

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### Number of downgrades surpasses upgrades in third quarter of 2016

S&P Global Ratings indicated that it downgraded 35 corporate and sovereign issuers in emerging markets (EM) worth \$117.4bn in rated debt in the third quarter of 2016, while it upgraded 23 EM issuers worth \$181bn in rated debt. It noted that the downgrade ratio, which is the proportion of downgrades to total rating actions, stood at 60% in the third quarter of 2016, well above the historical average of 55% since 1995. Further, it said that the negative bias in EMs decreased in the third quarter of 2016, as it reached 31% in the covered quarter down from 33% in the second quarter of 2016. S&P defines negative bias as the proportion of issuers that either have a 'negative' outlook or whose ratings are on CreditWatch negative. S&P downgraded 29 corporate issuers, representing \$108bn in rated debt in the third quarter of 2016; while it upgraded 22 corporate issuers worth \$70bn. Emerging Asia had six corporate downgrades worth a total of \$8bn and 15 upgrades of \$59bn in the covered period; followed by Latin America with 10 downgrades (\$48bn) and three upgrades (\$1bn); and Eastern Europe, the Middle East & Africa (EEMEA) with 13 downgrades (\$52bn) and four upgrades (\$10bn). Also, S&P downgraded six sovereigns, representing \$9bn in rated debt in the third quarter of 2016, while it upgraded one sovereign that has \$111bn in debt. The agency expected downgrades to continue in EM, especially in Latin America and the EEMEA region, due to persistently lower commodity prices, high geopolitical uncertainties and financial volatility. Also, S&P downgraded 172 corporate and sovereign issuers in EM, while it upgraded 61 EM issuers in the first nine months of 2016.

Source: S&P Global Ratings

#### MENA

##### Prosperity level unchanged in 2016

The Legatum Institute's Prosperity Index for 2016 ranked the UAE in first place among 18 Arab economies and in 41st place among 149 countries globally. Qatar followed in 46th place, then Bahrain (67th), Oman (70th) and Kuwait (71st) as the most prosperous Arab countries; while Iraq (143rd), Sudan (146th) and Yemen (149th) were the least prosperous Arab economies. The Index uses a broad definition of prosperity to include both material wealth and quality of life, and covers 104 variables grouped into nine sub-indices. The rankings of Bahrain, Saudi Arabia, Tunisia, Lebanon and Djibouti regressed by one spot year-on-year, while those of the remaining Arab countries were unchanged. Further, the survey assessed the prosperity gap, which is the difference between a country's current level of prosperity and the expected prosperity level given the country's GDP per capita. Djibouti was the only Arab country to post a 'prosperity surplus', which means that the prosperity level in the country is higher than what would be expected relative to the country's GDP per capita. Still, Djibouti's 'prosperity surplus' is the 20th lowest globally. In contrast, Iraq has the widest deficit globally, while Qatar, which has the highest GDP per capita in the world, has the seventh widest deficit worldwide.

Source: Legatum Institute, Byblos Research

##### Private capital inflows to grow by 8% to \$100bn in 2016

The Institute of International Finance projected total non-resident private capital inflows to the Middle East & Africa (ME&A) region at \$100bn in 2016, which would constitute a rise of 7.5% from \$93bn in 2015 and an increase of \$3bn from its July 2016 forecast. It anticipated net private capital inflows to the ME&A region to account for 15.6% of total net private inflows to emerging markets in 2016, down from 35.4% last year. It attributed the estimated increase in capital inflows this year to the large issuance of international bonds in GCC countries. But it anticipated capital inflows to GCC economies to decline modestly in 2017 due to less financing needs as a result of fiscal consolidation and a small increase in global oil prices. It expected capital inflows to the ME&A region to rise by 17% to \$117bn in 2017, driven by increased capital investment in Egypt and South Africa. Further, it forecast net direct investment to grow from \$32bn in 2015 to \$35bn in 2016, while it projected inflows from portfolio investments to decrease from \$13bn last year to \$7bn this year. Further, it expected net commercial bank lending to reach \$42bn this year relative to \$44bn in 2015, while it estimated net non-bank private lending to improve from \$5bn in 2015 to \$16bn in 2016. In parallel, the IIF forecast resident private capital outflows from the ME&A region to regress from \$100bn in 2015 to \$74bn in 2016. Overall, it expected net capital inflows to the ME&A region to increase from \$2bn in 2015 to \$36bn in 2016.

Source: Institute of International Finance

#### IRAN

##### FATF to continue monitoring Iran until anti-money laundering deficiencies are addressed

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), suspended for one year starting in June 2016 the imposed counter measures against Iran in order to monitor the authorities' progress in implementing their action plan. The FATF's decision came after Iran introduced a new action plan to address its strategic AML/CFT deficiencies and asked for technical assistance in the plan's implementation. The FATF warned that it will renew its request for counter measures in case Iran fails to make sufficient progress in addressing its strategic AML/CFT deficiencies. It reiterated that terrorist financing from Iran poses a threat to the international financial system, and that Iran will remain on the FATF list of high risk jurisdictions until it implements the measures required to address the AML/CFT deficiencies identified in the action plan. Therefore, the FATF repeated its call on its members and on all jurisdictions to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with natural and legal persons from Iran.

Source: Financial Action Task Force

# POLITICAL RISK OVERVIEW - October 2016

## EGYPT

Military clashes with Islamic State (IS) militants intensified in and around the Sinai Peninsula. The IS-affiliated group Sinai Province has reportedly killed 12 Egyptian soldiers and injured eight others in an attack on an army checkpoint near the town of Bir al-Abd in Central Sinai. Egyptian forces launched on October 16 a new campaign to target terrorists and outlawed elements in several areas in Northern and Central Sinai. Brigadier General Adel Ragaei, the head of army division deployed in North Sinai, was shot dead outside his home in the Obour City suburb. A militant group called Liwa al-Thawra claimed responsibility for the assassination. Egyptian prosecutors ordered the detention of 14 policemen for their alleged role in a deadly jailbreak in the Suez Canal city of Ismailia. An Egyptian court upheld on October 26 the death sentences of Muslim Brotherhood leader Mohammed Badie and 36 others, including former ministers, for inciting murder and violence in July 2013.

## IRAN

The U.S. Treasury Department published on October 7 a guidance that allows foreigners to conduct dollar transactions with Iran through offshore banking institutions, as long as the transactions do not enter the U.S. financial system. It also removed a ban on foreign transactions with Iranian firms that are run by individuals who are subject to U.S. sanctions. Iran deployed two naval fleets to the Gulf of Aden after the U.S. launched missile attacks on radar stations controlled by the Iran-backed Yemeni Huthi rebels. The U.S. attack came after the ships were allegedly attacked by missile strikes from the Huthi-controlled territory.

## IRAQ

The U.S.-backed Iraqi security forces and allied militias launched a military operation in mid-October to recapture the city of Mosul from Islamic State (IS) militants, and have reportedly ousted IS fighters from about 90 surrounding villages. IS militants took over the town of Rutba in the Anbar province following three days of clashes with Iraqi forces. Tensions increased between Iraq and Turkey over the latter's involvement in the battle for Mosul. Turkey reiterated its intention to support the Peshmerga Kurdish forces in the Mosul offensive, while Iraq rejected the offer of support. Violence and acts of terrorism in Iraq led to 1,792 deaths and 1,358 injuries in October 2016.

## DEM REP CONGO

The ruling coalition and other smaller parties agreed to postpone the presidential elections from December 2016 until April 2018. This would allow President Joseph Kabila to remain in office until a new president is sworn in during May 2018. The "Rassemblement" opposition group boycotted the talks and argued that the agreement is part of President Kabila's strategy to remain in power after the end of his term. The opposition group also called for a special regime to govern after Kabila's term ends in December. The European Union threatened sanctions if the country does not hold elections in 2017.

## LIBYA

Power struggles in Tripoli revealed weakening support for the UN-backed Prime Minister (PM)-designate Fayez al-Sarraj and his Presidential Council. A group consisting of former Prime Minister Khalifa Ghwell and other members of Libya's General National Congress (GNC), supported by local militias, declared themselves in power after taking over the premises that were previously held by the State Council in Tripoli. Ghwell and his supporters called on other powers in the country to join them and to create a national unity government against the UN-backed Government of National Accord. PM Fayez al-Sarraj vowed to restore order in his country following the coup attempt and called on loyal militia units to arrest the plotters. Misratan-led forces, loyal to the UN-backed Presidential Council, continued to fight IS militants in the city of Sirte.

## SOUTH SUDAN

Fighting persisted between government forces and the rebel group Sudan People's Liberation Army-In Opposition (SPLA-IO), led by former Vice President Riek Machar, in the Equatorias and the Upper Nile regions. Clashes erupted between SPLA-IO forces and the Sudan People's Liberation Army (SPLA), loyal to President Salva Kiir, near Malakal, the capital of the oil-rich Upper Nile state. Negotiations continued between the UN Mission in South Sudan, SPLA and SPLA-IO over a joint security plan for Juba and the deployment of the Regional Protection Force in South Sudan. President Kiir issued an executive order to form a joint committee tasked to facilitate access and delivery of humanitarian aid to those in need across the country.

## SUDAN

Political parties participating in Sudan's National Dialogue Conference approved on October 9 the national document that will constitute the basis for drafting the country's permanent constitution. Participants agreed that a 'National Consensus Government' should be formed within 90 days. They also recommended the creation of the post of Prime Minister. President Omar al-Bashir declared an extension of the unilateral cessation of hostilities in the Blue Nile and South Kordofan states for an additional six months.

## SYRIA

Regime forces backed by Russian airstrikes continued their offensive against the opposition-held eastern parts of Aleppo. The U.S. suspended talks with Russia over a ceasefire agreement in Syria, accusing Russia of carrying military attacks against civilians. UN Special Envoy Staffan de Mistura proposed to escort 900 Fath al-Sham fighters out of Aleppo in exchange for an end to the bombardments by Russian and Syrian forces. He also considered that the use of heavy weaponry by the two countries against civilians is a "war crime". U.S. Secretary of State John Kerry met with Russian Foreign Minister Sergei Lavrov and seven other foreign ministers following the collapse of the U.S.-Russian ceasefire plan, but no progress was made during the meeting. German Chancellor Angela Merkel called for an end to the attacks on Aleppo and added that the European Union would take measures against Syria and Russia if the attacks continue. The U.S. and its allies prepared to launch an offensive to recapture the IS-held city of Raqqa.

## TUNISIA

Tunisia's main labor union, known as Union Générale Tunisienne du Travail, threatened to hold a general strike and called for protests against the government's plans to freeze public wage increases as part of measures to control the budget deficit. Tunisia held on October 23 its first High Judicial Council elections, which paved the way for the completion of the country's democratic transition. Security forces have dismantled a 62-member Islamist militant cell that was planning attacks against security officials and a senior government official. President Beji Caid Essebsi extended the nationwide state of emergency for three months until January 2017.

## YEMEN

The Saudi-led coalition carried airstrikes in the capital city of Sanaa, killing over 140 people, including the Mayor of Sanaa and several army generals. Huthi rebels retaliated by launching two missiles into Saudi Arabia, one of which targeted a military base in the western city of Taif. UN envoy Ismail Ould Cheikh proposed a new peace plan to end the conflict between President Abd-Rabbu Mansour Hadi's government and the Huthi/Saleh bloc. The UN peace proposal includes the formation of a national unity government and the appointment of a new Yemeni Vice President agreed upon by all involved parties.

Source: International Crisis Group, Newswires



# OUTLOOK

## EGYPT

### Currency depreciation to improve banking sector's outlook

Regional investment bank EFG Hermes considered that the Central Bank of Egypt's decision to float the currency and to raise the policy rates by 300 basis points would improve the banking sector's outlook in 2017. It anticipated that part of the large US dollar liquidity that is outside the banking system, which is estimated at about \$20bn, would flow to banks once the foreign exchange market starts to function effectively. It considered that this would support fee income, business confidence as well as investment and lending growth in 2017. Further, it estimated that the increase in the policy rates would raise the net interest spread by at least 50 basis points in 2017 because corporate loans are benchmarked to corridor rates, banks have large holdings of Treasury bills that quickly adjust to new rates, and banks usually increase interest rates on deposits at a lag relative to assets.

In parallel, EFG pointed out that Egyptian banks have a large share of loans and deposits that are denominated in US dollars, which would lead to a higher growth in the banks' balance sheet in the fourth quarter of 2016, as the loans and deposits would become inflated when converted from US dollars to Egyptian pounds. But it said that a currency devaluation would inflate the banks' total risk-weighted assets when assets denominated in foreign currency are converted to Egyptian pounds. As such, it anticipated that a weaker currency would reduce the banks' capital adequacy ratios. It estimated the banks' capital adequacy ratio to still exceed the 10.63% minimum requirement based on an exchange rate of between EGP16 and EGP17 per dollar.

Further, EFG considered that several factors would limit the formation of non-performing loans, which include the low leverage of the Egyptian economy as total loans are equivalent to about 27% of GDP, and the fact that only customers generating income in US dollars can borrow in foreign currency. Also, it noted that the banks' customers have been purchasing US dollars from the parallel market at a higher price than the official rate prior to the devaluation, which means that they have already incorporated some of the currency devaluation in their cost. It added that provisioning is a key risk for the banks' earnings.

Source: EFG Hermes

## TURKEY

### Real GDP growth to decelerate to 2.9% in 2016

The International Monetary Fund projected Turkey's real GDP growth to decelerate to 2.9% in 2016 from 4% in 2015 due to weak business confidence and adverse domestic and external shocks. It added that uncertainty has increased as a result of geopolitical tensions and the ramification of the failed coup attempt in July. It noted that the unemployment rate is high and rising, while lending growth has significantly slowed down. Further, it expected the inflation rate at about 8% in 2016 and 2017, above the authorities' target rate of 5%, mainly because of the 30% increase in the minimum wage. In addition, the Fund projected Turkey's current account deficit at 4.5% of GDP in 2016 as the weak tourism season has offset the positive impact of low energy prices on the external account. It expected the current account

deficit to widen in 2017 due to higher oil prices and a wider fiscal deficit. It indicated that Turkey met its significant financing needs for 2016 due to ample global liquidity, but it noted that the recent downgrades of the sovereign ratings have increased the cost of foreign funding. The IMF considered that the authorities' main challenge is to avoid an excessive slowdown in economic activity that could trigger a deleveraging cycle.

In parallel, the IMF considered that a moderate fiscal loosening is appropriate, but that it should be accompanied by a credible medium-term consolidation plan. It estimated that an increase in spending of about 0.5% of GDP in 2017 would support domestic demand without worsening significantly external imbalances. In addition, it pointed out that contingent liabilities are rising with the continued expansion of the public-private partnership (PPP) portfolio and related guarantees. As such, it called for stronger central oversight, approval and disclosure of projects, as well as for a comprehensive PPP law. Further, the Fund said that Turkey's current monetary stance balances the need to contain inflation against a slowing economy. It noted that authorities should refrain from further monetary policy easing.

Source: International Monetary Fund

## AFRICA

### Business spending to reach \$3.5 trillion by 2025

The McKinsey Global Institute projected business spending in African economies at \$3.5 trillion in 2025, which would constitute a compound annual growth rate of 3.3% from \$2.6 trillion in 2015. It expected spending on input materials to account for 50% of total business spending in 2025, followed by that on capital goods (16%) and spending on services (34%). It forecast demand by African businesses for input materials, capital goods and services to increase in coming years due to the structural changes in Africa's corporate sector, the continent's rapid urbanization and business clustering, as well as to technological changes. In parallel, it projected companies in South Africa to spend \$757bn, equivalent to 21.4% of the region's aggregate business spending in 2025, followed by those in Nigeria with \$710bn (20.1%), firms in Egypt with \$401bn (11.4%), those in Algeria with \$182bn (5.2%), companies in Morocco with \$175bn (5%), companies in Angola with \$135bn (3.8%), firms in Sudan with \$104bn (2.9%), those in Kenya with \$93bn (2.6%), and companies in Tunisia with \$92bn (2.6%); while it estimated firms in other African countries to spend the remaining \$881bn, or 25% of total business spending in 2025.

In parallel, McKinsey forecast business spending in the agricultural sector to reach \$788bn in 2025, or 22.3% of total business spending in African economies, followed by the construction, utilities & transportation sector with \$639bn (18.1%), the manufacturing sector with \$591bn (16.7%), the wholesale & retail sector with \$547bn (15.5%), the resources sector with \$330bn (9.3%), the banking & insurance sector with \$197bn (5.6%), and the telecommunications & IT sector with \$72bn (2%); while it projected business spending in other sectors to reach \$366bn and to account for the balance of 10.4%. McKinsey expected the financial services, construction, utilities and transportation, wholesale and retail trade sectors to be the fastest-growing sectors during the 2015-25 period.

Source: McKinsey Global Institute



# ECONOMY & TRADE

## EGYPT

### Currency float to ease market pressure

Moody's Investors Service indicated that the Central Bank of Egypt's (CBE) decision to liberalize the exchange rate is credit positive and fulfills a pre-condition for the approval of the \$12bn loan from the IMF. It noted that the CBE raised the overnight deposit rate by 300 basis points to 14.75% in order to manage inflationary pressure, and abolished a priority list for imports. The CBE devalued the Egyptian pound by 46% to EGP13 against the US dollar on November 3, 2016, and allowed the market to determine the exchange rate afterwards. The pound was trading at about EGP17.3 per dollar on November 9. The agency anticipated that the foreign exchange market would initially be volatile and that the depreciation of the currency would increase the government's borrowing cost and the inflation rate. But it considered that a market-based foreign exchange rate would ease the pressure on the CBE's low foreign currency reserves, would reduce the pressure on balance-of-payments, and would support investment and economic activity. It expected the removal of capital controls and the eventual stabilization of the exchange rate to encourage foreign investment and a higher conversion of remittances through official channels. In parallel, Merrill Lynch expected the pound to further depreciate in the near term and to exceed its fair value of EGP12 to EGP13 per dollar due to the large unmet domestic demand for foreign currency. It expected the currency depreciation and the lifting of subsidies to increase the inflation rate from 14% currently to about 20% to 25% in the near term. In parallel, it considered that authorities need to deal swiftly with the recent disruption to the supply of refined petroleum products from Saudi Arabia under the \$22bn five-year fuel credit line. It noted that the IMF program would be underfunded, in case the deal is suspended indefinitely and Egypt is unable to find an alternative source of financing.

Source: Moody's Investors Service, Merrill Lynch

## OMAN

### Non-hydrocarbon growth at 1.2% in 2016-17

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 reduced public spending, higher taxes and tighter financial conditions. It expected the hydrocarbon sector output to expand by 3.6% this year and by 2.8% in 2017 and to be the main driver of economic activity, while it projected growth in the non-oil economy at 0.9% in 2016 and 1.5% in 2017. In parallel, the IIF forecast Oman's fiscal deficit at 14.1% of GDP in 2016 and 8.1% of GDP in 2017, given the low oil price environment. It indicated that authorities are planning to increase the corporate income tax rate from 12% to 15% and to introduce a value-added tax that could expand public revenues by 1% of GDP, among other measures. It added that authorities have raised \$5.5bn in external debt so far in 2016, with additional borrowing planned for next year. As such, it forecast the public debt level to increase from 12.8% of GDP in 2015 to 21.6% of GDP in 2016 and 25.3% of GDP in 2017. In parallel, the IIF expected the current account deficit to widen from 15.5% of GDP in 2015 to 17% of GDP in 2016, but to narrow to 9.1% of GDP in 2017 if oil prices recover.

Source: Institute of International Finance

## ANGOLA

### Risks to 2017 budget targets are high

The Angolan government budget for 2017 forecast a fiscal deficit of 5.8% of GDP, nearly unchanged from an estimated deficit of 5.9% of GDP in 2016, despite higher anticipated oil prices. It estimated the country's oil production at 1.8 million b/d with an average oil price of \$46 p/b in 2017. It projected government revenues to rise by 5.3% and to be equivalent to 18.6% of GDP in 2017, while it expected public spending to increase by 7.2% to 24.3% of GDP in 2017. It forecast the oil sector to generate about 50% of total tax receipts in 2017, nearly unchanged year-on-year despite expected higher oil prices. It added that the 2017 budget intends to further reduce subsidy payments. In parallel, the government projected real GDP growth to accelerate from 1.1% in 2016 to around 2.1% in 2017, as it forecast hydrocarbon output to rise by 1.8% and non-hydrocarbon sector growth to reach 2.3%. It expected the electricity sector to grow by 40% year-on-year and the manufacturing sector to improve by 4% in 2017. Also, it forecast the inflation rate to regress to 15.8% by the end of 2017. In parallel, Angolan authorities pointed out that risks to the budget targets are high and include lower-than-expected oil production because of technical disruptions, lower-than-anticipated oil prices, more conservative global lending practices, limited implementation of government programs, elevated inflation and slower-than-anticipated economic activity.

Source: IHS Markit

## TURKEY

### Outlook revised to 'stable' on progress in economic reforms

S&P Global Ratings affirmed Turkey's 'BB' long-term foreign currency and 'BB+' long-term local currency sovereign credit ratings, and revised the outlook from 'negative' to 'stable'. It attributed the outlook revision to progress in the implementation of key economic reforms under Turkey's Tenth Development Plan for the 2014-18 period, which would support economic stability despite persistent domestic and external risks. It noted that the implemented and planned reforms aim to reduce the economy's dependence on foreign financing. The agency said that Turkey's external position remains a weakness for the ratings, with an annual average current account deficit of about 5% of GDP during the 2016-19 period. It anticipated that Turkey would continue to face large external vulnerabilities, especially if the Turkish lira depreciates sharply, given the country's high net external financing requirements and the corporate sector's large foreign currency position. But it noted that it reduced its forecast for the country's external financing requirements to 169% of current account receipts plus usable reserves for the 2016-19 period from about 185% previously, mainly due to the lengthening average maturity of Turkey's external debt. It added that the banks' reported short-term debt has declined because of an increase in reserve requirements for short-term borrowing. Further, S&P forecast Turkey's net foreign exchange reserves at \$41bn in 2017, equivalent to about two months of current account payments, which results in limited buffers to offset external pressures. It estimated that the country must roll over about 41% of its total external debt in 2017, amounting to more than \$170bn, or 23% of estimated GDP.

Source: S&P Global Ratings



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# BANKING

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## IRAQ

### Anti-money laundering deficiencies remain

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Iraq has taken steps since June 2016 to improve its AML/CFT regime by addressing the remaining issues related to its criminalization of money laundering and terrorist financing, establishing an adequate legal framework for identifying and freezing terrorist assets, and ensuring a fully operational and effectively functioning Financial Intelligence Unit. However, the FATF noted that certain strategic AML/CFT deficiencies remain. It said that Iraq should implement the legal framework for identifying and freezing terrorist assets, make sure that all financial institutions are subject to adequate customer due diligence requirements, ensure that all financial institutions are subject to adequate suspicious transaction reporting requirements, and establish and implement an adequate AML/CFT supervisory and oversight program for the financial sector. The task force called on Iraqi authorities to continue implementing their action plan and honor the high-level political commitment to work with the FATF and the FATF-style regional body MENAFATF to address its remaining AML/CFT deficiencies.

Source: *Financial Action Task Force*

## DEM REP CONGO

### Central Bank increases minimum capital requirements for banks

Moody's Investors Service indicated that the Banque Centrale du Congo's (BCC) decision to increase the minimum capital requirements of commercial banks in the Democratic Republic of Congo (DRC) is credit positive, as it would support the stability of the financial sector and lead to industry consolidation with a smaller number of better-capitalized banks. It said that banks will have to comply with minimum capital requirements of \$30m by September 2017 relative to \$10m prior to the amendments, and to meet minimum capital requirements of \$50m by the end of 2020. The agency did not expect the BCC's decision to affect the DRC's three largest banks, Rawbank, Banque Commerciale du Congo and Trust Merchant Bank, which together account for 45% of the banking sector's assets. But it anticipated that up to 10 out of the 20 banks operating in the country, which account for 13% of total assets, will find it difficult to raise the required minimum capital. It anticipated that small banks could merge with each other, could be acquired by larger banks, or could find strategic shareholders in order to comply with the new capital requirements. It added that small foreign-owned banks would require additional capital injections in order to maintain their operations in the country. It considered that the consolidation in the banking sector would result in stronger banks that are better-positioned to benefit from economies of scale and to improve compliance and corporate governance standards. Moody's noted that the BCC's decision to increase capital requirements came after it seized control of the Banque Internationale pour l'Afrique au Congo (BIAC), one of the DRC's largest banks, because the latter was unable to inject new capital amid allegations of fraud.

Source: *Moody's Investors Service*

## SAUDI ARABIA

### Provision costs weigh on the banking sector's net profits in third quarter of 2016

The net profits of 12 listed banks in Saudi Arabia totaled SAR9.9bn, or \$2.6bn, in the third quarter of 2016, constituting a decrease of 5.6% from SAR10.5bn in the same quarter of 2015, the first annual drop in six years. Also, net profits fell by 14.6% from SAR11.6bn in the second quarter of 2016 due to a 95.5% quarter-on-quarter increase in provisions from higher investment impairments and rising credit cost. Further, the banks' aggregate net interest income totaled SAR15.2bn in the third quarter of 2016, up by 4.5% from the second quarter of 2016 due to an improvement in net interest spreads; while non-interest income reached SAR5.7bn and regressed by 12.1% from the previous quarter because of lower seasonal business activity. In parallel, the banks' total assets reached SAR2,207.9bn, or \$588.8bn, at the end of September 2016, constituting a decline of 0.7% from end-June 2016 and a marginal increase of 0.6% from end-September 2015. Net loans totaled SAR1,430.9bn, or \$381.6bn, at the end of September 2016 and regressed by 0.6% from the end of June 2016, due to the banks' efforts to reduce high credit risk exposures and to tight liquidity conditions, while they increased by 7.1% from end-September 2015. Further, the sector's customer deposits reached SAR1,657.8bn, or \$442.1bn, at the end of September 2016, nearly unchanged from end-June 2016 and constituting a drop of 2.6% from end-September 2015, which reflects persistent liquidity pressure. Also, the loans-to-deposits ratio reached 83.7% at the end of September 2016 compared to 84.2% at end-June 2016 and relative to 76.6% at end-September 2015.

Source: *EFG Hermes*

## MOROCCO

### Credit risk dominant in banking sector

The International Monetary Fund's stress tests show that credit risk in the loan book constitutes the largest risk factor for the Moroccan banking sector, as loans represent about 70% of the sector's assets. It noted that the banks' loan portfolio is very sensitive to real interest rates and, to a lesser extent, to real GDP growth, and to FDI and remittance inflows. It estimated that the banks' non-performing loans would rise by 7.7 percentage points to 14.8% in 2016 under adverse conditions characterized by a sharp rise in international investors' risk aversion, a surge in global financial market volatility and a slowdown in economic activity in the Eurozone. In addition, the IMF pointed out that solvency stress tests show that capital ratios would fall below the minimum requirement at only one bank under adverse conditions, which means that Moroccan banks are well-capitalized and profitable. Further, it said that liquidity tests indicate that most Moroccan banks would be exposed to liquidity risks in the event of large deposit withdrawals, or in case unsecured wholesale funding dries up. In parallel, the Fund noted that banks are vulnerable to default risk on their largest exposures. It estimated the banks' capital shortfall at 3% of GDP in the event of a default by the three largest exposures. Further, the Fund's stress tests show that the direct effects on banks of a 30% depreciation of the currency would be small.

Source: *International Monetary Fund*



# ENERGY / COMMODITIES

## Oil prices to fluctuate amid global uncertainties

Oil prices dropped in intra-day trading on November 9 as investors rushed in to buying safe have assets and moved away from oil. However, prices steadied on November 10 as markets recovered from their initial surprise of Donald Trump's victory in the U.S. presidential elections, but investors were cautious ahead of a late November OPEC meeting to decide about production cuts. ICE Brent crude oil front-month prices closed at \$46.4 per barrel (p/b) on November 9, 2016, constituting a drop of 4% from end-October and a rise of 24.4% from end-2015. In parallel, the U.S. Energy Information Administration (EIA) showed a rise of 2.5 million barrels in U.S. crude oil inventories, which weighed on oil prices. Overall, the outlook for the oil market is expected to remain highly volatile, given the sustained oversupply in the global oil market, the uncertainties regarding President-elect Trump's energy-related policies, as well as investors' doubts about OPEC's ability to coordinate a planned output cut in order to support prices. Overall, the EIA forecast Brent oil prices to average \$43.3 p/b in 2016, while it projected WTI prices to average \$42.84 p/b this year.

Source: U.S. EIA, Thomson Reuters, Byblos Research

## MENA's natural gas production up 2% in 2016

The Middle East & North Africa region's natural gas production is forecast to average 13.4 million barrels of oil equivalent per day (boe/d) in 2016, which would constitute a rise of 1.8% from 2015. The Gulf Cooperation Council (GCC) countries' natural gas production would account for 64.8% of the region's gas production in 2016, while non-GCC producers would represent the remaining balance of 35.2%. Qatar's natural gas output is projected at 4 million boe/d in 2016, equivalent to 29.8% of the region's gas production, followed by Iran at 3.13 million boe/d (23.3%).

Source: International Monetary Fund, Byblos Research

## Gas to account for up to 70% of Saudi Arabia's electricity generation mix by 2030

Jadwa Investment expected Saudi Arabia's energy consumption to continue to increase as population growth remains strong and the planned industrial development within the country's Vision 2030 adds to rising electricity demand. It anticipated gas to have a larger share in the electricity generation mix, rising from around 50% currently to about 70% in the medium- to long-term. It noted that the Kingdom would need to grow its raw gas output by an annual average rate of 3.7% to 6.6% between 2020 and 2030 in order to meet rising demand. Saudi Arabia currently holds the world's sixth largest proven gas reserves.

Source: Jadwa Investment

## Nigeria's hydrocarbon export receipts down 46% in first eight months of 2016

Nigeria's crude oil and condensate export receipts totaled \$1.85bn in the first eight months of 2016, constituting a drop of 46% from \$3.4bn in the same period of 2015. Export revenues in the first eight months consisted of \$1.12bn from crude oil exports, \$575.5m from gas exports and \$149m in other receipts. In parallel, the authorities transferred \$24m to the Federation Account in August 2016, down by 46% from the amount it transferred in July. Hydrocarbon receipts reached \$181m in August 2016, down by 14.8% from \$212.3m in July 2016.

Source: Nigerian National Petroleum Corporation

## Base Metals: Chinese steel production at 50% of global output in first nine months of 2016

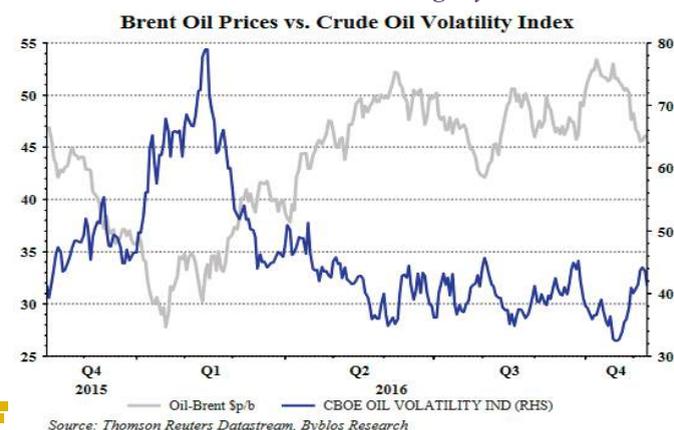
The LME steel billet cash price reached \$312.5 per ton on November 9, 2016, constituting a rise of 58.6% from \$197 per ton at end-2015. Prices traded at a low of \$75.5 per ton and a high of \$312.5 per ton so far this year. The increase in the metal's price is supported by lower Chinese steel exports. Also, the U.S. and other economies imposed new tariffs of up to 266% on Chinese steel imports, amid concerns that Chinese dumping of the metal has damaged local steel makers. In parallel, global crude steel output reached 1.2 billion tons in the first nine months of 2016, according to the latest available figures, nearly unchanged from the same period of 2015. China's crude steel production totaled 603.8 million tons in the first nine months of 2016, or 50.4% of global steel output. It was followed by Japan with 78.4 million tons (6.5%), India with 67.1 million tons (5.9%) and the U.S. with 59.7 million tons (5%). On a regional basis, steel output in Asia totaled 825.9 million tons and accounted for 70% of global production in the covered period, followed by the European Union with 121.3 million tons (10.1%) and North America with 83.9 million tons (7%). 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 rise further amid political and economic uncertainties

Gold prices surged by more than 4.4% in intra-day trading on November 9 to reach a peak of \$1,337.4 per troy ounce, which constituted its highest level since the Brexit vote in June 2016. The intra-day increase in prices was driven by rising investor demand for the safe-haven metal as prospects that Mr. Donald Trump could become the 45th President of the United States became more likely. However, the metal's price closed lower at \$1,289 per ounce on November 9 following the announcement of the results, as investors adapted to the news. Further, gold prices grew by 21.3% so far in 2016, supported by global political and economic uncertainties, as well as lower expectations of an increase in U.S. interest rates in December. In parallel, global gold demand declined by 10% year-on-year in the third quarter of 2016 to 992.8 tons, equivalent to \$42.6bn. The drop was mainly due to a 51.4% decrease in Central Banks' net purchases, a 35.7% decline in bar and coin investments, and a 20.7% drop in jewelry demand. In comparison, global gold supply grew by 4% year-on-year in the third quarter of 2016 to 1,172.7 tons, with mine production accounting for 70.9% of the total.

Source: World Gold Council, Bloomberg, 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**	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								
<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	02-Nov-16	No change	14-Dec-16
Eurozone	Refi Rate	0.00	20-Oct-16	No change	08-Dec-16
UK	Bank Rate	0.25	03-Nov-16	No change	15-Dec-16
Japan	O/N Call Rate	-0.10	01-Nov-16	No change	20-Dec-16
Australia	Cash Rate	1.5	01-Nov-16	No change	06-Dec-16
New Zealand	Cash Rate	1.75	09-Nov-16	Cut 25bps	08-Feb-17
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	02-Nov-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	09-Nov-16	No change	21-Dec-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	03-Nov-16	No change	28-Nov-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	04-Nov-16	No change	06-Jan-17
Bulgaria	Base Interest	0.00	01-Nov-16	No change	01-Dec-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	28-Oct-16	No change	16-Dec-16



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