

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Pension systems around the world under pressure

Citi indicated that many public and private pension systems worldwide are facing severe challenges due to the pressure from retiring persons who were born between 1946 and 1964, aging populations, and prolonged life expectancy. It said that over 15% of the global population will be above 65 years old by 2050 relative to 8% in 2015. It estimated the total value of unfunded or underfunded government pension liabilities for 20 out of 34 countries in the Organization for Economic Cooperation and Development (OECD) at \$78 trillion, or almost double the OECD's published national debt figure of \$44 trillion. It noted that corporations have not consistently met their pension obligations and most corporate pension plans in the U.S. and the United Kingdom remain underfunded. It anticipated that a shift from government pension schemes to private pension savings would provide between \$5 trillion and \$11 trillion in savings over the next 10 years to 30 years. It expected the average cost of public sector pension in OECD countries to rise from 9.5% of GDP in 2015 to 12% of GDP by 2050. Further, it estimated the average contingent liability from public sector pension liabilities at about 190% of GDP. It added that the contingent public pension liability is about two to three times the size of 'conventional' public debt-to-GDP ratios in most countries. In parallel, Citi considered that policymakers, corporates and public pension plan sponsors and managers could avoid a pension crisis by publishing the amount of underfunded governmental pension obligations, encouraging pension plan sponsors to make their full pension contributions when they are due, and raising the retirement age, among other measures.

Source: Citi

ETFs and ETPs assets at \$3.1 trillion at end-April

Assets of global Exchange Traded Funds (ETFs) and Exchange Traded Products (ETPs) reached \$3,137bn at the end of April 2016, up by 4.8% from \$2,994bn at end-2015. ETFs are marketable securities that track an index, a commodity, bonds or a basket of assets. Net inflows in ETFs and ETPs reached \$79.4bn in the first four months of 2016, down by 27% from \$108.8bn in the same period last year. Net inflows in ETFs and ETPs reached \$10.13bn in April 2016 relative to net inflows of \$10.6bn in the same month of 2015. Fixed income ETFs and ETPs attracted net inflows of \$7.73bn in April 2016, followed by equity ETFs and ETPs with \$2.39bn, while commodity ETFs and ETPs posted net outflows of \$136m. Global ETF assets stood at \$2,988bn and those of ETPs totaled \$149bn at end-April 2016. The U.S. ETF and ETP industry had assets of \$2,218bn and accounted for 70.7% of assets invested in both ETFs and ETPs worldwide, followed by the European industry with \$533bn (17%), Japanese ETFs and ETPs with \$146bn (4.7%), Asia-Pacific excluding Japan with \$120bn (3.8%), the Canadian ETF industry with \$77bn (2.5%) and Latin American ETFs with \$6bn (0.2%). The U.S. ETF industry accounted for 71.4% of global ETFs at end-April, while European ETFs represented 17% of the total. The global ETF and ETP industry has assets invested in 6,297 ETFs and ETPs listed on 65 exchanges in 51 countries.

Source: ETFGI, Byblos Research

Number of corporate defaults reaches 77 in first five months of 2016

S&P Global Ratings indicated that 77 rated corporate issuers defaulted globally in the first five months of 2016 compared to 48 defaults in the same period of 2015. It noted that the number of defaults during the covered period was the highest since the 141 defaults in the first five months of 2009. On a regional basis, 54 companies defaulted in the United States in the first five months of 2016, equivalent to 70.1% of total defaults, followed by firms in emerging markets with 13 defaults (16.9%), Europe with four defaults (5.2%), and other developed nations, including Australia, Canada, Japan, and New Zealand, with six defaults (7.8%). Further, the agency indicated that 33 corporates defaulted in the first five months of 2016 because of missed interest or principal payments, 19 firms defaulted due to distressed exchanges, nine corporates filed for bankruptcy, five firms defaulted because of debt exchange and four corporates defaulted due to de facto restructuring. Also, four corporates defaulted because of either deferred interest payment, debt acceleration, regulatory intervention or a moratorium. The agency added that three corporates did not disclose the reason for their default. The agency noted that the trailing 12-month rate of global speculative-grade corporate defaults reached 3.3% in the covered period.

Source: S&P Global Ratings

EMERGING MARKETS

Forgone fiscal receipts at \$1.3 trillion in 2013-16

Fitch Ratings estimated the decline in fiscal revenues in commodity-based emerging markets at \$1.3 trillion between 2013 and 2016, which include \$736bn in forgone fiscal receipts in Brazil and Russia as a result of the large depreciation of their currencies. It noted that, excluding Brazil and Russia, fiscal revenues in commodity-based emerging markets fell by \$599bn during the covered period, with declines of 50% or more in fiscal revenues in Abu Dhabi, Angola, Kuwait, Nigeria, Qatar and Saudi Arabia. Also, it projected the median level of fiscal revenues in commodity-based emerging markets at 23% of GDP in 2016, similar to the 2003 level. It said that the elevated level of fiscal spending, which has not responded to lower revenues, contributed to the deterioration in the fiscal position of commodity-based emerging markets. It noted that median government spending in commodity-based emerging markets has increased by about five percentage points of GDP since mid-2000s, but has been unchanged since 2012. Further, it indicated that the government's debt level has increased in every commodity-based emerging market since the collapse of global commodity prices, with a median rise of 12 percentage points of GDP. In parallel, Fitch estimated current account receipts in commodity-based emerging markets to have declined by \$1.2 trillion during the 2013-16 period, with Abu Dhabi, Russia and Saudi Arabia accounting for about half of the decline during the covered period. It noted that Abu Dhabi, Angola and Venezuela posted the steepest decline in current account receipts among commodity-based emerging markets.

Source: Fitch Ratings

POLITICAL RISK OVERVIEW - May 2016

EGYPT

An EgyptAir commercial airplane crashed in the Mediterranean Sea on May 19. Investigators did not rule out the possibility of a terrorist attack. President Abdel Fattah El-Sissi extended the State of Emergency for three months in designated areas of the North Sinai governorate. Clashes between the Army and militants continued in North Sinai. An Egyptian court sentenced prominent activist Sanaa Seif to six months in prison for insulting the judiciary. Two separate courts in Cairo ruled against 152 people and sentenced them to up to five years in prison for protesting against President El-Sissi's rule. A court sentenced Mohamed Badie, the supreme leader of the Muslim Brotherhood, to life in prison.

IRAN

Iran's Parliament confirmed the re-election of its long-serving Speaker Ali Larijani for another year. Allies and supporters of President Hassan Rouhani won 123 out of 290 parliamentary seats in a run-off election that was held in late April 2016. But they failed to secure an outright majority, as hardliners won 83 seats while 81 seats were secured by independents. The Revolutionary Guards said that 13 of their members were killed and 21 were wounded in Syria in April 2016. U.S. Secretary of State John Kerry encouraged European banks to do business with Iran after the U.S. and the EU lifted some sanctions in January 2016.

IRAQ

The Iraqi Army, backed by Shiite militias and U.S.-led coalition airstrikes, launched an offensive to retake the city of Fallujah that has been under the control of the Islamic State (IS) militant group since January 2014. The UN estimated that 50,000 civilians in Fallujah are at "great risk" from the fighting, and lack food, water and healthcare. The Army announced on May 19 that it recaptured the town of Ar-Rutbah from IS militants after a two-day battle. Prime Minister Haider al-Abadi appealed on May 26 for the weekly anti-government demonstrations in Baghdad to stop until the armed forces retake Fallujah. The Iraqi Parliament convened in late May with 167 MPs in attendance, including members of the Kurdish parliamentarian bloc and the al-Ahrar bloc affiliated with Shiite cleric Moqtada al-Sadr. Violence and acts of terrorism in Iraq led to 867 deaths and 1,459 injuries in May 2016.

DEM REP CONGO

The constitutional court ruled on May 11 that President Joseph Kabila could legally remain in office after his second term ends if the government fails to hold presidential elections in November 2016. Demonstrators clashed with police forces after opposition leaders called for a countrywide protest against President Kabila's intentions to postpone the November elections. The former governor of Katanga, Moïse Katumbi, announced on May 4 his candidacy for the upcoming presidential elections. The government opened an investigation and issued an arrest warrant for Mr. Katumbi who is accused of recruiting foreign mercenaries. Mr. Katumbi left the country, with the Prosecutor General's permission, to receive medical treatment in South Africa and then in Europe.

LIBYA

Forces loyal to Libya's UN-backed unity Government of National Accord (GNA) and those of east-based anti-GNA factions launched an offensive to retake the city of Sirte from the Islamic State (IS) militant group. The GNA pledged to establish a unified command structure between the military and militias in order to coordinate the fight against the IS group. The U.S. and other world powers considered demands from Libya's new unity government for an exemption from a UN arms embargo to help it in its fight against IS militants. Over 20 foreign ministers of countries supporting the UN-backed Libyan Political Agreement reaffirmed their support for Prime Minister-designate Fayeza Serraj and the Presidential Council.

SOUTH SUDAN

The top military command of the Sudan People's Liberation Army (SPLA), the official army of South Sudan, continued to reject the presence of the armed opposition forces under the overall leadership of First Vice-President Riek Machar. South Sudan's transitional government of national unity passed a resolution for the establishment of cantonment sites in Greater Equatoria and Greater Bahr el Ghazal for the armed Sudan People's Liberation Movement/Army-In Opposition (SPLM/A-IO). Small groups of the SPLA and the SPLA-IO clashed in the former Unity and Upper Nile states.

SUDAN

The opposition alliance of the Future Forces of Change reached a roadmap agreement with the national dialogue committee, known as "7+7", despite disagreements on major issues. Violent clashes erupted between students loyal to the ruling National Congress Party and supporters of the opposition Popular Congress Party over results of student union elections. Fighting continued between the Sudanese Armed Force, pro-government militias and the Sudan People's Liberation Movement-North rebel group in the South Kordofan and Blue Nile states.

SYRIA

Diplomatic engagement and military escalation continued following the mid-April collapse of the cessation of hostilities in the north. Regime and Iran-backed Shiite foreign forces escalated the fight in the governorate of Aleppo, as the ceasefire continued to erode. However, they were unable to gain territory and suffered significant setbacks in the southern part of the city as the Jaish al-Fateh rebel alliance recaptured the village of Khan Touman. The Islamic State militant group claimed a series of bombings in regime coastal strongholds, reportedly killing over 100 civilians. The UN Special Envoy for Syria, Mr. Staffan de Mistura, told the Security Council on May 26 that he intends to begin the next round of intra-Syrian talks as soon as feasible, but certainly not within the next two to three weeks. The chief negotiator of Syria's main opposition umbrella group Mohammed Alloush resigned in late May, citing the failure of peace talks. The UN indicated that humanitarian aid is reaching only a fraction of those in need, as the regime continues to block supplies to several areas it is besieging. The Syrian Observatory for Human Rights reported that at least 60,000 people have died in government jails since the beginning of the conflict in March 2011. Syrian government forces and allies, including Lebanese Hezbollah fighters, seized from militants the strategic town of Deir al-Asafir in the southeast of Damascus. Hezbollah's top military commander Mustafa Badreddine was reportedly killed in Syria on May 12.

TUNISIA

Four security personnel and two suspected Islamist fighters were killed on May 11 during an anti-terrorist operation in southern Tunisia. Also, security forces killed two suspected jihadists on the same day near Tunis and arrested 16 others. Social unrest erupted in the southern town of Ben Guerdane to protest the closure of the Tunisian-Libyan border.

YEMEN

Peace talks aimed at ending a year-long war between the government and the Huthi/Saleh bloc progressed slowly. However, repeated ceasefire violations by Huthi/Saleh forces and government troops backed by the Saudi-led coalition, and the coalition's military build-up east of the capital, threatened the peace talks held in Kuwait. The warring parties agreed to a prisoner exchange but the two sides appeared to differ on the number of prisoners to be released.

Source: International Crisis Group, Newswires



OUTLOOK

MENA

Growth at 2.9% in 2016, risks tilted to the downside

The World Bank projected real GDP growth in the developing countries of the Middle East & North Africa region at 2.9% in 2016, down from a January forecast of 4%, and relative to growth rates of 3.5% for developing nations and 2.4% for the global economy. It attributed the downward revision to lower global oil prices, as it revised its forecast for oil prices in 2016 to \$41 p/b from \$51 p/b earlier this year. Still, it noted that economic growth in 2016 would slightly accelerate this year from 2.6% in 2015 due to stronger activity in Iran following the removal of sanctions, and higher growth in Iraq from rising oil production. It expected real GDP growth of MENA oil-exporters to accelerate from 2.5% in 2015 to 2.9% in 2016, but to be at 2.5% this year when excluding Iran. It projected economic growth in GCC countries to decelerate from 2.9% in 2015 to 2% in 2016, their slowest growth rate since 2009, due to the low oil price environment and tight fiscal and monetary policies. Further, it projected real GDP growth in oil-importers to slow down from 3.3% in 2015 to 2.9% in 2016 due to slowing growth in Egypt from a sharp downturn in tourism activity, weaker business sentiment and foreign currency shortages. It noted that economic performance among oil-importers would be mixed due to varied macro-economic and geopolitical challenges.

The Bank indicated that risks to the outlook are tilted to the downside and include a further decline in oil prices and fragile security conditions in some countries. It considered that key policy challenges that would ensure macroeconomic stability in the MENA region consist of improving government finances, reducing economic dependence on oil, and addressing longstanding shortcomings related to the business environment, labor market and financial sector.

Source: World Bank

SAUDI ARABIA

Increase in oil prices necessary to achieve NTP goals

Merrill Lynch anticipated that fiscal consolidation measures in Saudi Arabia's National Transformation Plan (NTP) may not narrow fiscal imbalances without a sustained recovery in global oil prices. It estimated that the NTP's fiscal consolidation measures would generate net cumulative savings of \$32.7bn, or 5.3% of GDP, during the 2016-20 period, equivalent to savings of about 1% of GDP annually during the covered period. But it noted that oil prices should average at least \$50 p/b between 2016 and 2020, while government spending, excluding the additional fiscal cost of the NTP, should remain flat during the same period in order to remain consistent with the targeted government debt level of 30% of GDP by 2020. It indicated that the NTP's fiscal cost would total \$71.5bn, or 11.6% of GDP, over five years, which would be equivalent to \$14.3bn or 2.3% of GDP annually. It noted that the government could finance 60% of the total cost, in addition to raising \$98bn in non-hydrocarbon revenues and cutting the public-sector wage by 5% or \$6.4bn. It added that the public-sector wage bill would absorb 40% of total spending by 2020 relative to 45% currently, reflecting unprecedented auster-

ity measures. Merrill Lynch pointed out that the NTP did not provide a breakdown of measures to raise non-hydrocarbon revenues, but it estimated that measures could include subsidy cuts, the introduction of a value-added tax, the imposition of taxes on some products and the implementation of a unified income tax. Further, it indicated that the NTP's implementation would require private sector investments, especially from domestic sources.

In parallel, regional investment bank EFG Hermes considered that companies and consumers in Saudi Arabia would face a period of relative austerity following the NTP's implementation. It noted that the cuts in the public-sector wage bill, along with subsidy reforms and rising inflationary pressures, imply a challenging few years for consumers, especially that 80% of Saudi nationals work in the public sector.

Source: Merrill Lynch, EFG Hermes

NIGERIA

Economic recovery contingent on solution to foreign currency problems

Citi considered that resolving the exchange rate problem in Nigeria is key to help the Nigerian economy recover. It elaborated three possible scenarios for the evolution of the exchange rate policy in the second half of 2016. First, it said that the Central Bank of Nigeria (CBN) could implement a relatively small currency devaluation of about 10% to 15%, but it would leave the de-facto currency peg unchanged. Second, it noted that the CBN could implement a large currency depreciation to about NGN300 against the US dollar from about NGN200 per dollar currently. It added that this would narrow the gap with the parallel exchange rate that reached about NGN350 against the dollar. Third, it pointed out that the CBN could introduce an upper and lower band for the naira, and allow the exchange rate to fluctuate within this band for a period of time. It added that the CBN would gradually alter the band over time to allow the currency to depreciate. It considered that this strategy would introduce immediate flexibility, but that initially it does not allow an immediate devaluation. It noted that the CBN could adjust the band down to around NGN250 per dollar toward the end of the third quarter or early in the fourth quarter of 2016. It indicated that the CBN could meet some "critical" demand for foreign currency during the adjustment process.

Citi considered the third scenario to be the most likely to materialize, but it noted that its success hinges on the recovery of global oil prices that would increase inflows of foreign currency to the market. Also, it said that the CBN needs to clear about \$5bn in unmet foreign currency demand in order to be able to proceed with either of the last two scenarios. It added that changing the exchange rate regime in the presence of a large backlog of demand for foreign currency would be complicated, as the unmet demand would immediately put pressure on the new regime. In addition, it noted that, in the event of a small currency depreciation, the parallel exchange rate would incorporate a similar adjustment. Further, Citi said that shifting to a new exchange rate regime, along with new structural reforms, would help economic growth to recover faster. It noted that long-standing structural weaknesses within the economy are also weighing on non-hydrocarbon export growth and overall economic activity.

Source: Citi



ECONOMY & TRADE

AFRICA

Challenging near-term outlook for SSA sovereigns

Moody's Investors Service anticipated that weaker economic activity in Sub-Saharan Africa (SSA) would weigh on the credit quality of rated sovereigns in the region, as government budgets come under pressure, debt burdens increase and low commodity prices constrain revenues. It indicated that SSA's medium-term economic outlook is challenging due to the drop in global commodity prices, as the region is undergoing a protracted economic slowdown after two decades of robust growth that helped attract foreign capital and investments. It noted that rising public debt levels, along with current account deficits, currency depreciation and lower levels of foreign currency reserves would pose challenges for policy-makers. The agency expected most SSA countries to face a slowdown in economic growth in 2016 due to their vulnerability to lower commodity prices, with Angola, Gabon, Ghana, Nigeria and Zambia experiencing the sharpest slowdowns. It said that oil-exporters, such as Angola and Nigeria, have seen weaker economic growth due to lower oil prices that have affected the non-oil economy. It added that commodity exporters, such as Ghana and Zambia, face challenges from domestic shocks related to large fiscal imbalances. It noted that elevated or rapidly rising debt burdens leave little policy space for fiscal stimulus to support growth. Further, it anticipated that growth would remain robust in SSA countries with more diversified economies, such as Kenya, Côte d'Ivoire, Namibia, Mozambique and Senegal.

Source: *Moody's Investors Service*

SUDAN

Growth prospects limited by imbalances

The International Monetary Fund indicated that policy adjustments in Sudan have helped contain the fiscal deficit, limit money supply growth, reduce the inflation rate and support economic activity. It added that institutional reforms have improved tax collection and public financial management. It estimated real GDP growth to have accelerated to about 5% in 2015, supported by a good agricultural harvest, while the inflation rate was contained at 12.8% in April 2016. However, it said that the country's growth prospects continue to be constrained by economic and financial sanctions, as well as by large macroeconomic imbalances. It noted that de-risking by international banks has weighed on the country's trade, investment and growth prospects. It added that Sudan's elevated external debt and debt arrears prevent its access to external financing. Further, the Fund estimated the fiscal deficit to have widened to 1.9% of GDP last year due to lower oil receipts. Also, it said that lower commodity prices, increased financing of government operations by the Central Bank of Sudan and limited exchange rate flexibility have widened the current account deficit to about 6% of GDP in 2015, and have kept foreign currency reserves at low levels. In parallel, the IMF called for greater exchange rate flexibility, and for increased fiscal revenues that would create space for spending on public infrastructure and narrow the fiscal deficit. Also, it called for a tighter monetary policy that would keep the inflation rate at low levels, and for the rapid implementation of structural reforms that would improve the business environment.

Source: *International Monetary Fund*

DEM REP CONGO

Economic growth to decelerate to 5% in 2016 due to challenging external environment

The International Monetary Fund indicated that the Democratic Republic of Congo (DRC) has been able to preserve its macroeconomic stability despite the drop in global commodity prices. But it noted that the challenging external environment and the domestic uncertainties continue to weigh on the country's economic activity, public finances and balance of payments. As such, it forecast the DRC's real GDP to decelerate from 6.9% in 2015 to 5.1% in 2016, and for its inflation rate to rise from 1% last year to 1.7% in 2016. Also, it projected the fiscal balance to shift to a deficit, the balance of payments' deficit to widen, and for its gross foreign currency reserves to continue declining this year. It noted that the exchange rate has come under pressure in the first five months of 2016, leading to a depreciation of 2.9% and 4.4% in the official and parallel exchange rates, respectively. Further, the Fund pointed out that the Congolese authorities are implementing several measures to maintain macroeconomic and financial stability, including reduced overall public spending. Other measures aim to mobilize tax revenues, to increase growth-enhancing spending that would be financed through local debt issuance, and to improve the business environment. It added that the government is taking measures to moderate the pressure on the exchange rate in order to contain the depreciation of the currency. The IMF expected the DRC's economy to face challenges in the medium term from subdued activity in advanced and emerging market economies, tightening external financial conditions and a challenging domestic environment. It anticipated that economic growth would gradually recover over the medium term, in line with the modest recovery in commodity prices.

Source: *International Monetary Fund*

GHANA

Creditworthiness constrained by high public debt and gross financing needs

Moody's Investors Service indicated that Ghana's 'B3' sovereign rating and the 'negative' outlook on the ratings reflect the country's large gross financing needs, elevated debt levels and high debt servicing cost relative to revenues. It projected Ghana's gross financing needs to reach 20% of GDP over the short term in the context of tight domestic and external funding conditions. Also, it indicated that Ghana's credit profile is exposed to a prolonged period of low commodity prices, which weighs on the country's balance of payments and fiscal revenues. In addition, it said that the government's large share of foreign currency debt exposes the public debt dynamics to exchange rate volatility. Further, Moody's estimated Ghana's fiscal deficit to have narrowed from 9.4% of GDP in 2014 to 6.7% of GDP in 2015, reflecting the government's commitment to fiscal consolidation that is expected to continue in the current election year. It forecast Ghana's real GDP to accelerate from 3.9% in 2015 to 5.1% in 2016 and 6.5% in 2017, driven by an expansion in oil and gas production. In parallel, Moody's noted that downward pressure on the rating includes delays in fiscal consolidation, further drop in oil, gold or cocoa prices, and failure to resolve the ongoing energy shortages.

Source: *Moody's Investors Service*



BANKING

EGYPT

Stable outlook on banking sector

Moody's Investors Service maintained its 'stable' outlook on Egypt's banking system, as it expected banks to continue to benefit from a stable deposit base, high local currency liquidity and strong profitability over the next 12 to 18 months. It noted that the banks' rising exposure to the sovereign will remain a key risk, given their modest capital buffers. The agency anticipated lending to grow by 15% in the coming 12 to 18 months, as the gradual recovery in economic activity would provide banks with several business opportunities. Further, it expected the banks' asset quality to improve over the next 12 to 18 months as banks settle legacy cases. As such, it projected the banking sector's non-performing loans ratio to decline to around 6% at the end of 2016 from 6.8% at end-2015. But it anticipated asset risks to remain high, especially among borrowers in the tourism sector. It added that the banks' capital buffers against risky assets are low. Moody's noted that foreign currency liquidity is under pressure, mainly due to a severe shortage in US dollars, but it anticipated that an increase in foreign direct investment in the medium term would ease the pressure. In parallel, it expected the banks' profitability to remain strong, as banks continue to benefit from the high yields on sovereign debt, as well as from rising interest rates.

Source: Moody's Investors Service

SAUDI ARABIA

Liquid assets at 105% of GDP

Merrill Lynch estimated Saudi Arabia's liquid foreign assets at \$683bn, equivalent to 104.5% of the country's GDP, at the end of March 2016, which, along with planned fiscal consolidation measures, help underpin the authorities' commitment to the riyal's peg to the US dollar. It noted that liquid assets include \$587bn in foreign assets at the Saudi Arabian Monetary Agency (SAMA) and \$102bn in foreign assets managed by SAMA on behalf of independent institutions and agencies. It added that liquid assets exclude \$6.5bn in disbursed financial aid to Egypt and Lebanon. Further, it considered that the Saudi authorities' efforts to improve the liquidity of the country's foreign assets have led them to increase the government's holdings of U.S. Treasury securities. It estimated the total amount of Saudi foreign assets held in the United States across all asset classes at between \$345bn and \$500bn. It cautioned that a forced and rapid liquidation of U.S.-based Saudi foreign assets could expose SAMA and other government entities to mark-to-market losses, and could require changes to the country's foreign currency reserve management. In parallel, Merrill Lynch indicated that the authorities' new administrative prudential measures would mainly aim at limiting currency speculation and the exposure of local banks to speculative positioning against the Saudi riyal. It considered that it would be difficult for authorities to stop activity in the foreign currency forward market, as the latter is used by banks to access foreign liquidity and by corporates for hedging. It considered that if local banks do not have access to the foreign currency forward market, then they would need to turn to the wholesale market to access foreign liquidity at a higher cost. It added that activity on the domestic foreign currency forward market could move offshore, which would weigh on the currency.

Source: Merrill Lynch

KUWAIT

Low risks for sector's funding

S&P Global Ratings maintained Kuwait's banking sector in 'Group 4' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '5' and an industry risk score of '4'. 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. Other countries in BICRA's 'Group 4' include the Czech Republic, Malaysia, Mexico, New Zealand, Saudi Arabia and Taiwan. S&P indicated that Kuwait's economic risk score reflects its "intermediate risks" in economic resilience and in economic imbalances, as well as "high" credit risk in the economy. It anticipated that banks would face elevated economic risks due to the slowdown in economic activity. It expected the banks' credit losses to rise gradually due to weaker economic activity, which, along with the challenging operating conditions, would weigh on the banking sector's profitability. It said that the banks' healthy loan-loss reserves and capital buffers would enable them to absorb higher credit losses. In parallel, S&P pointed out that the industry score reflects the country's "low risks" in its system-wide funding, "intermediate risks" in its competitive dynamics and "high risks" in its institutional framework. It expected growth in local deposits to be relatively subdued during the 2016-18 period, but it noted that banks would still maintain good funding and liquidity profiles. Further, S&P indicated that the trend for economic and industry risks is "stable".

Source: S&P Global Ratings

TURKEY

Foreign borrowing decelerates, structural vulnerabilities persist

Fitch Ratings indicated that foreign currency liquidity of Turkish banks is vulnerable to a reversal of capital flows due to the banks' sustained borrowing in foreign currency, mainly with short-term maturities. It indicated that Turkish banks' external debt stood at \$178bn at the end of 2015, up by \$4bn from a year earlier. But it noted that the pace of debt accumulation is significantly slower than during previous years, mainly due to the depreciation of the Turkish lira. It noted that bonds issued by Turkish banks decreased by \$1bn in 2015 relative to a rise of \$10bn in 2014 and \$8bn in 2013, while foreign deposits rose by \$7bn last year compare to no growth in 2014 and to an increase of \$9bn in 2013. It added that long-term loans grew by \$21bn in 2015 compared to growth of \$7bn in 2014 and \$8bn in 2013, while short-term loans fell by \$23bn. It indicated that short-term foreign currency borrowings continue to account for a sizeable share of the banks' external debt. In parallel, Fitch estimated the Turkish banks' annual foreign currency debt service requirement, in the extreme scenario of a complete market shutdown, at about \$65bn to \$70bn. But it noted that Turkish banks could access about \$80bn to \$90bn in foreign currency liquidity, if needed, which exceeds their potential short-term debt servicing requirements. Still, it considered that a complete market shutdown is risky for banks because of the likely resulting pressure on foreign currency reserves, the exchange rate and economic activity.

Source: Fitch Ratings



Crude oil prices at highest level since July 2015

Crude oil prices reached their highest levels in more than eight months to close at \$52.5 per barrel (p/b) on June 8, 2016, driven by increased disruptions to global oil supply, stronger global demand, falling U.S. crude oil production and a weaker US dollar. The American Petroleum Institute showed that U.S. crude oil stocks declined by 3.6 million barrels last week. Also, supply outages in Nigeria caused the country's oil output to reach a 20-year low. In addition, Chinese oil imports rose by 16% year-on-year in the first five months of 2016. In parallel, global demand for petroleum and other liquids, which include crude oil, natural gas liquids, biofuels, and liquids derived from other hydrocarbon sources, is projected to grow by 1.5% in 2016, while global production is forecast to increase by 0.5% this year. As such, the oil market oversupply is expected to drop from an average of 1.45 million b/d in 2015 to about 0.49 million b/d in 2016. Brent oil prices are forecast to average \$43 p/b in 2016, while WTI oil prices are expected to average of \$42.8 p/b this year. In parallel, the Bloomberg WTI Crude Oil Total Return Sub-Index rose by 5.2% last month and by 7.6% in the first five months of the year, while the Brent Crude Oil Sub-Index improved by 4.1% last month and by 20.5% from end-2015.

Source: U.S. EIA, Wall Street Journal, Bloomberg Indexes

Kurdish oil exports up 4% in May 2016

The Kurdistan Regional Government's (KRG) crude oil exports totaled 15.9 million barrels in May 2016, up by 3.6% from 15.4 million barrels in the preceding month. On a daily basis, Kurdish hydrocarbon exports rose marginally by 0.2% month-on-month to an average of 513,041 barrels per day in May. The KRG's crude oil export receipts totaled \$390.7m in May 2016, up by 3.8% from \$376.4m in April. The KRG paid a total of \$75.3m to international oil companies and shippers, while it retained \$315.5m.

Source: KRG Ministry of Natural Resources

Middle East accounts for 43% of world's proven natural gas reserves

BP estimated the Middle East region's proven natural gas reserves at 2,826.6 trillion cubic feet (tcf) at the end of 2015, equivalent to 42.8% of the world's natural gas reserves. Iran held the region's largest proven natural gas reserves with 1,201.4 tcf, or 42.5% of the region's total reserves. It was followed by Qatar with 866.2 tcf, or 30.6% of the region's total, Saudi Arabia with 294 tcf (10.4%), the UAE with 215.1 tcf (7.6%), Iraq with 130.5 tcf (4.6%) and Kuwait with 63 tcf (2.2%).

Source: BP, Byblos Research

MENA's crude oil production up 5% in 2016

The Middle East & North Africa region's crude oil production is forecast to average 26.52 million barrels per day (b/d) in 2016, which would constitute a rise of 4.7% from 25.32 million b/d in 2015. The Gulf Cooperation Council (GCC) countries' crude oil production would account for 67.9% of the region's oil production in 2016, while non-GCC producers would represent the remaining balance of 32.1%. Saudi Arabia's crude oil production is projected at 10.22 million b/d in 2016, equivalent to 38.5% of the region's oil production, followed by Iraq with 4.05 million b/d (15.3%) and the UAE with 3.06 million b/d (11.5%).

Source: International Monetary Fund, Byblos Research

Base Metals: Steel output grew by 3% between 2010 and 2015

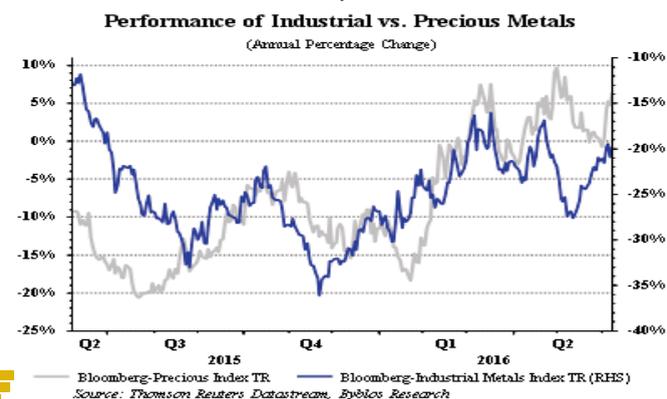
Global crude steel production reached 1.62 billion at the end of 2015 and grew by a compound annual rate (CAGR) of 2.5% between 2010 and 2015, compared to a CAGR of 4.5% during the 2005-10 period. China's crude steel production totaled 803.8 million tons in 2015, equivalent to 49.6% of global production. It was followed by Japan with 105.2 million tons, or 6.5% of global production, India with 89.4 million tons (5.5%), the U.S. with 78.8 million tons (4.9%) and Russia with 70.9 million tons (4.4%). In parallel, global apparent steel demand, which is defined as production minus exports plus imports, increased by a CAGR of 2.7% to 1.5 billion tons between 2010 and 2015. On a regional level, steel demand in Asia accounted for 65.2% of global demand in 2015. It was followed by the European Union with 10.2% of the total, North America (9%) and the Middle East region (3.5%).

Source: World Steel Association, Byblos Research

Precious Metals: Automotive sector to account for 43% of global platinum demand

Platinum prices averaged \$956 a troy ounce so far in 2016, closing at a low of \$814 an ounce and a high of \$1,081 an ounce so far this year. They are projected to gradually rise and trade above \$1,000 an ounce during the second half of 2016 due to increasing demand for platinum jewelry and cutbacks in mine supply. Prices are expected to increase from an average of \$916 an ounce in the first quarter of 2016 to \$970 an ounce in the second quarter, \$1,000 a troy ounce in the third quarter and \$1,060 an ounce in the fourth quarter of 2016. Overall, platinum prices are forecast to drop by 6.1% to an average of \$990 per ton in 2016. In parallel, global platinum supply is projected to reach 7.83 million ounces in 2016, which would constitute an increase of 0.4% from 7.8 million ounces in 2015. The marginal increase in production would reflect a 10.4% improvement in the metal's recycling worldwide that would be offset by a 2.4% drop in mine supply. South Africa's mine production would account for 73.6% of global mine supply in 2016, followed by Russia (11.4%) and North America (5.7%). In parallel, global demand for platinum is projected to drop by 1.6% to 8.3 million ounces this year, mainly due to a decline in investment demand. The global automotive sector is expected to account for 42.5% of total platinum demand in 2016, followed by the jewelry industry with 34.2% and the industrial sector with 21.5%. Further, the platinum market is forecast to post a production deficit of 490,000 ounces in 2016, due to a stronger-than-expected demand from Japan, an increase in jewelry consumption and a lower scrap supply for the automotive sector.

Source: Standard Chartered, Byblos Bank



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+	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B	B1	B+	-	B+	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B-	B3	B	B-	B-	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B	B1	B	-	B+	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B-	B3	B	-	B+	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3	B+	-	B+	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B	-	B-	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B-	B3	-	-	CCC	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B+	B1	BB-	-	BB-	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3	BB-	-	BB+	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B-	-	-	-	B+	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B+	-	B	-	B+	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB	Ba2	BBB-	BBB-	BBB-	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB-	BB-	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B-	(P)Caa1	B-	-	CC+	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB-	B1	-	BB-	BB+	-3.4	90.4	64.5	141.2**	4	177.3	-6.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B-	B2	B	B	B-	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB	Baa1	-	A-	BBB	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA	Aa2	AA	AA-	AA-	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A-	A1	AA-	AA-	AA-	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC	-10.0	67.3	17.3	-	-	197.2	-7.0	-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-	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	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	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
	Negative	CWN***	Stable	-	Negative								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB-	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
	Negative	CWN***	Negative	-	Negative								
Turkey	BB+	Baa3	BBB-	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Stable	Negative	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1
	Negative	Negative	-	-	Stable								

*to official creditors

** external debt/current account receipts

***Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; 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-Apr-16	No change	15-Jun-16
Eurozone	Refi Rate	0.00	02-Jun-16	No change	21-Jul-16
UK	Bank Rate	0.50	12-May-16	No change	16-Jun-16
Japan	O/N Call Rate	-0.10	28-Apr-16	No change	16-Jun-16
Australia	Cash Rate	1.75	07-Jun-16	No change	05-Jul-16
New Zealand	Cash Rate	2.25	08-Jun-16	No change	10-Aug-16
Switzerland	3 month Libor target	-1.25(-0.25)	17-Mar-16	No change	16-Jun-16
Canada	Overnight rate	0.50	25-May-16	No change	13-Jul-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	15-Jun-16
Taiwan	Discount Rate	1.50	24-Mar-16	Cut 13bps	30-Jun-16
South Korea	Base Rate	1.25	09-Jun-16	Cut 25bps	14-Jul-16
Malaysia	O/N Policy Rate	3.25	19-May-16	No change	13-Jul-16
Thailand	1D Repo	1.50	11-May-16	No change	22-Jun-16
India	Reverse repo rate	6.50	07-Jun-16	No change	09-Aug-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	28-Apr-16	No change	16-Jun-16
Turkey	Base Rate	7.50	24-May-16	No change	21-Jun-16
South Africa	Repo rate	7.00	19-May-16	No change	21-Jul-16
Kenya	Central Bank Rate	10.50	22-May-16	Cut 100 bps	20-Jul-16
Nigeria	Monetary Policy Rate	12.00	24-May-16	No change	26-Jul-16
Ghana	Prime Rate	26.00	16-May-16	No change	18-Jun-16
Angola	Base rate	14.00	30-Mar-16	Raised 200bps	09-Jun-16
Mexico	Target Rate	3.75	05-May-16	No change	30-Jun-16
Brazil	Selic Rate	14.25	08-Jun-16	No change	20-Jul-16
Armenia	Refi Rate	7.75	17-May-16	Cut 50bps	28-Jun-16
Romania	Policy Rate	1.75	05-May-16	No change	30-Jun-16
Bulgaria	Base Interest	0.00	01-Jun-16	No change	01-Jul-16
Kazakhstan	Repo Rate	15.00	06-Jun-16	No change	11-Jul-16
Ukraine	Discount Rate	18.00	26-May-16	Cut 100bps	23-Jun-16
Russia	Refi Rate	11.00	29-Apr-16	No change	10-Jun-16



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