

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### Supply chain risks to increase in coming months

Dun & Bradstreet's Chartered Institute of Procurement & Supply (CIPS) Risk Index indicated that the global supply chain risk score increased from 79.8 in the first quarter of 2016 to 80.8 points in the second quarter of 2016, constituting the highest risk level since 2013. The CIPS Risk Index measures the risks to supply chains in 132 countries by assessing nine indicators that are the short-term economic outlook, the long-term economic potential, market potential, foreign exchange risk, transfer risk, business environment quality, business continuity, as well as insecurity and expropriation risks. In parallel, the Asia-Pacific region contributed 33.4% of the global supply chain risk in the second quarter of 2016, constituting the largest risk contribution worldwide. Western & Central Europe followed and contributed 30.3% of global supply chain risk, then the Middle East & North Africa region (9.1%), Eastern Europe and Central Asia (8.5%), North America (8.2%), Latin America (7.5%) and the Sub-Saharan Africa region (3.1%). On a regional basis, the risk scores of the MENA region, Latin America, Sub-Saharan Africa, North America and Western & Central Europe deteriorated in the second quarter of 2016, and those of the Asia-Pacific region improved; while the risk levels of Eastern Europe and Central Asia were unchanged in the covered period.

Source: *Dun & Bradstreet*

##### Business confidence in MENA region third lowest globally in second quarter of 2016

The Young Presidents' Organization's (YPO) Global Pulse Business Confidence Index reached 59.7 points in the second quarter of 2016, constituting an increase from 58.3 points in the first quarter of 2016 and a decline from 60.9 points in the same quarter of 2015. The survey indicated that the decline in business confidence that began in 2014 and that continued until early 2016 has started to slow down, as the Index reached its highest level in a year in the second quarter of 2016. The Global Pulse survey, which is conducted on a quarterly basis, reflects the opinions of 2,389 CEOs in more than 130 countries about the current and future economic environment that affects their businesses. The index measures the overall economic confidence of the surveyed participants on a scale of zero to 100, with a score below 50 indicating a negative outlook. It combines surveyed CEOs' projections for sales, employee count, fixed investment and business conditions. Further, the YPO Global Pulse Index for the United States reached 60.8 points in the second quarter of 2016, the highest level of optimism globally. It was followed by Canada (59.9), the European Union and non-EU countries (58.5 each), Australasia (58.3), the MENA region (55.9 points), Latin America (54.4) and Africa (53.8). The survey noted that most regions posted increases in confidence levels in the covered quarter, except for the European Union where confidence regressed following the Brexit vote, and for Australasia where confidence was nearly unchanged. The YPO is a non-profit, global network of young chief executives.

Source: *Young Presidents' Organization*

#### MENA

##### External borrowing to reach \$53.3bn in 2016

JP Morgan projected external borrowing in the Middle East & North Africa (MENA) to reach a record-high of \$53.3bn in 2016, of which \$39.6bn represent sovereign debt issuances so far in 2016 and \$2bn in external debt that Egypt is expected to issue in the fourth quarter of 2016, while the remaining \$11.6bn consist of borrowing through private placements and syndicated loans. It attributed the increase in external borrowing to the favorable global environment for external borrowing and to limited fiscal consolidation in MENA countries. It expected Bahrain's external borrowing to reach 9.4% of the country's GDP in 2016, followed by Oman (9.2% of GDP), Qatar (5.7% of GDP), Saudi Arabia (4.3% of GDP), Abu Dhabi (2.3% of GDP), Egypt (2.5% of GDP), Tunisia (1.2% of GDP) and Jordan (0.6% of GDP). Further, it noted that some MENA countries, such as Oman, could return to international debt markets next year because of their weak fiscal performance; while other countries, including Bahrain and Qatar, have raised sufficient external financing to partly cover their 2017 budget gap. It forecast sovereign debt issuance to decline in 2017, but it noted that MENA sovereigns would continue to issue debt regularly on global markets. It expected Kuwait to issue \$10bn in sovereign bonds in 2017, which would constitute the largest issuance in the region for the year.

Source: *JP Morgan*

#### GCC

##### Hospitality market to reach \$36.7bn by 2020

Alpen Capital projected the size of the hospitality industry in the Gulf Cooperation Council (GCC) countries to rise from \$25.4bn in 2015 to \$30.6bn in 2018 and \$36.7bn in 2020, and to post a compound annual growth rate (CAGR) of 7.6% between 2015 and 2020. The market size covers hotel room revenues and income from serviced apartments. It anticipated revenues from the hotel room market in the GCC region to reach \$28.6bn in 2020 and to grow at a CAGR of 7.7% during the 2015-20 period, while it forecast receipts from the serviced apartments market to total \$8.13bn by 2020 and to expand at a CAGR of 7.4% during the covered period. It expected the hotel room market revenues to account for about 77.9% of the total hospitality market in 2020, almost unchanged from 77.6% in 2015. It anticipated the sector's long-term outlook to remain strong and to be supported by the governments' efforts to support tourism, the massive infrastructure development projects, and upcoming mega events in the region such as Expo 2020 in Dubai and the 2022 FIFA World Cup in Qatar. Further, it forecast the hospitality industry in Qatar to post a CAGR of 12.9% during the 2015-2020 period, followed by the UAE (+10.8%), Bahrain (+7.3%), Oman (+6.2%), Saudi Arabia (+6.2%) and Kuwait (+5.4%). It projected Saudi Arabia's hospitality sector to account for 63% of the GCC's total hospitality industry in 2020 compared to a share of 67.2% in 2015, the UAE's market share to rise to 26.7% from 23.1%, Qatar's share to grow to 4.4% from 3.4%, Oman's share to decrease to 2.7% from 2.9%, Bahrain's share to decline to 2% from 2.1% and Kuwait's share to regress to 1.2% from 1.3%.

Source: *Alpen Capital*

# OUTLOOK

## MENA

### Oil exporters' fiscal deficits to remain wide in the short and medium terms

The International Monetary Fund indicated that low oil prices and regional conflicts continue to weigh on economic activity, on the fiscal and external balances and on the financial sectors of oil-exporting economies in the Middle East & North Africa. It projected growth in GCC countries to decelerate from 3.4% in 2015 to 1.7% in 2016 due to fiscal consolidation and tighter liquidity in the banking system. It anticipated economic activity in the GCC to pick up to 2.3% in 2017, in case the pace of fiscal consolidation eases and if oil prices recover gradually. It projected the GCC's non-hydrocarbon sector to expand by 1.8% in 2016 and 3.1% in 2017, well below the 7% average growth rate over the 2000-14 period. It also forecast real GDP in non-GCC oil exporters to grow by 5% this year and 3.7% in 2017, following a contraction of 0.4% in 2015. It forecast non-hydrocarbon sector activity in non-GCC oil-exporting economies to shift from a contraction of 3.5% in 2015 to growth rates of 1% in 2016 and 3% in 2017, and for hydrocarbon output growth to accelerate from 3.6% in 2015 to 14.7% in 2016 and 14.9% in 2017.

In parallel, the Fund forecast the GCC's aggregate fiscal deficit to widen from 9.4% of GDP in 2015 to 9.8% of GDP in 2016, despite the implementation of fiscal consolidation measures. Also, it expected the fiscal deficit in non-GCC oil exporters to narrow from 8.5% of GDP in 2016 to 5.3% of GDP in 2017. The IMF projected the GCC's aggregate government debt to rise from 13.4% of GDP in 2015 to 21.3% of GDP in 2016 and 26.2% of GDP in 2017. Further, it forecast the GCC's aggregate current account deficit at 3.7% of GDP in 2016 and 0.7% of GDP next year, and expected the deficit of non-GCC oil-exporters at 5.6% of GDP this year and 4.1% of GDP in 2017.

In parallel, the IMF considered that risks to the growth outlook are tilted to the downside, and include a larger-than-expected negative impact of fiscal consolidation and tighter liquidity, increased spillovers from regional conflicts, as well as a further slowdown in China's economic activity that would further reduce commodity prices. It added that a faster-than-anticipated increase in U.S. interest rates could increase global financial market volatility and reduce the availability of international funding.

*Source: International Monetary Fund*

## ARMENIA

### Real GDP to grow by 3.3%, current account deficit at 2.8% of GDP in 2016-17

The International Monetary Fund projected Armenia's real GDP to grow by 3.2% in 2016 and by 3.4% in 2017, compared to a growth rate of 3% in 2015. It indicated that Armenia is benefiting from stronger-than-expected exports to Russia and rapid growth in services, but it noted that domestic demand remains weak. It estimated the country's nominal GDP at \$10.8bn in 2016 and at \$11.2bn in 2017. It forecast the average inflation rate to shift from 3.7% in 2015 to -0.5% in 2016 due to a stronger currency and expected the inflation rate to average 2.5% in 2017. Also, it forecast broad money to grow by 8.8% in 2016 and by 10.4% in 2017, compared to a growth rate of 10.7% in 2015.

In parallel, the Fund projected Armenia's fiscal deficit to narrow from 4.8% of GDP in 2015 to 4.5% of GDP in 2016 and 3% of GDP in 2017. It estimated government revenues, excluding grants, at 20.5% of GDP in 2016 and 20.7% of GDP in 2017, and total expenditures at 26.9% of GDP in 2016 and 25% of GDP in 2017. It expected the gross public debt level to rise from 46.9% of GDP at end-2015 to 50.6% of GDP at end-2016 and 51.6% of GDP at end-2017. It also forecast the gross external debt to increase from 84.5% of GDP at the end of 2015 to 86.4% of GDP at end-2016 and 86% of GDP at end-2017.

Further, the IMF expected Armenia's exports of goods & services to rise from \$3.1bn in 2015 to \$3.3bn in 2016 and \$3.4bn in 2017, and for imports of goods & services to reach \$4.2bn in 2016 and \$4.5bn in 2017, relative to \$4.4bn in 2015. It projected the country's current account to post deficits of 2.5% of GDP in 2016 and 3% of GDP in 2017, relative to a deficit of 2.7% of GDP in 2015. It forecast the country's gross official reserves to grow from \$1.8bn at end-2015 to \$1.9bn at the end of 2016 and 2017.

*Source: International Monetary Fund*

## DEM REP CONGO

### Economic growth to average 4% in 2016-17

The International Monetary Fund projected economic growth in the Democratic Republic of Congo to decelerate from an annual average growth rate of 8% during the 2012-15 period to 3.9% in 2016 and 4.2% in 2017, due to low commodity prices. In parallel, it forecast growth at 1.4% in 2016 and 2.9% in 2017 for Sub-Saharan Africa (SSA), and at 4.8% in 2016 and 5.3% in 2017 for members of the Common Market for Eastern & Southern Africa (COMESA), in which the DRC is a member. It forecast the DRC's annual average inflation rate at 1.7% in 2016 compared to average inflation rates of 11.3% in SSA and 7.1% in the COMESA. It also expected the country's average inflation rate to reach 2.7% in 2017. It projected the DRC's real GDP per capita to grow by 0.9% in 2016 and by 1.2% in 2017. It also forecast total investment at 14.9% of GDP this year and 16.4% of GDP in 2017. Further, it anticipated broad money to expand by 4.5% in 2016 and by 11.4% in 2017. It added that claims on the non-financial private sector grew by 22.7% in 2014 and contracted by 1.3% in 2015, and were equivalent to 5.4% of GDP and 4.9% of GDP, respectively.

In parallel, the Fund projected the government's fiscal balance, excluding grants, to post a deficit of 3.9% of GDP in 2016 and a surplus of 0.3% of GDP in 2017; while it estimated the government's fiscal balance, including grants, to post a deficit of 1.9% of GDP in 2016 and a surplus of 2.8% of GDP in 2017. It projected public revenues, excluding grants, at 11.5% of GDP in 2016 and 15.4% of GDP in 2017, and total expenditures at 15.4% of GDP in 2016 and 15.1% of GDP in 2017. It forecast total external debt to rise from 15.2% of GDP at the end of 2015 to 16.6% of GDP at end-2016 and to 19.7% of GDP at end-2017. Further, it expected the current account balance to post a deficit of 0.8% of GDP in 2016 and a surplus of 5.2% of GDP in 2017. It projected the country's gross official reserves at 1.1 months of imports of goods & services in 2016 and 0.9 months of imports cover in 2017, down from 1.2 months of imports in 2015.

*Source: International Monetary Fund*



# ECONOMY & TRADE

## JORDAN

### Ratings affirmed, outlook 'negative'

S&P Global Ratings affirmed at 'BB-/B' Jordan's long- and short-term foreign and local currency sovereign ratings. It maintained the 'negative' outlook on the long-term ratings as it expected external factors, such as regional instability, to continue to pose a risk to Jordan's public and external finances over the coming six months. It forecast the central government's fiscal deficit to gradually narrow from 6% of GDP in 2015 to 4.7% of GDP in 2019 in case authorities implement the reforms stipulated under the IMF program, including those aimed at limiting the losses at the national electricity company NEPCO. It expected the narrowing of the fiscal deficit to reduce the central government's debt level from 92% of GDP in 2016 to 88% of GDP in 2019. Further, S&P projected the current account deficit at 9.1% of GDP in 2016, nearly unchanged from the preceding year, as falling tourism receipts and export revenues would be partly offset by higher foreign financial support. It forecast the deficit to average 8.6% of GDP annually during the 2016-19 period. It expected the country's gross financing needs to remain high and to average 105.6% of current account receipts plus usable reserves annually during the 2016-19 period due to the wide current account deficit and elevated non-resident deposits. It anticipated foreign financial support to remain strong, which would help alleviate the pressure on the fiscal and external position. Further, the agency projected real GDP growth to average 3.4% annually in the 2016-19 period. The agency indicated that it would downgrade the ratings in the event of a significant deterioration in the fiscal and external balances, lower-than-expected growth, reduced foreign and official funding, or higher financing needs.

Source: S&P Global Ratings

## ALGERIA

### Draft budget for 2017 reduces spending by 28%

Research and analytics provider IHS Markit indicated that Algeria's 2017 draft budget includes austerity measures that would have an adverse impact on lower and middle-income households. It said that the budget projects a 28% cut in state outlays but does not provide details about the cuts. It added that the budget plans to freeze public-sector salaries and hiring, as well as reduce spending on infrastructure and public works. As a result, it said that the 2017 budget aims to narrow the fiscal deficit from 15% of GDP in 2016 to 8% of GDP in 2017. But it noted that the budget fails to address Algeria's key structural problem, which is its high reliance on hydrocarbon revenues. It added that the budget do not address key structural barriers to investment, including the restrictions on majority foreign ownership of Algerian firms. Also, it pointed out that the budget is based on oil prices of \$50 p/b during the 2017-19 period, higher than the market's expectations, and on a constant exchange rate that is hard to maintain. IHS Markit noted that the economy's dependence on hydrocarbon revenues leaves authorities with few policy options to address the low oil price environment. It anticipated that the government would rely on the Oil Stabilization Fund and foreign currency reserves, which are currently at \$130bn, in order to support social spending and avoid social unrest.

Source: IHS Global Insight

## IRAN

### Ratings affirmed at 'BB-', outlook 'stable'

Capital Intelligence Ratings affirmed at 'BB-' Iran's long-term foreign and local currency ratings, with a 'stable' outlook. It indicated that the ratings reflect the economy's improved short- and medium-term prospects following the lifting of international sanctions related to the country's nuclear program. It noted that Iran has started to repatriate its previously frozen external financial assets, to increase its hydrocarbon exports, to diversify its export base, and to regain access to global financial markets. It forecast Iran's real GDP growth rate at about 4.5% in the fiscal years ending in March 2017 and March 2018 due to higher oil production, lower costs of trade and financial transactions, and restored access to foreign assets. It also anticipated the improved terms-of-trade and renewed access to foreign assets and capital to support the stability of the exchange rate and help reduce the inflation rate to 6% in FY2017/18 from 34.7% in FY2012/13. Further, it expected the country's public finances to improve, but at a slow pace, mainly due to the low oil price environment. It said that Iran's official foreign assets cover 14.5 months of imports and 12 times the amount of external debt payments due in 2016. But it noted that uncertainties persist about the liquidity of these assets. It said that Iran's sovereign ratings are constrained by its heavy reliance on the hydrocarbon sector, limited data disclosure, fundamental weaknesses in the economy, expenditure rigidity, a weak financial system and complex internal politics.

Source: Capital Intelligence Ratings

## ETHIOPIA

### Agencies affirm ratings, outlook 'stable'

S&P Global Ratings affirmed at 'B' Ethiopia's long- and short-term foreign and local currency sovereign credit ratings, with a 'stable' outlook. It indicated that the ratings are supported by the country's strong economic activity, but are constrained by a wide current account deficit, low foreign currency reserves, restricted monetary policy flexibility and limited institutional effectiveness. It added that political risks and uncertainties are increasing, but it did not expect them to escalate. It forecast Ethiopia's real GDP growth at 7% in the fiscal year ending in July 2017. Further, it expected the current account deficit to narrow from 11.6% of GDP during the 2012-15 period to 9.6% of GDP during the 2016-19 period, driven by the government's efforts to diversify the country's export base. It projected the country's gross external financing needs to average 147.6% of current account receipts (CARs) and usable reserves over the same period. It forecast foreign currency reserves at 1.8 months of current account payments (CAPs) in 2016 and to drop to 1.6 months of CAPs by 2019. Further, it expected the fiscal deficit to remain at about 3% of GDP in coming years. It estimated the general government debt level to reach about 30% of GDP in FY2016/17, which would reach about 60% of GDP, when combined with the state-owned enterprises' (SOEs) debt level. In parallel, Fitch Ratings affirmed at 'B' Ethiopia's long-term foreign and local currency Issuer Default Ratings, with a 'stable' outlook. It noted that the ratings reflect macroeconomic stability, sound public finances and a contained fiscal deficit, as well as a weak ability to absorb adverse shocks, a rise in social unrest, and deteriorating external finances.

Source: S&P Global Ratings, Fitch Ratings



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# BANKING

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## MENA

### Bank lending conditions deteriorate in third quarter of 2016

The Emerging Markets Lending Conditions Index for the MENA region decreased to 40.1 in the third quarter of 2016 from 45.4 in the preceding quarter, the lowest index value across emerging markets. Also, the MENA region posted the second steepest weakening in lending conditions among emerging markets in the third quarter of 2016. The results reflect a deterioration in all lending conditions' criteria. The region's Trade Finance Index regressed to 47.5 in the third quarter of 2016 from 50.7 in the preceding quarter. In addition, the Demand for Loans Index declined to 39.8 in the third quarter from 47 in the second quarter of 2016, as demand decreased for commercial and industrial loans, commercial real estate loans, residential real estate loans, and consumer loans. Further, the non-performing loans (NPLs) Index declined to 38 in the third quarter of 2016 from 44.1 in the previous quarter. In parallel, the Credit Standards Index fell to 39.5 in the third quarter of 2016 from 43.4 in the preceding quarter, as credit standards in all lending categories tightened at a faster pace. In addition, the Funding Conditions Index regressed to 36.8 in the third quarter from 42.3 in the second quarter of 2016, due to a tightening of domestic and international funding conditions.

Source: *Institute of International Finance*

## GCC

### Asset quality of banks under pressure

Fitch Ratings indicated that the asset quality of banks operating in the Gulf Cooperation Council (GCC) countries has come under pressure due to the drop in global oil prices, which has reduced economic activity and weakened borrowers' ability to repay their debt. It noted that significant differences and gaps exist between GCC banking systems in terms of their asset quality ratios, loss-absorption capacity, operating environment, concentration risk and resilience to the drop in oil prices. It considered that Saudi Arabian banks have the highest asset quality in the GCC region, given their low impaired loans ratio, strong loan-loss coverage ratio, and very low annual impairment charges. It noted that the weighted average impaired loans ratio ranges between 1% in Saudi Arabia and 5% in the UAE. Second, it noted that Saudi banks have the highest loan-loss absorption capacity, as reflected by their excess loan-loss reserves and capital, and their earnings capacity. It said that Kuwaiti, UAE and Bahraini banks would follow, while Omani and Qatari banks would come last due to their weaker capitalization. Third, it pointed out that high borrower and sectoral concentration is a common feature across GCC banks and is a key threat to the banks' asset quality. However, it said that banks in the UAE and Saudi Arabia are less impacted by such concentration, as their economies are more diversified and relatively bigger. Overall, Fitch considered that Saudi and Qatari banks are the best positioned to face asset-quality challenges if oil prices remain subdued for a prolonged period of time, as it estimated that lending opportunities would continue to arise in both countries and because of Saudi banks' solid loss-absorption capacity. In contrast, it considered that Omani and Bahraini banks are the least resilient to the deterioration in asset quality, given their challenging operating environment.

Source: *Fitch Ratings*

## SAUDI ARABIA

### Capital adequacy ratio at 18%, NPLs on the rise

The International Monetary Fund indicated that the banking sector in Saudi Arabia is well-positioned to absorb the adverse effects of fiscal consolidation and low oil prices on their liquidity and asset quality. It said that the sector's risk-weighted capital adequacy ratio reached 18.1% at the end of 2015 relative to 17.9% at the end of 2014. It noted that the sector's non-performing loans reached 1.2% of gross loans at the end of 2015 compared to 1.1% a year earlier, while the provisions-to-NPLs ratio decreased to 164.4% from 183% at end-2014. It expected the NPL ratio to rise in the coming years, but it noted that banks would be able to absorb losses by using their provisions. Further, it pointed out that the banks' liquidity coverage ratio is high and that the banks are in a strong position to manage a decline in deposits. It noted that net loans accounted for 63% of total assets at end-2015 relative to 60.3% at end-2014; while customer deposits were equivalent to 121.7% of net loans in 2015, down from 127.7% in 2014. In parallel, it pointed out that the growth in profits of the banking sector slowed down in 2015, with total profits increasing by 6.2% last year compared to a rise of 12.5% in 2014 due to weaker economic growth and higher provisioning. It added that the banks' average pre-tax return on assets was 2% in 2015, unchanged from the previous two years; while their return on equity was 14.5% last year, down from 15% in 2014.

Source: *International Monetary Fund*

## QATAR

### Profits of five listed banks nearly unchanged in third quarter of 2016

Regional investment bank EFG Hermes indicated that the aggregate earnings of five Qatari listed banks reached QAR4,775m, or \$1.3bn, in the third quarter of 2016, nearly unchanged from the same quarter last year, and relative to a rise of 1.8% in the third quarter of 2015. The consolidation of Qatar National Bank's (QNB) financials with the earnings of its acquired Turkish subsidiary Finansbank in the second quarter of 2016 prevented a year-on-year decrease in aggregate earnings in the covered period. Excluding Finansbank, the five banks' earnings would decline by 8.3% year-on-year. Also, the banks' net interest income rose by 29% year-on-year in the third quarter of 2016, driven by the consolidation of Finansbank. Excluding Finansbank, net interest income grew by 2% from a year earlier. In parallel, EFG noted that the banks' aggregate assets reached QAR1,143.1bn, or \$314bn at the end of September 2016, up by 23.6% from a year earlier, due to the inclusion of Finansbank's financials. Also, the aggregate lending of the five banks was QAR802.3bn, or \$220.4bn, at the end of September 2016, reflecting a rise of 26.1% from a year earlier and compared to an annual increase of 14% at end-September 2015. Excluding Finansbank, aggregate lending grew by 14% year-on-year. EFG pointed out that deposits reached QAR768.9bn, or \$211.2bn, at end-September 2016, up by 20.7% year-on-year. In parallel, it said that the non-performing loans ratio rose from 1.6% at the end of September 2015 to 2% at end-September 2016, driven by a deterioration in the quality of credits at Commercial Bank of Qatar and Qatar Islamic Bank.

Source: *EFG Hermes*



# ENERGY / COMMODITIES

## Oil prices hit their lowest levels in three weeks on rising doubts about OPEC's production cuts

ICE Brent crude oil front-month prices closed at \$50 per barrel (p/b) on October 26, 2016, constituting a decrease of 1.6% from the preceding day and a rise of 34.1% from the end of 2015; while WTI oil prices regressed by 1.4% day-to-day and grew by 31.3% from end-2015 to close at \$48.75 p/b. Crude oil prices reached their lowest level in about three weeks due to investors' mounting doubts that the OPEC deal about a production cut would materialize in November 2016. Also, recent data released by the American Petroleum Institute showed an increase of 4.8 million barrels in U.S. crude oil stocks, which weighed on prices. In parallel, the International Energy Agency expected that a rebalancing of the global oil market would not materialize until the second half of 2017, due to an anticipated slowdown in global oil demand growth. It forecast global oil demand to rise by 1.2 million barrels per day (b/d) in 2017 compared to an increase of 1.8 million b/d in 2016. Overall, crude oil prices are forecast to average \$48.4 p/b in the fourth quarter of 2016 and \$49.5 p/b in the first quarter of 2017. 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 19.8% and 23.5%, respectively, in October 2016, but overall price uncertainty is still elevated.

Source: IEA, CNBC, IMF, Byblos Research

## MENA's crude oil production up 6% in 2016

The Middle East & North Africa region's crude oil production is forecast to average 27.3 million barrels per day (b/d) in 2016, which would constitute an increase of 6.2% from 25.7 million b/d in 2015. The Gulf Cooperation Council (GCC) countries' crude oil production would account for 66.2% of the region's oil production in 2016, while non-GCC producers would represent the remaining balance of 33.8%. Saudi Arabia's crude oil production is projected at 10.3 million b/d in 2016, equivalent to 37.8% of the region's oil production, followed by Iraq with 4.22 million b/d (15.5%), Iran with 3.6 million b/d (13.3%) and the UAE with 3 million b/d (11.1%).

Source: International Monetary Fund, Byblos Research

## OPEC's oil output nearly unchanged in September

Crude oil production of the Organization of Petroleum Exporting Countries averaged 33.4 million barrels per day (b/d) in September 2016, nearly unchanged from the preceding month. Saudi Arabia produced 10.5 million b/d in September, equivalent to 31.4% of OPEC's total oil output. It was followed by Iraq with 4.45 million b/d (13.3%) and Iran with 3.67 million b/d (11%).

Source: OPEC, Byblos Research

## Renewables to account for 28% of global power capacity by 2021

The International Energy Agency projected renewable energy to account for 28% of global power capacity in 2021, compared to a 23% share in 2015, and to remain the fastest-growing source of global electricity generation. Also, it forecast renewable energy to contribute to more than 60% of the world's electricity generation growth in the next five years. In parallel, it expected renewable energy costs to decline in the covered period, driven by a 25% drop in solar photovoltaic (PV) costs and a 15% decrease in the cost of onshore wind energy.

Source: International Energy Agency, Byblos Research

## Base Metals: Copper market to remain oversupplied in coming months

LME copper three-month future prices closed at a two-week high of \$4,740 per metric ton on October 26, 2016 due to a weaker US dollar. Also, the rise in prices reflects expectations of further stimulus in China, including higher government spending on infrastructure, which would support demand for the metal. But the increase in prices is expected to be short-lived, as the copper market is forecast to remain oversupplied and to post a surplus of around 160,000 metric tons in 2017. Also, an upcoming weak seasonal demand for the metal would lead to a rise in inventories and, in turn, would weigh on the metal's prices. As such, copper prices are forecast to drop from \$4,750 per ton in the third quarter of 2016 to \$4,600 per ton in the fourth quarter of the year and to \$4,400 per ton in the first quarter of 2017. In parallel, global demand for refined copper increased by 4.3% year-on-year in the first seven months of 2016, mainly due to a 9% rise in Chinese demand for the metal. Demand for refined copper grew by 6.5% in Asia and by 3.5% in Europe, while it declined by 11% in Africa and by 4.5% in the Americas, and it was nearly unchanged in Oceania. On the supply side, the metal's global refined production rose by 2.8% to 13.5 million tons in the first seven months of 2016.

Source: International Copper Study Group, Deutsche Bank

## Precious Metals: Gold prices to increase amid rising economic and political uncertainties

Gold prices averaged \$1,259 per ounce year-to-October 26, 2016, constituting an increase of 7.1% from \$1,176 per ounce in the same period of 2015, despite lower demand from emerging markets. Prices closed at a three-week high of \$1,268 per troy ounce on October 25, 2016, due to a weaker US dollar and stronger demand for the metal, supported by seasonal demand in China and India. Gold prices are forecast to continue to increase in the coming months, as weak global economic growth and rising inflation expectations would keep real yields at low levels in developed markets, which would increase the attractiveness of gold as an investment. Also, the impact of the Britain's decision to leave the European Union is anticipated to persist, as current EU members may also consider leaving the EU. Further, risks to the price outlook would depend on the outcome of the U.S. presidential elections in November 2016. As such, gold prices are forecast to increase from \$1,300 per ounce in 2016 to \$1,400 per ounce in 2017, constituting a year-on-year rise of 7.7%.

Source: World Gold Council, BMI Research, 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								
<b>Africa</b>													
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
<b>Middle East</b>													
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**	10.5	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								
<b>Asia</b>													
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								
<b>Central &amp; Eastern Europe</b>													
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	20-Oct-16	No change	08-Dec-16
UK	Bank Rate	0.25	15-Sep-16	No change	03-Nov-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	19-Oct-16	No change	07-Dec-16
<b>Emerging Markets</b>					
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	13-Oct-16	No change	11-Nov-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	20-Oct-16	No change	24-Nov-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	31-Oct-16
Mexico	Target Rate	4.75	29-Sep-16	Raised 50bps	17-Nov-16
Brazil	Selic Rate	14.00	19-Oct-16	Cut 25bps	30-Nov-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	14.00	27-Oct-16	Cut 100bps	08-Dec-16
Russia	Refi Rate	10.00	16-Sep-16	Cut 50bps	28-Oct-16



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