outlook include an agreement to freeze production levels and a sharp increase in demand ahead of the U.S. summer season. In contrast, downside risks include renewed strength of the US dollar and a stronger-than-expected return of Libyan oil exports. In parallel, Brent crude oil prices averaged \$35.3 p/b in the first quarter of 2016, down by 20.8% from the preceding quarter; while WTI prices fell by 20.1% quarter-on-quarter to an average of \$33.4 p/b in the covered quarter.

Source: BMI Research, Bloomberg, Byblos Research

Kurdish oil export receipts at \$557m in March 2016

The Kurdistan Regional Government's (KRG) crude oil export receipts totaled \$557.3m in March 2016, up by 83.3% from \$304m in February. The KRG paid a total of \$36m directly to producers and retained \$517m. The KRG's crude oil exports totaled 10.15 million barrels, equivalent to a daily average of 327,371 barrels per day in March. All oil exports were channeled through the Turkish Port of Ceyhan. The daily export activity has been affected by the sabotage of the Ceyhan pipeline since mid-February 2016, which led operations to stop for 12 days during this month.

Source: KRG Ministry of Natural Resources

Nigeria's hydrocarbon export receipts down 42% in February 2016

Nigeria's crude oil & condensate export receipts totaled \$644.6m in the first two months of 2016, of which \$355.5m were generated from crude oil exports, \$208.4m from gas exports and \$80.6m from other receipts. In parallel, the authorities used all the hydrocarbon receipts to pay international oil companies, and did not transfer any funds to the Federation Account during the covered period. Hydrocarbon receipts reached \$236.7m in February 2016, down by 42% from \$407.9m in the preceding month.

Source: Nigerian National Petroleum Corporation

Energy production in Middle East to grow by 1.4% over 2014-35 period

The Middle East region's energy production is expected to grow by a compound annual growth rate of 1.4% during the 2014-35 period. The Middle East would remain the world's largest oil producer during the covered period, with a 33.4% share of global supply in 2035. Oil production would account for 65.4% of the region's aggregate energy output in 2035, followed by natural gas (32.3%), renewables (1.1%) and nuclear energy (0.9%).

Source: BP, Byblos Research

Base Metals: Steel prices down 62% in first two months of 2016

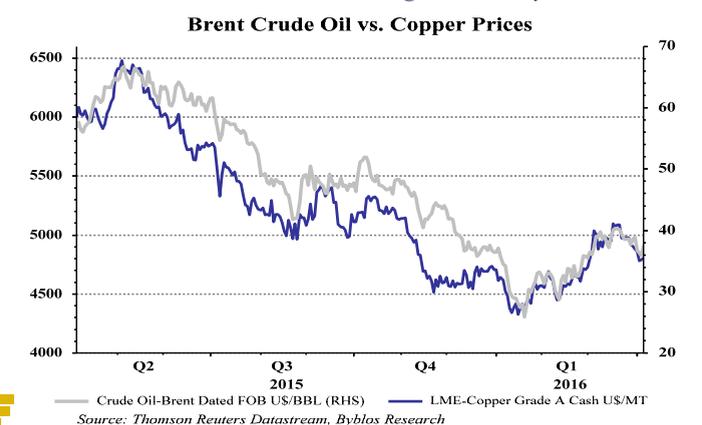
The London Metal Exchange steel cash price averaged \$155.7 per ton in the first quarter of 2016, down by 61.5% from \$404.7 per ton in the same quarter of 2015, partly due to falling global demand. In parallel, global crude steel output was 247.3 million tons in the first two months of 2016, down by 5.2% from 261 million tons in the same period of 2015. China's crude steel production totaled 121.1 million tons in the first two months of 2016, or 49% of global steel output. It was followed by Japan with 17.1 million tons (7%), India with 14.4 million tons (5.8%) and the U.S. with 12.8 million tons (5.2%). On a regional level, steel output in Asia totaled 167.6 million tons and accounted for 67.8% of global production in the covered period, followed by the EU with 26.5 million tons (10.7%), North America with 17.9 million tons (7.2%), the Commonwealth of Independent States (CIS) with 16.2 million tons (6.6%), South America with 6.4 million tons (2.6%), other European countries with 5.4 million tons (2.2%), the Middle East region with 4.4 million tons (1.8%), Africa with 1.9 million tons (0.8%) and Oceania with 0.9 million tons (0.4%). The figures are based on 66 producing countries that account for about 99% of global steel supply.

Source: World Steel Association, Byblos Research

Precious Metals: Gold prices up by 7% in first quarter of 2016

Gold prices averaged \$1,218.5 a troy ounce in the first quarter of 2016, up by 7% from the preceding quarter but down by 3% from the same quarter of 2015. The metal's price grew by 15% from the end of 2015 to close at \$1,222 a troy ounce on April 6, 2016. The double-digit rise is due to an increase in investors' demand for the safe-haven asset due to weaker global economic data, volatility in equity markets, a weaker US dollar and growing concerns about a global economic slowdown. The gold market remains focused on the U.S. Federal Reserve and the timing of the increase in U.S. interest rates. Indeed, the metal is highly exposed to rising U.S. interest rates as they raise the opportunity cost of holding the non-yielding assets and strengthen the US dollar. Overall, gold prices are expected to average \$1,100 a troy ounce in 2016, which would reflect a drop of 5.2% from 2015. In parallel, the Bloomberg Precious Metals Total Return Sub-Index rose by 15.3% in the first quarter of 2016, while the Gold Sub-Index increased by 16.5% from end-2015 and posted its highest quarterly increase in nearly 30 years as expectations for a raise in U.S. interest rates receded.

Source: Thomson Reuters, Bloomberg Indexes, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
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	Ba1	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	-	B1	B+	-	B-	-3.9	48.3	81.6	168.2	23.6	612.8	-6.4	3.8
	-	Stable	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	CWN**	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	CWN**	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

**Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insights; 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	16-Mar-16	No change	27-Apr-16
Eurozone	Refi Rate	0.00	10-Mar-16	Cut 5bps	21-Apr-16
UK	Bank Rate	0.50	17-Mar-16	No change	14-Apr-16
Japan	O/N Call Rate	0.00-0.10	15-Mar-16	No change	28-Apr-16
Australia	Cash Rate	2.00	05-Apr-16	No change	03-May-16
New Zealand	Cash Rate	2.25	10-Mar-16	Cut 25bps	28-Apr-16
Switzerland	3 month Libor target	-1.25-(-0.25)	17-Mar-16	No change	16-Jun-16
Canada	Overnight rate	0.50	09-Mar-16	No change	13-Apr-16
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	16-Mar-16	No Change	27-Apr-16
Taiwan	Discount Rate	1.50	24-Mar-16	Cut 13bps	30-Jun-16
South Korea	Base Rate	1.50	10-Mar-16	No change	19-Apr-16
Malaysia	O/N Policy Rate	3.25	09-Mar-16	No change	19-May-16
Thailand	1D Repo	1.50	03-Feb-16	No change	11-May-16
India	Reverse repo rate	6.50	05-Apr-16	Cut 25bps	07-Jun-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	10.75	17-Mar-16	Raised 150bps	28-Apr-16
Turkey	Base Rate	7.50	24-Mar-16	No change	20-Apr-16
South Africa	Repo rate	7.00	17-Mar-16	Raised 25bps	19-May-16
Kenya	Central Bank Rate	11.50	14-Mar-16	No change	22-May-16
Nigeria	Monetary Policy Rate	12.00	22-Mar-16	Cut 200bps	24-May-16
Ghana	Prime Rate	26.00	21-Mar-16	Raised 100bps	16-May-16
Angola	Base rate	12.00	28-Mar-16	Raised 200bps	25-May-16
Mexico	Target Rate	3.75	01-Apr-16	No change	05-May-16
Brazil	Selic Rate	14.25	02-Mar-16	No change	27-Apr-16
Armenia	Refi Rate	8.25	29-Mar-16	Cut 25bps	17-May-16
Romania	Policy Rate	1.75	31-Mar-16	No change	05-May-16
Bulgaria	Base Interest	0.00	01-Apr-16	No change	02-May-16
Kazakhstan	Repo Rate	17.00	01-Feb-16	Raised 100bps	05-May-16
Ukraine	Discount Rate	22.00	03-Mar-16	No change	21-Apr-16
Russia	Refi Rate	11.00	18-Mar-16	No change	29-Apr-16



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