

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Debt issuance at \$311bn in first nine months of 2016

Emerging markets issued \$311.2bn in sovereign and corporate bonds in the first nine months of 2016. Debt issuance in Asia reached \$121.4bn or 39% of the total, followed by Latin America with \$89.5bn (28.8%), Emerging Europe, the Middle East & Africa (EEMEA) with \$68.5bn (22%) and Gulf Cooperation Council (GCC) countries with \$31.7bn (10.2%). Further, EM corporates issued \$212.9bn in bonds in the first nine months of the year, equivalent to 68.4% of total sovereign and corporate bond issuance. Asia issued \$110.1bn or 51.7% of total corporate issuance, followed by Latin America with \$48.3bn (22.7%), the EEMEA region with \$40.3bn (18.9%) and GCC countries with \$14.3bn (6.7%). In parallel, EM sovereigns issued \$98.4bn in Eurobonds, or 31.6% of total sovereign and corporate bond issuance in the covered period. Latin America issued \$41.2bn or 41.9% of total sovereign issuance, followed by the EEMEA region with \$28.3bn (28.8%), GCC economies with \$17.4bn (17.7%) and Asia with \$11.4bn (11.6%). Merrill Lynch projected sovereign bond issuance in emerging markets at \$164.1bn in 2016, which would constitute a decline of 46.7% from \$308bn in 2015. It expected issuance in Latin America to reach \$44.2bn, followed by GCC countries with \$43.4bn, the EEMEA region with \$35.2bn and Asia with \$14.5bn.

Source: Merrill Lynch

MENA

Region's level of economic freedom nearly unchanged in 2016

The Fraser Institute's 2016 Index of Economic Freedom, a broad indicator of economic freedom in 159 countries, shows that the level of economic freedom among Arab countries stood at an average score of 6.63 points, nearly unchanged from the 2015 survey, but came below the global level of 6.85 points. The index measures on a scale of zero to 10 the extent that a country's policies and institutions are supportive of economic freedom. GCC economies had an average score of 7.48 points, significantly higher than the average score of non-GCC Arab countries of 6.13 points. Further, the level of economic freedom in the Arab world is lower than that of North America (7.9 points), Europe & Central Asia (7.3 points), East Asia & Pacific (7.2 points) and Latin America & the Caribbean (6.7 points), but is higher than that of South Asia (6.5 points) and Sub-Saharan Africa (6.3 points). The rankings of 11 Arab countries regressed, four improved and one was unchanged based on the same number of countries included in the 2015 and 2016 surveys. Also, the scores of seven countries improved, seven regressed and two were unchanged. The UAE continues to have the highest level of economic freedom among Arab countries and the fifth highest in the world, followed by Qatar (12th), Jordan (14th), Bahrain (26th) and Oman (59th); while Syria (146th), Algeria (151st) and Libya (158th) are the least free economies in the region.

Source: Fraser Institute, Byblos Research

Stock markets down 7% in first nine months of 2016

Arab stock markets regressed by 7.1% and Gulf Cooperation Council (GCC) markets decreased by 8.8% in the first nine months of 2016, compared to decreases of 10.9% and 11.1%, respectively, in the same period of 2015. Arab and GCC stock markets regressed by 3% and 4%, respectively, in September 2016 from the preceding month. In parallel, global equities rose by 5.1%, while emerging market equities grew by 13.9% in the first nine months of 2016. Activity on the Damascus Securities Exchange increased by 23.1% in the first nine months of 2016. It was followed by the Egyptian Exchange and the Casablanca Bourse with a 12.5% improvement each, the Dubai Financial Market with a 10.3% growth, the Muscat Securities Market and Tunis Bourse with a 5.9% rise each, the Abu Dhabi Securities Exchange with a 3.9% increase, the Khartoum Stock Exchange with a 2.3% improvement and the Qatar Stock Exchange with a 0.1% growth. In contrast, activity on the Iraq Stock Exchange dropped by 33.2%, followed by the Saudi Stock Exchange with an 18.6% decline, the Beirut Stock Exchange with a 14.4% decrease, the Bahrain Bourse with a 5.4% decline, the Kuwait Stock Exchange with a 3.9% contraction, the Palestine Exchange with a 2.7% fall, and the Amman Stock Exchange with a 0.7% decrease. In comparison, the Tehran Stock Exchange rose by 25.3% in the first nine months of 2016.

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

Nine Arab cities among 100 most sustainable cities in the world

The 2016 Arcadis Sustainable Cities Index indicated that Dubai is the most sustainable city among nine Arab cities included in the survey and ranked in 52nd place globally. Abu Dhabi followed in 58th place worldwide, then Kuwait City in 70th place, Doha (72nd place), Muscat (75th place), Riyadh (76th place), Jeddah (81st place), Amman (86th place) and Cairo (93rd place). The Index ranks 100 cities based on three dimensions of sustainability, which are the People Sub-Index, the Planet Sub-Index and the Profit Sub-Index. Muscat came in first place in the Arab region and ninth globally on the People Sub-Index, followed by Kuwait City (36th place), Dubai (55th place), Riyadh (56th place) and Doha (57th place). The People Sub-Index measures the social performance of the cities, which includes the quality of life. Further, Amman ranked in first place regionally and 55th globally on the Planet Sub-Index, followed by Jeddah (81st place), Riyadh (82nd place), Muscat (88th place) and Kuwait City (89th place). The Planet Sub-Index takes into account factors such as energy, pollution and emissions in the cities. Finally, Dubai came in first place regionally and fourth globally on the Profit Sub-Index, followed by Abu Dhabi (13th place), Doha (50th place), Kuwait City (68th place) and Riyadh (79th place). The Profit Sub-Index assesses the business environment and economic health of a country.

Source: Arcadis

POLITICAL RISK OVERVIEW - September 2016

EGYPT

Military clashes with Islamic State (IS) militants persisted in the Sinai Peninsula. A security officer was killed and another was injured by an improvised explosive device (IED) attack on an army vehicle near Al-Hasna region in central Sinai. Three policemen and a civilian have been shot dead by suspected IS militants in the coastal city of al-Arish. At least 43 people have died and 154 have been rescued after a boat carrying hundreds of refugees capsized in the Mediterranean off Egypt's north coast.

IRAN

Iran and the UN Security Council's permanent members plus Germany (P5+1) met in New York to discuss the implementation of the July 2015 nuclear agreement. Iran criticized the U.S. for its lack of compliance with the nuclear deal. The government started to build a nuclear power plant with Russia's assistance. The project will include two power plants that are expected to go online in 10 years, with the construction of the second plant set to begin in 2018. The project is expected to cost more than \$8.5bn and will generate about 1,057 megawatts of electricity. A U.S. Navy patrol ship was harassed by seven Iranian vessels and narrowly avoided colliding with one of them near the Strait of Hormuz. Iran threatened to shoot down two U.S. Navy surveillance aircraft as they flew close to its territory. But the U.S. military planes ignored the warning and continued flying in international airspace.

IRAQ

Iraqi security forces and allied militias continued to expand their military operations to recapture the city of Mosul from Islamic State (IS) militant group. The U.S. government deployed more than 400 troops in Iraq to support local security forces as they prepare to regain the city of Mosul, bringing the total number of U.S. troops in Iraq to 4,460. The Iraqi Army, backed by U.S.-led coalition airstrikes, took control of the strategic northern town of Shirqat. IS suicide bombers continued their attacks in and around Baghdad. Iraq's Parliament accused Finance Minister Hoshiyar Zebari of corruption and removed him from office. Violence and acts of terrorism in Iraq led to 1,003 deaths and 1,159 injuries in September 2016.

DEM REP CONGO

Congolese security forces clashed with protesters during a general strike that demanded President Joseph Kabila to step down when his mandate expires in December 2016. A national dialogue led by African Union facilitator Edem Kodjo started between the ruling coalition and opposition groups in September 2016. Several opposition groups, including the "Rassemblement" coalition, headed by prominent leaders Etienne Tshisekedi and Moïse Katumbi, refused to join the dialogue. The bloc's pre-conditions for participating in the dialogue included freeing political prisoners, lifting the ban on several television stations and the resignation of AU facilitator Edem Kodjo. Participants in the dialogue agreed that the presidential, legislative, provincial and local polls would be held simultaneously, and tentatively decided to form an interim government that will include opposition members to run the country until the elections. An anti-Kabila rally in Kinshasa, organized by the "Rassemblement" opposition group, erupted into violent clashes between government forces and demonstrators.

LIBYA

The Libyan National Army loyal to General Khalifa Haftar conducted several attacks on oil export terminals in Libya's oil crescent and took control of the Mediterranean ports of Sidra, Brega, Zuwetina and Ras Lanuf from forces loyal to the Government of National Accord (GNA). Local anti-Haftar forces launched several counter-offensives in the following days to recapture the terminals, but they failed to do so. Misratan-led forces, loyal to the UN-backed Presidential Council, suffered heavy casualties as they continued to fight IS militants in the city of Sirte.

SOUTH SUDAN

The UN Security Council agreed with the transitional government of national unity to deploy 4,000 protection forces in South Sudan, as part of the United Nations mission in the country. It added that the troop-contributing countries, the UN Mission in South Sudan and the government will continue to work through the modalities of deployment. Former Minister of Agriculture Lam Akol announced that he was forming a rebel movement called the National Democratic Movement to oust President Salva Kiir's government.

SUDAN

Following the suspension of peace talks mediated by the African Union High-Level Implementation Panel (AUHIP) in mid-August 2016, the government and the Sudan People's Liberation Movement-North (SPLM-N) rebel group accused each other of lacking seriousness to end the conflict in the Blue Nile and South Kordofan regions. The government considered that the SPLM-N's proposal to receive 20% of the humanitarian aid through the Ethiopian town of Assossa on the Sudanese border reinforces its doubts about the rebels' intention to use the aid for "non-humanitarian purposes". SPLM-N rebels accused the army of violating a ceasefire agreement in South Kordofan. SPLM-N rebels accused the European Union and the U.S. of funding the war in Sudan by supporting the Rapid Support Forces government-linked militia. The Sudan Call, a coalition of political opposition parties, met in Addis Ababa to prepare for a new round of talks with the government.

SYRIA

The US-led coalition conducted four airstrikes on the Deir Al-Zor military airport which resulted in the deaths of over 60 Syrian regime troops. The United Nations indicated that an airstrike has destroyed a convoy taking aid to rebel-held parts of Aleppo province. The U.S. accused the Russian military of carrying out the attack, while Russia claimed that the convoy may have caught fire or been hit by rebels. The United Nations suspended all aid convoys to Syria following the attack and called for an investigation. The U.S. threatened to suspend cooperation with Russia over Syria, hours after the bombardment of two hospitals in rebel-held areas of Aleppo, as Syrian forces backed by Moscow continued their offensive to retake the eastern part of the city from opposition fighters. U.S. Secretary of State John Kerry accused Russia of using bunker-buster bombs against civilians in Aleppo. UN Special Envoy for Syria, Staffan de Mistura, called on the Security Council to re-launch the cessation of hostilities, to ensure a ceasefire, to establish weekly 48-hour ceasefires for humanitarian aid, and to allow medical evacuations in and around the city. Russia said it would support a 48-hour ceasefire for humanitarian purposes. About 1,200 civilians were killed in Syria in September 2016.

TUNISIA

Protests erupted in northwestern Tunisia over the deterioration of living standards, widespread poverty and growing unemployment. Tunisia's newly-designated Prime Minister, Youssef Chahed, vowed that his administration would give priority to fighting corruption and terrorism.

YEMEN

President Abd-Rabbu Mansour Hadi fired the head of the Central Bank of Yemen on suspicion of financing the Huthi movement. He requested the relocation of the Central Bank to the southern city of Aden and asked financial institutions to stop dealing with the Central Bank. Fighting between warring parties intensified as Huthis captured a Saudi military post in Jizan near the Saudi border. Yemeni forces reportedly killed the Al-Qaeda in the Arabian Peninsula chief Abdullah Hubaibat in the Abyan province. *Source: International Crisis Group, Newswires*



OUTLOOK

EMERGING MARKETS

Growth projected at 4.2% for 2016, outlook varies across regions

The International Monetary Fund projected real GDP growth in emerging markets and developing economies at 4.2% in 2016, up from its July forecast of 4.1%, and relative to growth rates of 3.1% for the global economy and 1.6% for advanced economies. It noted that external financing conditions have eased in emerging and developing economies due to low interest rates in advanced economies. But it indicated that economic prospects vary in emerging markets and developing economies. It said that growth in Emerging Asia continues to be strong, while the largest economies in sub-Saharan Africa are facing sharp slowdowns or recessions, as lower commodity prices weigh on their challenging domestic political and economic conditions. It expected the slowdown in China's economic activity, commodity exporters' continued adjustment to lower revenues, spillovers from persistently weak demand in advanced economies, as well as domestic and geopolitical instability in several countries to weigh on economic activity in emerging and developing economies this year.

The IMF projected economic growth in Emerging & Developing Asia at 6.5% in 2016, relative to its July forecast of 6.4%; and maintained its growth projection for the MENA region plus Afghanistan and Pakistan at 3.4% this year. In contrast, it lowered its growth forecast for Emerging & Developing Europe to 3.3% in 2016 from 3.5% previously, and that for Sub-Saharan Africa to 1.4% from its July forecast of 1.6%. In parallel, the IMF expected economic activity in Latin America & the Caribbean to contract by 0.6% in 2016 and projected output to shrink by 0.3% in the Commonwealth of Independent States.

The IMF indicated that risks to the outlook include China's adjustment to slower growth, the subdued outlook for commodity prices, rising financial turbulence and capital outflows from emerging markets. It noted that several emerging and developing economies are still facing policy challenges in adjusting to weaker commodity prices.

Source: International Monetary Fund

IRAN

Growth to pick up on improved economic conditions

The International Monetary Fund projected Iran's real GDP to grow by 4.5% in the fiscal year that ends in March 2017, as economic conditions continue to improve substantially following the lifting of U.S. and international sanctions. It noted that oil output and exports rebounded quickly to pre-sanction levels, which helped mitigate the impact of low global oil prices on the economy. It added that increased activity in the agricultural, automotive, trade and transportation sectors has supported growth in the non-hydrocarbon sector. It forecast the inflation rate to average 9.2% in FY2016/17, and considered that safeguarding low inflation levels is crucial for the credibility of reform efforts and to ensure that the planned exchange rate unification is sustainable.

Further, the Fund projected Iran's fiscal deficit to widen from 1.7% of GDP in FY2015/16 to 2.7% of GDP in FY2016/17, as

oil receipts transferred to the budget are falling short due to debt repayments to the National Development Fund. Also, it estimated the non-oil fiscal deficit to reach 7.7% of GDP in FY2016/17. It noted that the FY2016/17 budget requires additional financing to proceed with the planned clearance of arrears that are equivalent to 2.3% of GDP. It said that the Debt Management Office has adopted a phased approach to securitize part of the government's obligations to the private sector. Further, the IMF pointed out that foreign currency reserves have dropped by about \$7bn since the end of March 2016, reflecting valuation changes, the clearance of foreign exchange dues to export credit agencies, and increased imports following the lifting of sanctions.

In parallel, the IMF called on authorities to gradually narrow the non-hydrocarbon deficit in order to reduce inflation levels and to adjust to the low oil price environment and high debt-servicing costs. It considered that adopting a medium-term fiscal framework that targets the non-oil deficit would contribute to improved fiscal planning and management.

Source: International Monetary Fund

SUDAN

Growth prospects constrained by wide imbalances

The International Monetary Fund indicated that policy adjustments in Sudan have helped contain the fiscal deficit, limit money supply growth, reduce the double-digit inflation rate and support economic activity. However, it said that the country's growth prospects continue to be constrained by its weak policies, internal conflicts, U.S.-imposed sanctions and large macroeconomic imbalances. It projected Sudan's real GDP to decelerate from 4.9% in 2015 to 3% in 2016 due to the normalization of agricultural production. It forecast the non-hydrocarbon sector to expand by 3.6% in 2016 compared to a growth rate of 5.8% last year, and for hydrocarbon output to regress by 7.6% this year relative to a contraction of 10% in 2015. Also, it expected the inflation rate to average 13.5% in 2016 relative to 16.9% last year. It considered that risks to the outlook include low commodity export prices, lack of policy buffers, a sustained withdrawal of foreign correspondent banking relationships and a weak business environment. It added that lower receipts from oil transfer fees from South Sudan and reduced foreign direct investment and remittance inflows from Gulf Cooperation Council economies would weigh on economic activity.

Further, the IMF projected the fiscal deficit to widen from 1.9% of GDP in 2015 to 2.1% of GDP this year. It noted that low tax revenues and volatile oil-related receipts constitute key risks to the fiscal framework. However, it expected the fiscal deficit to stabilize over the medium term due to the gradual improvement in tax revenue collection, stable hydrocarbon receipts and containing current spending. Also, it forecast the current account deficit to narrow from 5.9% of GDP in 2015 to 4.2% of GDP in 2016. It anticipated the deficit to be financed by FDI. It projected foreign currency reserves to drop from \$1bn, or 1.2 months of imports, at the end of 2015 to \$0.8bn, or one month of import coverage, at end-2016. In parallel, the IMF indicated that the Sudanese government should accelerate fiscal consolidation and reforms to achieve macroeconomic stability, address vulnerabilities and promote inclusive growth.

Source: International Monetary Fund



ECONOMY & TRADE

EGYPT

Government financing needs equivalent to 50% of GDP

Moody's Investors Service indicated that Egypt's 'B3' rating and 'stable' outlook are supported by the country's ongoing commitment to economic and fiscal reforms. The agency noted that economic growth has improved and expected it to be supported by public and private investment in the coming years. But it added that stronger growth in the import of capital goods, as well as weak global demand for Egypt's exports, would weigh on the country's growth outlook. It considered that financial support from the Gulf Cooperation Council (GCC) countries has helped stabilize Egypt's foreign currency reserves and its balance-of-payments. Also, the agency indicated that the country's main credit weakness is its government financing needs, which are equivalent to more than 50% of GDP. It said that the wide fiscal deficit is expected to narrow slowly in the coming years, which would keep the level of general government debt elevated. Further, it indicated that Egypt's inflation rate exceeded 16% in August 2016, and expected it to decline at a slow pace, which would keep macroeconomic risks and government funding costs at elevated levels. But it noted that the country's low level of foreign currency-denominated government debt would mitigate external vulnerabilities. In parallel, the agency said that high employment rates reflect structural economic challenges and pointed out that, while political stability and policy-making have improved, security risks remain elevated in certain areas of the country.

Source: *Moody's Investors Service*

BAHRAIN

Fiscal consolidation measures to continue in coming years

The Institute of International Finance considered that Bahrain's economic growth is resilient despite reduced hydrocarbon revenues from lower global oil prices. It forecast the country's real GDP to grow by 2.8% in 2016 and to remain solid in 2017. It anticipated the fiscal deficit to widen from 13% of GDP in 2015 to 15% of GDP in 2016 due to lower oil receipts, given the country's high reliance on the hydrocarbon sector. It added that authorities have implemented fiscal measures to strengthen revenues, including increases in government fees and charges, and reduced public spending. It said that the government plans to take further fiscal consolidation measures, such as introducing a value-added tax in 2018 as well as corporate income taxes. The IIF expected the fiscal deficit to be financed by external and domestic debt issuance. As a result, it projected the public debt level to rise from 62% of GDP in 2015 to 84% of GDP in 2016. It added that authorities expect the public debt levels to peak at 90% of GDP in the next few years, before gradually declining. Further, it pointed out that authorities plan to raise between \$1bn to \$1.5bn from external markets in the near term. In parallel, it projected the current account deficit to widen from 0.6% of GDP in 2015 to 6.3% of GDP in 2016. It also estimated foreign currency reserves to have declined to \$2.8bn in June 2016, or 1.3 months of imports of goods and services, down from 2.4 months of imports at end-2014.

Source: *Institute of International Finance*

OMAN

Economic growth to average 2% in 2016-17, non-oil sector impacted by government measures

The Institute of International Finance projected Oman's real GDP growth to decelerate from 3.7% in 2015 to 2% in each of 2016 and 2017, due to lower public spending, higher taxes and tighter financial conditions. It expected the hydrocarbon sector output to expand by 3.9% this year and to be the main driver of economic activity. In contrast, it projected a flat growth in the non-oil economy due to reduced government spending and a slowdown in household consumption. It noted that the ongoing fiscal consolidation measures and government payment arrears have resulted in a moderation of economic activity. In parallel, it forecast Oman's fiscal deficit to reach 20% of GDP in 2016, the highest in the GCC region, and expected it to remain wide at 14.7% of GDP in 2017 in the absence of additional structural reforms. It indicated that the government announced additional measures to generate public revenues, including an increase in tobacco taxes and in corporate income taxes, as well as the introduction of a value-added tax that could increase public revenues by 1% of GDP. It noted that the 2015 fiscal deficit was partly financed through bank lending and domestic debt issuance. As such, it forecast the public debt level to increase from 12.8% of GDP in 2015 to 25.5% of GDP in 2016 and 36.4% of GDP in 2017. It added that authorities have raised \$4bn in external debt so far in 2016, with further borrowing planned for next year. In parallel, it expected the current account deficit to reach 18.9% of GDP in 2016 and 11.3% of GDP in 2017 compared to a deficit of 15.5% of GDP in 2015. It noted that Omani authorities are committed to the currency peg to the US dollar, which is likely to hold over the near term.

Source: *Institute of International Finance*

CÔTE D'IVOIRE

Economic activity to remain solid over the near term

The International Monetary Fund indicated that Côte d'Ivoire's macroeconomic performance remained solid in the first half of 2016. It projected the country's real GDP growth at 8% in 2016 compared to an average annual growth rate of 9% in the 2011-15 period. Also, it forecast real GDP growth to average 7.7% in the 2017-19 period, to be driven mainly by domestic demand. It said that authorities have prioritized sustainable growth and improving living standards under the 2016-20 National Development Plan. In parallel, the Fund expected the fiscal deficit to reach 4% of GDP in 2016, reflecting higher capital spending, which includes expenditures on security, healthcare and education. Further, it projected the current account deficit to widen to about 2.5% of GDP in the 2017-19 period, due to higher investment-driven imports. In parallel, the Fund called on authorities to strengthen revenue mobilization through further improvements in tax administration and tax policy measures, which would widen the tax base. It also encouraged the government to contain expenditures in order to increase infrastructure investment and social spending. Further, it welcomed measures to enhance public finance and debt management practices, to address fiscal risks, and to accelerate the restructuring of public banks.

Source: *International Monetary Fund*



BANKING

WORLD

Regulatory and supervisory requirements continue to weigh on profitability and lending growth

A study conducted by KPMG shows that the implementation of regulatory and supervisory requirements has inhibited strategic priorities and innovation in the global banking sector. It noted that, although considerable progress has been made by authorities and banks to implement the regulatory reform agenda since the 2008 financial crisis, a number of important regulatory initiatives still remain at a preliminary stage. Also, it pointed out that banks face challenges in responding to parallel developments in supervision and regulations, and to uncertainties arising from an unfinished regulatory reform agenda. Further, it said that most major internationally-active banks now meet the Basel III capital and liquidity standards, but many of them experience low profitability, high exposure to non-performing loans and high cost-to-income ratios. The study noted that uncertainties in regulatory and supervisory requirements continue to constrain the banks' ability to use financial technology innovations, to respond to competitive pressures from new bank and non-bank entrants, and to increase operational efficiencies. Further, it indicated that an increase in the capital, leverage and liquidity ratios of European banks since the start of the financial crisis has weighed on the banks' capacity to increase lending to support the economy, while banks in other regions continue to post favorable lending and capital ratios.

Source: KPMG

SUDAN

Liquid assets at 37% of total assets at end-2015

Figures released by the International Monetary Fund indicate that the risk-weighted capital adequacy ratio of banks operating in Sudan reached 20.2% at the end of 2015 compared to 18% a year earlier. The sector's liquid assets accounted for 37.4% of total assets at end-2015, down from 39.1% at end-2014 and 39.5% at end-2013; while they represented 98.5% of total short-term liabilities at the end of 2015, down from 99.3% at end-2014 and 99.5% at end-2013. The Fund noted that liquidity in the banking sector is at a comfortable level despite the decline in the liquidity ratios. Also, foreign currency loans accounted for 6% of the sector's total loans at the end of 2015 compared to 8.7% at end-2014 and 11.8% at end-2013; while foreign currency deposits represented 21.4% of total deposits at end-2015 relative to 25.7% at end-2014 and 31.9% at end-2013. Further, the sector's non-performing loans reached 5.1% of total loans at end-2015, down from 7.1% at end-2014 and 8.4% at end-2013, while its provisions-to-NPLs ratio stood at 90.6% at end-2015 compared to 61% at end-2014 and 53.6% at end-2013. The Fund called on the Central Bank of Sudan to continue to strengthen its capacity to supervise and mitigate financial stability risks. Also, it encouraged the Central Bank to upgrade its institutional framework to deal with weaker banks, to divest its stakes in some commercial banks and to enforce measures to mitigate risks associated with foreign currency mismatches.

Source: International Monetary Fund

TURKEY

Agency takes rating actions on 17 banks

Moody's Investors Service downgraded from 'Baa3' to 'Ba1' the long-term debt and local-currency deposit ratings of Ziraat Bankasi (Ziraat), Akbank, Turkiye IS Bankasi (Isbank), Turkiye Garanti Bankasi (Garanti), Turkiye Halk Bankasi (Halkbank), Yapi ve Kredi Bankasi (YapiKredi), Turkiye Vakiflar Bankasi (Vakifbank), Turk Ekonomi Bankasi (TEB), Turkiye Sinai Kalkinma Bankasi (TSKB), Export Credit Bank of Turkey (Turk Eximbank) and ING Bank. It also lowered the ratings of Sekerbank from 'Ba3' to 'B1' and that of HSBC Bank Turkey from 'Ba2' to 'Ba3'; while it affirmed at 'Ba1' the ratings of Finansabank and Alternatifbank (ABank), at 'Ba2' that of Denizbank and at 'Ba3' that of Borgan Bank. Also, the agency has a 'negative' outlook on the ratings of Denizbank and Sekerbank and a 'stable' outlook on the remaining 15 banks' ratings. The agency attributed the downgrades to the government's weaker ability to support the banking system, as reflected by its earlier action on Turkey's sovereign ratings. Further, it noted that the downgrade of the ratings of Akbank, ABank, HSBC Bank Turkey, ING Bank, Ziraat, Halkbank, Vakifbank, TEB, Garanti and YapiKredi reflect the weakening operating environment, which is expected to weigh on the banks' asset quality, earnings and capital. It added that the downgrades take into account the increased downside risks to funding and liquidity, as the banks need to refinance large amounts of maturing debt. It added that the ratings of Borgan Bank, Finansabank and Denizbank are supported by the banks' resilient standalone profiles despite a challenging environment, as well as a very high likelihood of parental support.

Source: Moody's Investors Service

SAUDI ARABIA

Fiscal consolidation weighing on banking sector liquidity

Merrill Lynch indicated that the Saudi Arabian Monetary Agency (SAMA) injected SAR20bn, equivalent to \$5.3bn in liquidity in the banking sector in the form of time deposits, following another injection of SAR15bn in June. It said that this was part of the government's efforts to alleviate domestic liquidity conditions in the banking sector. It also pointed out that the liquidity injection represents 6.5% of the monetary base and 1.3% of overall banking deposits. Further, it pointed out that the injection would reduce the banking sector loan-to-deposit ratio by one percentage point to 89.4% from 90.5% in July 2016. Further, it expected the tight domestic liquidity environment to persist, despite the liquidity injection, given Saudi Arabia's large fiscal and current account deficits. It noted that fiscal consolidation could support the banking sector, as it would result in lower debt issuance needs, but it would also weigh on liquidity in the sector. It said that authorities have taken consolidation measures that represent 1.7% of non-oil revenues. It added that they are reviewing and could cancel thousands of projects worth SAR260bn (\$69bn), or 11% of GDP. Further, it indicated that the government started to rationalize the wage bill and introduced measures that include the cancellation of bonus payments to government employees and a 20% cut in ministerial salaries.

Source: Merrill Lynch



ENERGY / COMMODITIES

Oil prices to remain subdued in 2017

ICE Brent crude oil one-month future prices averaged about \$43.1 per barrel (p/b) in the first nine months of 2016, constituting a decline of 23.8% from the same period of 2015 due to sustained oversupply in the market. Prices have been supported near the \$50 p/b mark amid a resilient recovery in global oil demand, which is expected to grow by about 1.3 million barrels per day (b/d) this year, and to a potential decrease in oil production if the preliminary deal inked in late September between OPEC members materializes. Prices are anticipated to remain subdued and to trade between \$45 p/b and \$50 p/b in the fourth quarter of 2016 as the outlook for market fundamentals is uncertain. Brent oil prices are forecast to average \$45 p/b in 2016 and to increase to an average of \$57 p/b in 2017. Risks to the price outlook will be mainly driven by supply-side variables that include the resilience of U.S. shale oil producers and the shifting prospects for production in Libya, Nigeria, Iran and Iraq, as well as coordination between Saudi Arabia and Russia on an output freeze. According to the International Monetary Fund, the probability of WTI and Brent oil prices rising above \$60 p/b in the next 12 months increased to 12.4% and 14.3%, respectively, in September 2016, but overall price uncertainty remains at a significantly high level.

Source: Samba Financial Group, IMF, Byblos Research

Nigeria's hydrocarbon export receipts down 48% in first seven months of 2016

Nigeria's crude oil & condensate export receipts totaled \$1.67bn in the first seven months of 2016, constituting a drop of 47.8% from \$3.2bn in the same period of 2015. Export receipts in the first seven months consisted of \$1bn from crude oil exports, \$515.5m from gas exports and \$148.9m in other receipts. In parallel, the authorities transferred \$44.1m to the Federation Account in July 2016, the second such instance so far this year, up by over nine times the amount it transferred in June. Hydrocarbon receipts reached \$212.3m in July 2016, down by 3.2% from \$219.3m in June 2016 due to an increase in attacks and sabotage of oil facilities in the Niger Delta.

Source: Nigerian National Petroleum Corporation

Libya's oil production at 31% of normal capacity

Libya's oil production is currently estimated at 500,000 barrels per day (b/d), or at about 31.3% of its normal supply level of 1.6 million b/d prior to the 2011 uprising. The gradual increase in output since August 2016 followed the resumption of production at some oil fields and the reopening of the country's two biggest oil export terminals. Libya expects to increase its oil output by an additional 100,000 b/d in October 2016 as the country was exempt from the preliminary OPEC agreement that limits oil production. Also, the country aims to raise output to as much as 1.2 million b/d within the coming 12 months.

Source: Bloomberg

OPEC's oil basket price up 1% in August 2016

The oil reference basket price of the Organization of the Petroleum Exporting Countries reached \$43.1 per barrel (p/b) in August 2016, constituting an increase of 1% from \$42.68 p/b in July. Algeria's Saharan Blend and Nigeria's Bonny Light crude oil posted the highest price among the basket's components at \$46.35 p/b each in August, followed by Abu Dhabi's Murban at \$46.25 p/b and Angola's Girassol at \$46.06 p/b.

Source: OPEC, Byblos Research

COUNTRY RISK WEEKLY BULLETIN

Base Metals: Copper prices to drop going into 2017

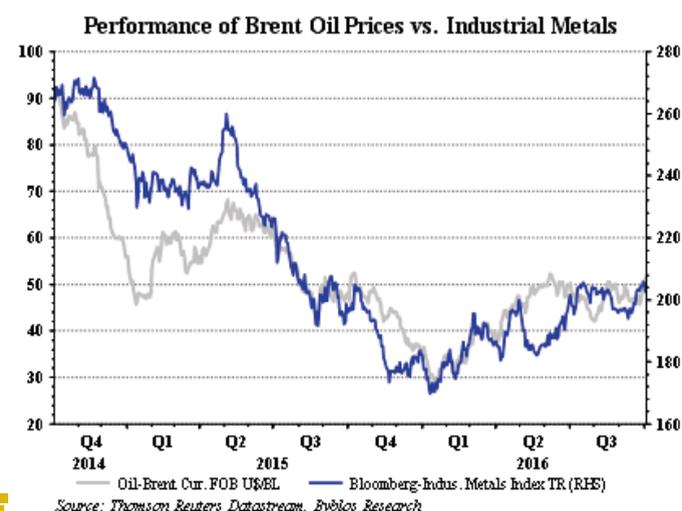
LME copper cash prices regressed by about 1% in the first week of October to around \$4,773 a metric ton amid a stronger US dollar after prices grew by 5.3% in September 2016, the largest monthly increase since February 2015. Prices are expected to decline from an average of \$4,750 a ton in the third quarter of 2016 to \$4,600 a ton in the fourth quarter of 2016 and to \$4,400 a ton in the first quarter of 2017 due to sustained market oversupply. The global copper market is projected to post a surplus of 190,000 tons in 2016 and 310,000 tons in 2017, which could exert downside pressure on prices until early 2018. LME copper cash prices are forecast to average \$4,691 a ton in 2016, which would be a drop of 14.9% from \$5,512 a ton in 2015, and to decrease by 3.5% to an average of \$4,525 a ton in 2017. Also, the metal's price is expected to trade at a narrow range in the coming six months. However, upside or downside risks to the price outlook can be derived from a policy change in China, the world's largest consumer of copper. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index increased by 12.1% in the first nine months of 2016, while the Copper Sub-Index rose by 2.5% from end-2015.

Source: Deutsche Bank, Thomson Reuters, Bloomberg Indexes

Precious Metals: Gold prices to average below \$1,300 an ounce in 2016

Gold prices declined below the \$1,300 a troy ounce level in early October for the first time since the Brexit vote of June 23, 2016. Prices regressed by 1.1% day-to-day to close at \$1,269.7 a troy ounce on October 5, 2016 as the US dollar strengthened following the release of a report that shows strong U.S. economic activity, which increases the probability of a U.S. interest rate hike in December. However, prices remain 20% higher compared to the metal's price at the end of 2015 and are expected to increase by 9.7% in 2016 to an average of \$1,273 an ounce. The metal's price is likely to be subject to further volatility during the remainder of 2016, as investors look ahead to the outcome of the U.S. presidential elections in November and the general health of the U.S. economy, among other factors. Gold prices are expected to average \$1,320 an ounce in the fourth quarter of 2016, \$1,280 a troy ounce in the first quarter of 2017 and \$1,310 an ounce in the second quarter of next year. Also, historically-low real yields in several parts of the world would keep supporting gold prices.

Source: Deutsche Bank, CNN Money, Byblos Research



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								
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

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	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	04-Oct-16	No change	01-Nov-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	29-Sep-16	No change	18-Dec-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	6.25	04-Oct-16	Cut 25bps	07-Dec-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	29-Sep-16	No change	25-Oct-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	30-Sep-16	No change	04-Nov-16
Bulgaria	Base Interest	0.00	03-Oct-16	No change	01-Nov-16
Kazakhstan	Repo Rate	12.50	03-Oct-16	Cut 50bps	14-Nov-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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