

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global trade to grow by 1.7% in 2016

The World Trade Organization projected global trade to grow by 1.7% in real terms in 2016, the slowest growth rate since the 2009 financial crisis, and down from an April forecast of 2.8% and from a growth rate of 2.7% in 2015. It attributed the reduced forecast to weaker-than-expected trade growth in the first half of 2016 due to falling demand for imports and slowing economic activity in several major developing countries, such as China and Brazil, as well as in North American economies. It expected trade growth at between 1.8% and 3.1% in 2017, down from a previous forecast of 3.6%. It noted that risks to the outlook include financial volatility from the change in monetary policies in developed countries, possible implementation of anti-trade policies, and increased uncertainty about trade agreements in Europe in the aftermath of the Brexit vote. In parallel, the WTO forecast imports to developed economies to grow by 2.6% in real terms in 2016, and those to emerging & developing countries to expand by 0.4%. It expected exports from developed economies to rise by 2.1% in real terms, and those from emerging & developing countries to increase by 1.2% in 2016. The WTO projected imports to Europe to increase by 3.7%, those to North America to rise by 1.9% and those to Asia to grow by 1.6%; while it forecast imports to South & Central America to contract by 8.3% in 2016. Also, it expected exports from South & Central America to expand by 4.4% in 2016, followed by Europe at 2.8%, North America at 0.7% and Asia at 0.3%.

Source: World Trade Organization

Revenues of global payment industry to increase to \$2 trillion by 2025

The Boston Consulting Group (BCG) expected the global payment industry to generate \$2 trillion in revenues in 2025, which would reflect a compound annual growth rate (CAGR) of 6% from \$1.1 trillion in 2015. It indicated that revenues of the payment industry include account revenues, which is the maintenance fees and the net interest income from current accounts; transaction-related revenues on card and non-card payments; and non-transaction-related card revenues, which are the monthly or annual card membership fees, penalty fees and other services fees. BCG forecast revenues of the payment industry in Emerging Asia-Pacific to account for 28% of global revenues in 2025, followed by North America (25%), Latin America (13%), Western Europe (11%), the Middle East & Africa and Eastern Europe (8% each) and Developed Asia-Pacific (7%). Also, it expected the revenues of the payment industry in the ME&A region to grow at a CAGR of 9% between 2015 and 2025, followed by Emerging Asia-Pacific (+8%), Latin America and Eastern Europe (+7% each), North America (+5%), Developed Asia-Pacific (+3%) and Western Europe (+2%). Further, it projected receipts from retail payment transactions to reach \$1.4 trillion in 2025, or 72.5% of total payment revenues, and to expand at a CAGR of 5.7% from \$828bn in 2015; while it forecast revenues from wholesale payment transactions at \$548bn in 2025, or 27.5% of the total, and to grow at a CAGR of 6.6% from \$290bn in 2015.

Source: Boston Consulting Group

Majority of institutional investors to increase their investments in real estate

A survey of institutional investors in alternative assets, conducted by research provider Preqin, indicated that 90% of investors said that their real estate investments have met or exceeded their expectations in 2015, compared to 93% of respondents who had similar views in 2014. It added that 52% of surveyed investors had a positive perception of the real estate asset class in 2015, while 12% of participants had a negative perception. Further, the survey shows that 55% of investors plan to maintain their allocation in real estate funds in the long term, while 29% of respondents consider increasing their real estate investments and 16% of participants intend to allocate less capital to real estate funds. It noted that investors tend to have a strong domestic bias when it comes to investing in real estate funds. It said that 82% of Europe-based respondents would invest in the European real estate market in the coming 12 months, 78% of North America-based investors are likely to target the North American market, and 53% of Asia-based participants intend to invest in the Asian real estate sector. In parallel, the survey pointed out that 68% of respondents consider the high pricing and valuation of assets to be their biggest concern currently, while 30% of participants believe that the future performance of their real estate investment poses the biggest concern for them.

Source: Preqin

MENA

Competitiveness of Arab world regresses

The World Economic Forum's Global Competitiveness Index for 2016-17 indicated that the UAE is the most competitive economy among 14 Arab countries included in the survey and is the 16th most competitive among 138 countries worldwide. Qatar followed in 18th place, then Saudi Arabia (29th), Kuwait (38th) and Bahrain (48th) as the five most competitive Arab economies and the only ones to rank among the top 50 countries globally. In contrast, Tunisia (95th), Lebanon (101st), Egypt (115th), Mauritania (137th) and Yemen (138th) were the least competitive Arab economies. The index included figures for Yemen following its exclusion in the previous survey, as security concerns prevented data collection last year. The rankings of six Arab countries regressed and seven improved year-on-year based on the same set of countries. Excluding Yemen, the region's average score stood at 4.26 and came below its score of 4.29 points in the previous survey. The GCC countries' average score decreased year-on-year to 4.77 points from 4.83 points in the previous survey, while the average score of non-GCC Arab countries, excluding Yemen, remained unchanged at 3.83 points. The scores of six Arab countries rose while the scores of seven declined. In parallel, the Arab average becomes 4.15 points when including Yemen, which is lower than the global score of 4.27 points, the score of North America (5.49 points), East Asia & the Pacific (4.8 points), Europe (4.72 points) and Eurasia (4.18 points), but is above the score of Latin America & the Caribbean (4.04 points), South Asia (3.96 points) and Sub-Saharan Africa (3.60 points).

Source: World Economic Forum, Byblos Research

OUTLOOK

GCC

Fiscal consolidation to continue to impact economic activity

Samba Financial Group projected real GDP growth in the economies of the Gulf Cooperation Council (GCC) to decelerate from 3.5% in 2015 to 1.6% in 2016 due in large part to fiscal consolidation. It considered that fiscal consolidation is having a strong negative impact on growth in the non-hydrocarbon sector, which is weighing on overall economic activity in GCC countries. It forecast real GDP growth at 2.7% in 2017 in case oil prices recover and a moderate increase in public spending materializes. It projected real GDP growth in Qatar to decelerate from 3.7% in 2015 to 3.5% in 2016, economic activity in the UAE to slow down from 4% to 2.3% in 2016, growth in Bahrain to regress from 2.9% in 2015 to 2%, real GDP in Oman to decelerate from 3.1% to 1.5% this year, growth in Kuwait to retreat from 1.8% in 2015 to 1.3% and activity in Saudi Arabia to slow down from 3.4% to 0.6% in 2016. It noted that real GDP across GCC countries would accelerate in 2017, reaching 3.6% in Qatar, 2.6% in Saudi Arabia, 2.5% in the UAE, 2.3% in Bahrain, 1.8% in Oman and 1.7% in Kuwait.

In parallel, Samba indicated that hydrocarbons generated about 70% of total exports receipts in GCC countries during the 2011-14 period, with a high of 89% in Qatar and a low of 33% in the UAE. It added that hydrocarbon revenues accounted for about 80% of aggregate fiscal revenues in GCC economies between 2011 and 2014, with a high of 91% in Qatar and a low of 70% in the UAE. As such, it considered that the prospects of a return to current account and fiscal surpluses in the GCC are heavily dependent on a recovery in oil prices and on fiscal consolidation efforts. It expected all GCC countries, except the UAE and Qatar, to post a double-digit fiscal deficit in 2016, but it anticipated the deficit to narrow to single digits in GCC countries in 2017, except for Bahrain. Further, it indicated that GCC sovereigns have raised \$87bn in domestic and international debt issuances since January 2015, with Saudi Arabia planning to issue about \$15bn in coming months. In parallel, it anticipated GCC countries to post current account deficits this year, except for the UAE and Kuwait, and it added that only Saudi Arabia and Oman would continue to post deficits in 2017.

Source: Samba Financial Group

NIGERIA

Economy to contract by 1% in 2016

The Institute of International Finance projected Nigeria's real GDP to contract by 1% in 2016, following a growth rate of 2.7% in 2015, due to reduced public revenues from low oil prices, disruptions in oil production, foreign currency and fuel shortages and capital controls. It forecast the hydrocarbon output to shrink by 8.8% in 2016 following a contraction of 5.5% in 2015, while it expected non-hydrocarbon sector activity to contract by 0.6% in 2016 following a growth rate of 3.9% in the preceding year. It said that the recent stabilization in oil prices and the shift to a flexible exchange rate system in June 2016 could improve the country's growth prospects. As such, it noted that economic growth could rebound to 2% in 2017 in case oil prices increase to \$49 p/b, oil production recovers and if the recently imple-

mented reforms stimulate the non-oil economy. It forecast the inflation rate to average 15.9% in 2016 compared to 9% in 2015, due to a weaker naira and to increases in local energy prices.

In parallel, the IIF indicated that the Nigerian naira has not yet stabilized following the shift to a more flexible exchange rate regime, given the persistently high demand for foreign currency. It noted that the Central Bank of Nigeria (CBN) continues to intervene in the foreign currency market to support the naira. It expected the spread between the official and parallel exchange rates to remain wide as long as foreign currency restrictions on several products persist. Still, the IIF considered that a more flexible exchange rate would help address fiscal and external imbalances, as well as improve investment prospects. It expected foreign currency reserves to stabilize at about \$25bn in the coming months.

Source: Institute of International Finance

AFRICA

Household consumption to reach \$2.1 trillion by 2025

The McKinsey Global Institute projected household consumption in African economies at \$2.1 trillion in 2025, constituting a compound annual growth rate of 3.8% from \$1.4 trillion in 2015. As such, it noted that household consumption would grow by \$645bn by 2025, of which 50% would come from East Africa, Egypt and Nigeria. It expected Nigeria to account for 22% of household consumption in 2025, followed by Egypt (17%), East Africa (15%), the rest of North Africa (13%), South Africa (12%) and Francophone Africa (11%), while the remaining African countries would account for the balance of 10%. It said that Nigeria's share of household consumption would drop by four percentage points between 2015 and 2025, the steepest decline in the continent, while Francophone Africa's share would rise by two percentage points during the covered period. McKinsey anticipated that basic items, such as food & beverages, will account for the largest share of consumption growth during the 2015-25 period. But it noted that spending on discretionary categories would increase the most between 2015 and 2025, with expenditures on financial services rising by 5.4%, spending on housing growing by 4.4% and outlays on healthcare expanding by 4.3%.

McKinsey anticipated that households in North Africa who earn more than \$50,000 per year would spend an additional \$140bn by 2025, while those in South Africa would spend an additional \$34bn. It noted that these households would spend the most on housing, consumer goods, education and transportation services. Further, it indicated that new spending in Nigeria would come from households earning between \$20,000 and \$50,000 per year (+\$44bn), those earning more than \$50,000 (+\$30bn), and households with an annual income of between \$5,000 and \$20,000 (+\$28bn). In addition, it pointed out that the largest source of new spending in East African economies would come from households earning between \$5,000 and \$20,000 (+\$54bn) and those earning between \$20,000 and \$50,000 per year (+\$36bn). Finally, it said that households in West & Central Africa who earn between \$5,000 and \$20,000 annual would spend an additional \$40bn on consumption, while those earning between \$20,000 and \$50,000 per year would spend an additional \$33bn by 2025.

Source: McKinsey Global Institute



ECONOMY & TRADE

BAHRAIN

Sovereign ratings downgraded on deteriorating external and public finances

Capital Intelligence Ratings downgraded Bahrain's long-term foreign and local currency ratings from 'BBB-' to 'BB+', with a 'stable' outlook. It attributed the downgrade to the continued deterioration in Bahrain's external and public finances, and to the limited progress to reverse the public debt dynamics over the medium term. It expected the fiscal deficit to widen from 13.3% of GDP in 2015 to a record-high of 17.9% of GDP in 2016 due to lower hydrocarbon revenues. It anticipated the fiscal deficit to remain wide during the 2017-18 period due to limited fiscal consolidation measures. Also, it forecast the government's debt level to exceed 80% of GDP in 2016 compared to 21% of GDP in 2009. It expected the government's net asset position to fully erode over the coming two years, which would further reduce fiscal flexibility. Also, the agency projected the current account deficit to widen from 3.2% of GDP in 2015 to 6.7% of GDP in 2016 due to subdued hydrocarbon export receipts. It noted that the pressure on the balance of payments would weigh on the country's moderate foreign currency reserves of \$4.5bn, or 4.5 months of imports cover, which would constrain the authorities' ability to absorb economic shocks. Still, it pointed out that the ratings are supported by Bahrain's high level of GDP per capita and the growth prospects in the non-oil economy.

Source: Capital Intelligence Ratings

TURKEY

Sovereign ratings downgraded on rising external funding risks

Moody's Investors Service downgraded Turkey's long-term issuer and senior unsecured bond ratings from 'Baa3' to 'Ba1', with a 'stable' outlook. It attributed the downgrade to speculative grade to increased risks related to the country's large external funding requirements, to slowing economic growth and to weakening institutional strength. First, the agency estimated Turkey's external financing requirements at 26% of GDP in each of 2016 and 2017, which exposes it to sudden shifts in investor confidence that has been weak and volatile over the past 18 months. It considered that Turkey's elevated external financing needs, increased domestic political risks, persistent geopolitical threats and a volatile financing environment, have raised the risks of a balance of payments crisis. It added that the country's external buffers are low. But it noted that the banking sector has about 11% of GDP in foreign currency reserves at the Central Bank of Turkey (CBT), which, along with the banks' liquid assets, would be sufficient to cover the sector's liabilities that mature over the next 12 months. In contrast, it said that the government is in a weaker position to support the economy, as the CBT's net foreign currency reserves account for about 30% of its gross reserves. Second, the agency noted that the erosion of Turkey's institutional strength will have negative implications on economic activity in coming years, and on the progress in reforms that address external imbalances. Third, it projected real GDP growth to average 2.7% in the 2016-19 period, down from an average of 5.5% annually in the 2010-14 period.

Source: Moody's Investors Service

ANGOLA

Sovereign ratings downgraded on worsening fiscal and external balances

Fitch Ratings downgraded Angola's long-term foreign and local currency Issuer Default Ratings from 'B+' to 'B', and maintained the 'negative' outlook on the ratings. It attributed the downgrade to the drop in global oil prices that significantly worsened Angola's macroeconomic, fiscal and external metrics. It said that the scarcity of foreign currency liquidity has negatively affected non-hydrocarbon sector activity, which is heavily reliant on imports. It projected Angola's economy to stagnate in 2016, compared to a growth rate of 3% in 2015, constituting the weakest performance in 14 years. It noted that the inflation rate reached 38% in August 2016 due to the sharp depreciation of the currency, and expected it to average more than 30% this year. Further, the agency forecast the fiscal deficit to widen from 3.8% of GDP in 2015 to 5.8% of GDP in 2016 and 6.6% of GDP in 2017, due to low hydrocarbon revenues and to spending related to the general and presidential elections in 2017. As such, it projected the public debt level to rise from 24.5% of GDP in 2013 to about 60% of GDP in 2016. It said that foreign currency-denominated debt accounts for more than 40% of the public debt stock, which exposes it to the depreciation of the currency. It forecast the current account deficit to average 5.5% of GDP annually during the 2016-18 period. In parallel, Fitch indicated that the ratings are supported by Angola's foreign currency reserves that reached \$24bn, or eight months of import cover, at end-July 2016, as well as by the government's deposits of about 15% of GDP, and a sovereign wealth fund with assets equivalent to 6.7% of GDP.

Source: Fitch Ratings

GHANA

Outlook on rating revised upward to 'stable'

Moody's Investors Service affirmed at 'B3' Ghana's issuer and senior unsecured sovereign rating, and revised the outlook from 'negative' to 'stable'. The agency attributed the outlook revision to the significant narrowing of the fiscal deficit, the implementation of institutional reforms, reduced external government liquidity risks, and improved balance-of-payments dynamics. First, it indicated that the fiscal deficit narrowed from 10.2% of GDP in 2014 to 6.3% of GDP in 2015 due to improved revenue collection, control over the public-sector wage bill and the repayment of about 2.4% of GDP in arrears. It projected the fiscal deficit to further narrow to 6.1% of GDP in 2016 and 5.3% of GDP in 2017. Second, it said that the government's external liquidity improved following the successful issuance of a \$750m Eurobond in September 2016. But it noted that Ghana's gross borrowing requirements remain elevated at about 18% of GDP in 2017 amid tight domestic and external funding conditions. Also, it indicated that Ghana's fiscal metrics are one the weakest among rated sovereigns, with an elevated debt level of 71.6% of GDP in 2015 and because debt servicing absorbs about 30% of total revenues. Third, Moody's expected the proceeds from the \$750m Eurobond and the Ghana Cocoa Board's \$1.8bn loan to increase the foreign currency buffers, which would allow authorities to better withstand external shocks. Also, it expected Ghana's fiscal and external accounts to benefit from FDI inflows and higher oil exports.

Source: Moody's Investors Service



BANKING

JORDAN

Capital adequacy ratio at 18.4%, NPLs at 4.7% at end-March 2016

Preliminary figures released by the International Monetary Fund indicate that the risk-weighted capital adequacy ratio of banks operating in Jordan reached 18.4% at the end of March 2016, relative to 19.1% at end-2015 and 18.4% at end-2014. The sector's liquidity ratio stood at 147.5% at end-March 2016 compared to 162.2% at end-2015 and 152.2% at end-2014, while the sector's loans-to-deposits ratio increased to 65.1% at end-March 2016 from 64.7% at end-2015 and 63.7% at end-2014. Also, the loans-to-GDP ratio was 76.8% at the end of March 2016, down from 79.2% at end-2015 but up from 75.8% at end-2014. In parallel, foreign currency deposits represented 20.3% of aggregate deposits and foreign currency loans accounted for 13.3% of total loans at the end of March 2016, almost unchanged since the end of 2014. Further, the sector's non-performing loans (NPLs) ratio regressed to 4.7% at end-March 2016 from 5% at the end of 2015 and 5.6% at the end of 2014. Also, the sector's provisions-to-classified loans stood at 80.2% at the end of March 2016, up from 75.7% at end-2015 and 77.6% at end-2014. In parallel, the banks' annualized return on assets was 1.4% in March 2016, almost unchanged from 1.3% in December 2015, while their return on equity reached 11% on an annualized basis in March, up from 10.3% in December 2015.

Source: *International Monetary Fund*

MOROCCO

Pressure on asset quality increases

Fitch Ratings anticipated the asset quality of Morocco's six largest banks to continue to deteriorate in 2016, due to the vulnerability of small- and medium-sized enterprises (SME), difficulties facing several national players, and low demand for loans in the country. It noted that any significant improvement in the banks' asset quality ratios this year would have to come from stronger demand for loans. But it projected the banks' lending to grow by about 2.5% this year, the same rate as in 2015. The agency indicated that Groupe Banque Centrale Populaire, Attijariwafa Bank, BMCE Bank, Société Générale Marocaine de Banques, Banque Marocaine pour le Commerce et l'Industrie, and Crédit du Maroc account for about 84% of the sector's customer deposits. Further, it considered that the banks' substantial exposure to volatile operating environments, such as in Sub-Saharan African (SSA) countries or Tunisia, poses additional credit and operational risks. Also, it pointed out that the banks' reserve coverage ratios are just adequate due to the insufficient coverage of impaired loans in SSA, significant exposure to vulnerable domestic corporates and SMEs, and uncertainties about collateral valuation. In parallel, Fitch noted that the funding profile of Moroccan banks remains solid and that liquidity has largely improved since 2013. It expected the banks' capital ratios to remain modest in 2016 due to loan book concentration, adequate reserve coverage of impaired loans and exposure to volatile African countries. It indicated that profitability is adequate at the six banks, supported by their international operations. But it expected the banks' deteriorating asset quality to weigh on their profitability.

Source: *Fitch Ratings*

SAUDI ARABIA

Agency takes rating actions on 11 banks

Fitch Ratings affirmed at 'A' the long-term foreign currency Issuer Default Ratings (IDR) of Al Rajhi Bank (Al Rajhi), National Commercial Bank (NCB), Riyad Bank and SAMBA Financial Group (SAMBA); and at 'A-' the IDR of Arab National Bank (ANB), Banque Saudi Fransi (BSF), Saudi British Bank (SABB), Saudi Hollandi Bank (SHB), Saudi Investment Bank (SAIB), Alinma Bank and Bank Aljazira (BAJ). It said that the banks have a 'negative' outlook on their long-term IDR. Further, Fitch downgraded the viability ratings (VR) of Riyad Bank and ANB from 'a-' to 'bbb+', while it affirmed at 'a-' the VR of NCB, Al Rajhi, SAMBA, BSF and SABB; at 'bbb+' that of SHB and Alinma Bank; at 'bbb-' the VR of SAIB; and at 'bb+' that of BAJ. The agency attributed the downgrade of the VRs of Riyad Bank and ANB to their weakened funding and liquidity metrics. It noted that the VRs of the 11 banks take into account the banks' reliance on the government's capital expenditures for growth opportunities, their sound capital ratios, as well as high barriers to entry, and low but rising funding costs. In addition, it said that the local operating environment has been weakening, which has slowed down the growth of the banks' lending and revenues. It added that lower government revenues have reduced liquidity in the banking system and increased the cost of funding. It expected the banks' asset quality to deteriorate, which would eventually affect their capital ratios.

Source: *Fitch Ratings*

TURKEY

Banking sector risk assessment maintained

S&P Global Ratings maintained Turkey's Banking Industry Country Risk Assessment (BICRA) in 'Group 6', and its economic and industry risk scores at '6' each. 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 6' include Brazil, Brunei, Columbia, Guatemala, Iceland, Ireland, Italy, Thailand and Uruguay. The agency indicated that Turkey's economic risk score reflects its "high risks" in economic resilience and economic imbalances, and its "intermediate" credit risks in the economy. It said that the economic risk assessment reflects Turkey's moderate per capita income compared with peers in the same BICRA group, institutional challenges, and its sizable current account deficit. It noted that the banks' credit risk reflects the rapid lending growth of about 30% annually during the 2010-14 period, and the relatively high share of lending in foreign currency of about 30% of total loans. It projected nominal lending growth to remain below 10% annually over the coming two years, which would be equivalent to a 2% growth in real terms. It said that the trend for economic risk is 'negative' due in part to an expected deterioration in the banks' asset quality. In parallel, S&P indicated that the industry score reflects the country's "very high risks" in its system-wide funding and "intermediate risks" in its institutional framework and competitive dynamics. It noted that the high industry risk and 'negative' trend reflects the banks' elevated reliance on short-term external debt, which leaves them exposed to changes in investor sentiment.

Source: *S&P Global Ratings*



ENERGY / COMMODITIES

Oil prices surge by more than 5% after OPEC's preliminary decision to lower oil production quota

ICE Brent crude oil front-month prices closed at \$48.69 per barrel (p/b) on September 28, 2016, constituting an increase of 5.9% from the preceding day and a rise of 30.6% from the end of 2015; while WTI oil prices grew by 5.4% day-to-day and by 26.8% from end-2015 to close at \$47.07 p/b. The recent oil price increase came after the members of the Organization of Petroleum Exporting Countries (OPEC) reached a preliminary agreement to cut their oil production quota for the first time since 2008. Under the agreement, OPEC's oil production is expected to decline from 33.4 million b/d to a range of 32.5 million b/d to 33 million b/d. OPEC noted that individual production levels for each member country will be set in the November 30 meeting in Vienna. Saudi Arabia is expected to lower its oil production by up to 350,000 b/d; while Iran, Nigeria and Libya are likely to be exempted from the production cuts. The deal to reduce oil production could provide short-term support for prices, which could reach about \$60 p/b in the near term. However, S&P Global Ratings expected the current market oversupply to persist in the near term despite the OPEC agreement. It added that uncertainties about global oil demand over the 2017-18 period, mainly from China and India, continue to weigh down on oil prices.

Source: S&P Global Ratings, CNBC, Byblos Research

Iran's oil output to reach pre-sanction levels by end-2016

Iran aims to reach its oil production target of 4 million b/d by the end of 2016, almost a year after Western sanctions on the sector were eased in January 2016. The country's oil output is currently estimated at about 3.8 million barrels per day (b/d), a level that it last reached in November 2011. Authorities approved a new Iran Petroleum Contract model in August 2016 in an attempt to attract foreign investments to develop its oil and gas sector. In parallel, Iranian crude oil exports averaged about 2.2 million b/d in September 2016, a level that is likely to be sustained until the end of the year.

Source: Bloomberg

ME&A's oil demand to rise by 1.5% in 2016

Crude oil consumption in the Middle East & Africa region is forecast to average 12.28 million barrels per day (b/d) in 2016, which would reflect a growth of 1.5% from 12.1 million b/d in 2015. The region's demand for oil would account for about 13% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 3.4 million b/d in 2016, nearly unchanged from 3.41 million b/d in 2015.

Source: OPEC, Byblos Research

ME&A's steel output down 6% in first eight months of 2016

The Middle East & Africa region's crude steel production totaled 26.2 million tons in the first eight months of 2016, down 6% from 27.9 million tons in the same period of 2015, and accounted for 2.5% of global steel output. Iran was the largest producer of steel in the region with a production level of 11.5 million tons in the first eight months of the year, equivalent to 43.6% of the region's total output. It was followed by South Africa with 4.2 million tons (16%) and Saudi Arabia with 3.2 million tons (12%).

Source: World Steel Association, Byblos Research

Base Metals: Steel production down 1% in first eight months of 2016

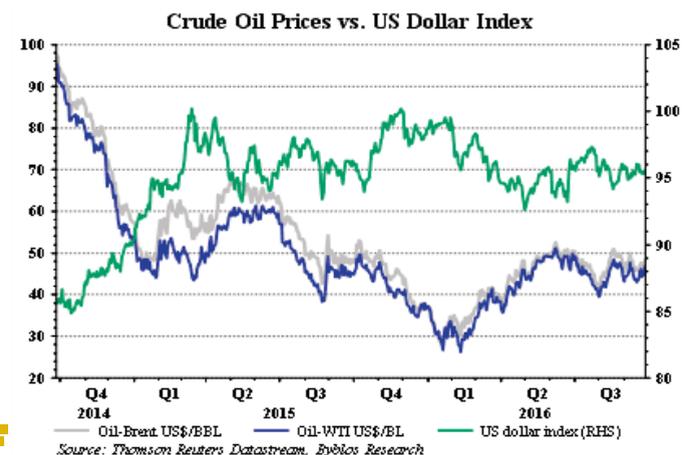
The LME steel billet cash price reached \$312.5 per ton on September 28, constituting a rise of 58.6% from \$197 per ton at end-2015. Prices averaged \$199.4 per ton so far in 2016, trading at a low of \$75.5 per ton and a high of \$312.5 per ton. The increase in the metal's price is mainly due to China's ongoing efforts to reduce its steel overcapacity. Also, the G-20 summit earlier this month expected China, the top producer of the metal, to take further measures to limit and monitor its steel oversupply and dumping. In parallel, global crude steel output was 1.065 billion tons in the first eight months of 2016, according to the latest available figures, down by 0.9% from 1.074 billion tons in the same period of 2015. China's crude steel production totaled 536.3 million tons in the first eight months of 2016, or 50.4% of global steel output. It was followed by Japan with 69.9 million tons (6.6%), India with 63.2 million tons (5.9%) and the U.S. with 53.5 million tons (5%). On a regional level, steel output in Asia totaled 734.1 million tons and accounted for 68.9% of global production in the covered period, followed by the European Union with 107.9 million tons (10.1%) and North America with 75.1 million tons (7.1%). 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 to remain volatile in near term

Gold prices averaged \$1,259 per troy ounce in the first nine months of 2016, trading at a low of \$1,062 per ounce and a high of \$1,369 per ounce. The main factors that have raised gold demand in recent months include investors' concerns about the stability of the global economy, uncertainty in financial markets and a desire to hedge against unexpected events. In parallel, prices closed at a one-week low of \$1,320 a troy ounce on September 28, driven by a slightly stronger US dollar. They traded at a narrow range on September 29 as investors remain uncertain if OPEC members would be able to implement the production cuts in late November that could lead to higher oil prices and, in turn, would raise the outlook for global inflation. In case this event materializes in coming months, then gold demand would increase and prices would reach about \$1,400 an ounce. In general, investors resort to gold in order to hedge against inflation and market uncertainties. In addition, prices are expected to remain volatile ahead of the U.S. presidential elections in November.

Source: Barclays, 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+	-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	B+	-	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	B2	B	-	B+	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB	Ba2	BB+	BB+	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	Ba1	BBB-	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Negative	Stable	Negative	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	21-Sep-16	No change	02-Nov-16
Eurozone	Refi Rate	0.00	08-Sep-16	No change	20-Oct-16
UK	Bank Rate	0.25	15-Sep-16	No change	13-Oct-16
Japan	O/N Call Rate	-0.10	21-Sep-16	No change	01-Nov-16
Australia	Cash Rate	1.5	06-Sep-16	No change	04-Oct-16
New Zealand	Cash Rate	2.00	22-Sep-16	No change	09-Nov-16
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Sep-16	No change	15-Dec-16
Canada	Overnight rate	0.50	07-Sep-16	No change	19-Oct-16
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	27-Jul-16	No change	N/A
Taiwan	Discount Rate	1.375	30-Jun-16	Cut 12.5bps	30-Sep-16
South Korea	Base Rate	1.25	09-Sep-16	No change	13-Oct-16
Malaysia	O/N Policy Rate	3.00	07-Sep-16	No change	23-Nov-16
Thailand	1D Repo	1.50	14-Sep-16	No change	09-Nov-16
India	Reverse repo rate	6.50	09-Aug-16	No change	04-Oct-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	12.25	22-Sep-16	No change	17-Nov-16
Turkey	Base Rate	7.50	22-Sep-16	No change	20-Oct-16
South Africa	Repo rate	7.00	22-Sep-16	No change	23-Nov-16
Kenya	Central Bank Rate	10.00	20-Sep-16	Cut 50bps	21-Nov-16
Nigeria	Monetary Policy Rate	14.00	20-Sep-16	No change	22-Nov-16
Ghana	Prime Rate	26.00	19-Sep-16	No change	21-Nov-16
Angola	Base rate	16.00	08-Aug-16	No change	29-Sep-16
Mexico	Target Rate	4.25	11-Aug-16	No change	29-Sep-16
Brazil	Selic Rate	14.25	31-Aug-16	No change	19-Oct-16
Armenia	Refi Rate	6.75	27-Sep-16	Cut 50bps	15-Nov-16
Romania	Policy Rate	1.75	04-Aug-16	No change	30-Sep-16
Bulgaria	Base Interest	0.00	01-Sep-16	No change	03-Oct-16
Kazakhstan	Repo Rate	13.00	15-Aug-16	No change	03-Oct-16
Ukraine	Discount Rate	15.00	15-Sep-16	Cut 50bps	27-Oct-16
Russia	Refi Rate	10.00	16-Sep-16	Cut 50bps	28-Oct-16



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