

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Trade-restrictive measures rise by October 2018

The World Trade Organization indicated that WTO members have put in place 137 new trade-restrictive measures between mid-October 2017 and mid-October 2018, up by 27% from 108 new restrictive measures applied between mid-October 2016 and mid-October 2017. The WTO members introduced on average 11 trade-restrictive measures per month during the covered period, up from nine measures per month between mid-October 2016 and mid-October 2017, due to increasing current trade tensions. The distribution of new trade-restrictive measures shows that import-related restrictions accounted for 86.1% of total measures, while export-related restrictions represented 12.4% of the total during the covered 12-month period. In parallel, the WTO said that its members introduced 162 new trade-liberalizing or facilitating measures during the covered period, relative to 128 new trade-facilitating measures between mid-October 2016 and mid-October 2017. As such, WTO members introduced on average 14 new trade-facilitating measures per month during the covered period, up from 11 monthly measures between mid-October 2016 and mid-October 2017. Import-related measures accounted for 86.4% of trade-facilitating procedures, while export-related measures represented the remaining 13.6%. Import-restrictive measures covered an estimated \$588.3bn of trade merchandise, the equivalent of 3.33% of the value of world merchandise imports, while import-facilitating measures covered \$295.6bn of global trade, or 1.68% of world merchandise imports.

Source: World Trade Organization

KUWAIT

Profits of listed companies up 7% to \$5.2bn in first nine months of 2018

The cumulative net profits of 157 companies listed on Boursa Kuwait totaled KD1.6bn, or \$5.2bn, in the first nine months of 2018, constituting an increase of 6.9% from KD1.5bn, or \$4.9bn in the same period of 2017. Listed banks generated net profits of \$2.9bn and accounted for 55% of aggregate net earnings in the covered period. Financial services companies followed with \$633.1m and telecommunications firms with \$630.5m (12.1% each), then industrial companies with \$532.3m (10.2%), real estate firms with \$274.7m (5.3%), insurers with \$107.9m (2.1%), consumer services providers with \$73m (1.4%), oil & gas firms with \$37.7m (0.7%), basic materials companies with \$20.4m (0.4%), consumer goods firms with \$16.9m and healthcare providers with \$14m (0.3% each), and technology firms with \$8.3m (0.2%). Further, the net earnings of oil & gas firms rose by 143.6% year-on-year in the first nine months of 2018, followed by banks (+18.8%), insurers (+15.4%), financial services providers (+3.3%), technology firms (+3.1%), and telecommunications companies (+3%). In contrast, profits of consumer goods companies regressed by 55.5% in the covered period, followed by basic material firms (-46.9%), consumer services providers (-30.6%), real estate firms (-26.6%), and industrial companies (-8.6%).

Source: KAMCO

MENA

E-commerce readiness level varies across region

The 2018 UNCTAD Business-to-Consumer (B2C) E-commerce Index ranked the UAE in 33rd place among 151 countries globally and in first place among 19 Arab economies. Saudi Arabia followed in 52nd place, then Kuwait (59th), Qatar (60th), Bahrain (62nd), and Lebanon (64th) as the Arab countries with the highest level of e-commerce readiness; while Sudan (123rd), Iraq (130th), Syria (135th), Mauritania (139th) and Yemen (140th) were the least ready Arab countries. The index measures the readiness of countries to engage in online commerce. It reflects the steps involved in a B2C transaction, and is composed of four indicators that consist of the Internet penetration rate, the number of secure Internet servers per one million inhabitants, the payment account penetration rate, and the reliability of postal services. Bahrain's Internet penetration rate in the 2018 survey was 96%, the fifth highest rate globally and the highest among Arab countries. Further, the UAE's payment account penetration rate stood at 88%, the 35th highest rate globally and the highest in the Arab world. The payment account penetration rate is the percentage of respondents who have an account at a bank or at another type of financial institution. In addition, the UAE had 66 secure Internet servers per one million inhabitants, which ranks the country in 57th place globally and in first place regionally on this category. Finally, the UAE received a score of 75 on the reliability of postal services indicator, and ranked in 47th place globally and in first place regionally on this category.

Source: United Nations Conference on Trade and Development

Economic freedom varies across Arab countries in 2018

The Fraser Institute's 2018 Index of Economic Freedom in the Arab World indicated that Bahrain and the UAE are the most economically-free countries among 22 Arab countries included in the survey with a score of 8 points each. Jordan followed with 7.9 points, then Qatar (7.8 points), Kuwait (7.4 points), and Oman, Lebanon and Palestine (7.3 points each) as the eight countries with the highest level of economic freedom in the Arab world. In contrast, Algeria (5.3 points), Syria (4.4 points) and Libya (4.3 points) are the countries with the lowest level of economic freedom in the Arab region. The index evaluates individual economies on the basis of 45 variables that are divided into five broad factors of economic freedom that measure the Size of Government, Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. The rankings of seven Arab countries improved, five regressed and 10 were unchanged from the 2017 survey. In parallel, the scores of seven Arab countries improved, seven regressed, and eight were unchanged from the previous survey. Sudan ranked first on the Size of Government category, while Qatar and Bahrain each had the highest score on the Access to Sound Money category. Also, the UAE came in first place on the Freedom to Trade Internationally and on the Legal System & Property Rights categories. Further, Kuwait ranked first on the Regulation of Credit, Labor & Business category.

Source: Fraser Institute, Byblos Research

OUTLOOK

IRAQ

Growth at 4% in 2019 on better security conditions

Standard Chartered Bank projected Iraq's economic growth to increase from 3% in 2018 to 4% in 2019, driven by investment and consumption in the country's non-oil sector amid improved security conditions. It expected growth in the oil sector to be constrained in 2019 by OPEC's efforts to rebalance global oil markets. As such, it projected Iraq's oil production to decline from 4.65 million barrels per day (b/d) in October 2018 to about 4.5 million b/d in the first half of 2019. Further, the bank anticipated that an improving security backdrop would support the authorities' reconstruction efforts. Specifically, it considered that the energy and water industries, which have previously been held back by conflict and under-investment, would be the main beneficiaries of reconstruction funding. Still, it noted that financing the country's reconstruction plans require international support, as the private sector's access to funding is limited amid challenges in the banking sector. In addition, the bank noted that the International Monetary Fund has provided Iraq with financial support and has helped mobilize additional resources from international donors and bilateral institutions. But it said that Iraq's reliance on the IMF for funding has decreased given the country's lower current funding needs, which could pose a risk to the implementation of structural reforms.

In parallel, Standard Chartered forecast Iraq's fiscal surplus to slightly increase from 2.9% of GDP this year to 3.1% of GDP in 2019, which is below the IMF's forecast of 3.8% of GDP. Also, it projected the current account surplus to improve but at a slow pace from 1.5% of GDP in 2018 to 2% of GDP next year, due to higher imports resulting from the re-opening of borders with neighboring countries, as well as to a rebound in consumption. Still, the bank anticipated that the gradual rise in foreign currency reserves from higher oil exports receipts would be positive for the sovereign's creditworthiness in the medium term. Further, it did not expect authorities to tap international markets in the near term in the absence of a sustained decrease in oil prices, which would translate in a decline of government debt in coming years.

Source: Standard Chartered Bank

CÔTE d'IVOIRE

Growth outlook to remain robust in medium term

The International Monetary Fund indicated that Côte d'Ivoire's medium-term outlook is robust, supported by strong economic activity that is driven by higher consumption and investment, as well as by recovering net exports and a low inflation rate. As such, it forecast real GDP growth to reach 7.4% in 2018 and to average 7% annually during the 2019-23 period. Also, it projected the average inflation rate at 1.7% this year and 2% next year, due to favorable domestic supply conditions and a stronger Euro to which the CFA Franc is pegged. It indicated that authorities are implementing a set of policies and structural reforms in order to sustain strong economic activity and ensure macroeconomic stability. It welcomed the authorities' satisfactory performance under the IMF-supported program. Still, the IMF said that risks to the outlook are tilted to the downside and include slower activity in trade partner countries, tighter global financing conditions, lower revenues or unexpected outlays to support public enterprises, as well as greater political uncertainty.

In parallel, the Fund welcomed the authorities' efforts to narrow the fiscal deficit to about 3% of GDP by 2019, in line with the convergence criteria of the West African Economic and Monetary Union countries. It said that the government could achieve this objective by accelerating revenue-enhancing reforms and prioritizing expenditures. As such, it forecast the fiscal deficit to narrow from 4% of GDP in 2018 to the regional norm of 3% of GDP in 2019. But it noted that revenue mobilization and expenditure challenges, as well as the impact of volatile market conditions on funding costs, could weigh on the fiscal outlook. Further, it projected the public debt level to reach 52.6% at end-2018 and 51% of GDP at end-2019, and added that authorities have made progress in the debt restructuring of the national oil refinery Société Ivoirienne de Raffinage (SIR). In parallel, it expected the current account deficit at 3.9% of GDP in 2018 and 3.7% of GDP in 2019 due to higher oil prices and petroleum imports. But it expected the deficit to narrow to 2.5% of GDP by 2023 amid the expected launch of new oil wells, repairs at the SIR, the tapering off of equipment imports, and improving terms of trade.

Source: International Monetary Fund

SAUDI ARABIA

Budget for 2019 targets deficit of 4.2% of GDP

Regional investment bank EFG Hermes indicated that Saudi Arabia's budget for 2019 targets a fiscal deficit of SAR131bn, or 4.2% of GDP, constituting an increase of 4% from an estimated deficit of SAR137bn, or 4.6% of GDP in 2018. It said that authorities are planning to raise spending by 7% year-on-year to SAR1,106bn, or about 37% of GDP, mainly on the back of a 20% growth in capital expenditures and a 4% increase in current spending. In comparison, it pointed out that capital expenditures regressed by 1% year-on-year in 2018, while current spending grew by 15% last year. It added that the government intends to raise expenditures on infrastructure, power and water projects, as well as to reduce spending on education and security. Also, it noted that authorities are planning to decrease expenditures on wages and social benefits by 4% and 3%, respectively, next year. Further, EFG said that the 2019 budget stipulates a 9% year-on-year growth in revenues to SAR975bn, or about 33% of GDP, as oil and non-oil receipts are expected to increase by 9% each to SAR662bn and SAR313bn, respectively. It estimated that the 2019 budget is based on global oil prices of \$60 to \$65 per barrel and assumes oil exports of 7.2 million barrels per day. But it pointed out that authorities included revenues from potential subsidy cuts, without providing details about these cuts.

EFG considered the government's investment plan to be ambitious and noted that project awards were largely flat at \$24bn in 2018, and that the increased level of spending might not take place before mid-2019, as authorities did not announce so far contract awards of the major projects linked to the Public Investment Fund. Also, EFG considered that an increase of between 5% and 10% in capital spending would provide marginal support to economic activity in the near term. Further, it said that the government is committed to its balanced budget target by 2023 and expected authorities to fund the deficit next year mainly through the issuance of new debt. It anticipated the public debt level to increase from 19.1% of GDP in 2018 to 21.7% of GDP in 2019 and 23.6% of GDP by 2023.

Source: EFG Hermes

ECONOMY & TRADE

MENA

Oil prices, reforms and political risks to impact sovereigns in 2019

Fitch Ratings indicated that it has a 'stable' outlook on 10 out of the 13 sovereigns that it rates in the Middle East and North Africa (MENA) region. It said that it has a 'negative' outlook on Oman and Tunisia, and a 'positive' outlook on Egypt. It noted that the ratings of Gulf Cooperation Council (GCC) sovereigns lie in the 'A' and 'AA' range, given their high GDP per capita and strong external balance sheets. In contrast, it said that rated countries in the Levant and North Africa mostly fall under the 'B' and lower 'BB' range, mainly due to weaker public or external finances and more acute political risks. It considered that the outlook for MENA sovereigns in 2019 will be mostly affected by fluctuations in oil prices, the countries' commitment to fiscal reforms, and political risks. It noted that its assumption of lower oil prices of \$65 p/b in 2019 could reinforce pressure on the debt and net foreign asset metrics of oil exporters. However, it considered that Kuwait, Abu Dhabi and Qatar are well-placed to face a prolonged decline in oil prices, due to their large sovereign wealth funds and low fiscal break-even oil prices. It said that fiscal authorities in the GCC will need to further increase their tax revenues and to enact other tax measures in the context of lower oil prices. In parallel, it pointed out that oil importers could face challenges in stabilizing their public and external finances amid tighter global financial conditions and heightened political instability.

Source: Fitch Ratings

QATAR

Budget for 2019 targets first fiscal surplus since 2014

J.P. Morgan Chase indicated that Qatar's 2019 budget targets a fiscal surplus of 0.6% of GDP, the first such surplus since 2014, compared to an estimated deficit of 0.1% of GDP in 2018 and a targeted deficit of 4% of GDP in the 2018 budget. It said that authorities are planning a 20.5% growth in revenues in 2019 from the 2018 budget, based on a conservative average oil price of \$55 per barrel next year and flat hydrocarbon production. It expected authorities to implement limited measures to raise government receipts in 2019, including a 100% tax on tobacco and a 50% tax on some soft drinks. In parallel, J.P. Morgan indicated that the 2019 budget is targeting a 1.7% year-on-year nominal increase in expenditures, relative to an estimated rise of 3.6% in 2018. It added that authorities intend to allocate about 45% of the budget to capital expenditures, mainly on infrastructure projects ahead of the 2022 World Cup. Further, it noted that the government is planning to raise the share of current spending from 52% of total public expenditures in the 2018 budget to 55% in 2019. It added that current spending in the 2019 budget incorporates a 9.4% increase in wages and an allocation of \$3.3bn, or 1.6% of GDP, to new housing for nationals over the next five years. Also, it projected Qatar's consolidated fiscal surplus, including investment income from the Qatar Investment Authority (QIA), to widen from 3.8% of GDP in 2018 to 4.5% of GDP in 2019. It estimated public foreign assets, including assets of the QIA and foreign currency reserves, at \$253bn, or 126% of GDP at the end of 2018. Further, it forecast the government debt level at 50% of GDP in 2019.

Source: J.P. Morgan Chase

PAKISTAN

Ratings downgraded on heightened external financing risks

Fitch Ratings downgraded Pakistan's long-term foreign-currency Issuer Default Rating from 'B' to 'B-', with a 'stable' outlook. It attributed the downgrade to heightened external financing risks due to the low level of foreign currency reserves and elevated external debt repayments, as well as to the sustained deterioration in the country's fiscal position and the rising public debt level. It indicated that a successful conclusion of the ongoing negotiations with the IMF about a financial support program would help stabilize Pakistan's external position, but noted that the program could face significant implementation risks. The agency projected foreign currency reserves to decline to \$7bn in the fiscal year that ends in June 2019 from about \$7.3bn currently in the absence of an IMF program. Also, it forecast gross financing needs to remain elevated at between \$7bn and \$9bn annually over the next three years. Further, it expected the fiscal deficit to narrow from 6.6% in FY2017/18 to 5.6% of GDP in FY2018/19 amid the government's efforts to reverse tax relief plans, to implement new revenue measures and cut development expenditures. Also, it projected the public debt level to rise from 72.5% of GDP at end-June 2018 to 75.6% of GDP at end-June 2019. In parallel, Moody's Investors Service indicated that Pakistan's credit profile reflects the sovereign's high external vulnerability, weak debt affordability and very low global competitiveness. It added that the low level of foreign currency reserves threatens the ability of the government to finance the balance-of-payments deficit and to roll over external debt on favorable terms.

Source: Fitch Ratings, Moody's Investors Service

OMAN

Sovereign ratings downgraded on deteriorating fiscal and external balances

Fitch Ratings downgraded Oman's long-term foreign-currency Issuer Default Rating (IDR) from 'BBB-' to 'BB+', which is one notch below investment grade, with a 'stable' outlook. It attributed the downgrade to the country's deteriorating fiscal and external balances. It projected the fiscal deficit to narrow only marginally to 9% of GDP in 2018, despite the rise in global oil prices this year, reflecting the rigidity of Oman's public expenditures and weaknesses in the country's fiscal policy framework. It forecast the fiscal deficit to widen to 10% of GDP in 2019 due to an expected decline in oil prices. But it projected the deficit to narrow to 7% of GDP by 2020 in case of renewed spending restraint, the introduction of the value-added tax and excise taxes, a rise in oil production, as well as revenues from the new Khazzan gas field. It anticipated Omani authorities to continue to finance the fiscal and external deficits mainly through external debt issuance and the drawdown of foreign assets at the State General Reserve Fund of Oman (SGRF). As such, it projected the government debt level to increase from 48% of GDP at end-2018 to 58% of GDP by end-2020. It also expected the country's net foreign assets to decline from 7% of GDP at the end of 2018 to -8% of GDP by end-2020, reflecting increased external borrowing and drawdowns from the SGRF. It forecast Oman's overall net external debt to rise from 37% of GDP at end-2018 to 53% of GDP at end-2020, due to sustained borrowing by state-owned enterprises.

Source: Fitch Ratings

BANKING

MENA

Lending conditions tighten in third quarter of 2018

The Emerging Markets Lending Conditions Index for the Middle East & North Africa (MENA) region decreased from 44.4 in the second quarter of 2018 to 42.9 in the third quarter of 2018. The MENA region had the second least favorable lending conditions among emerging markets in the covered quarter, ahead of Emerging Europe (40.1) and behind Emerging Asia (51.9), Sub-Saharan Africa (51.1) and Latin America (46.4). The decline in the MENA region's Index was mainly due to a rise in NPLs, as reflected by the decrease in the Non-Performing Loans Index from 42.9 in the second quarter of 2018 to 35 in the third quarter of the year. Also, the Funding Conditions Index reached 43.8 in the covered quarter, down from 45.2 in the second quarter of 2018, due to tighter international and domestic funding conditions. In addition, the Credit Standards Index dropped to 39.1 in the third quarter of the year from 43.8 in the second quarter of 2018, as credit standards for corporate loans, consumer loans, as well as for commercial and residential real estate loans tightened. In contrast, The MENA region's Trade Finance Index expanded to 53.8 in the third quarter of 2018, from 51.8 in the preceding quarter due to an increase in the demand and supply of international trade finance. Further, the Demand for Loans Index grew to 42.8 in the covered quarter from 41.4 in the second quarter of 2018 due to higher demand for corporate and commercial real estate loans.

Source: Institute of International Finance

NIGERIA

Banking sector to remain stable amid improving foreign currency liquidity

Fitch Ratings indicated that the early redemption of Eurobonds by Nigeria's large banks reflects an improvement in the banks' foreign-currency liquidity, as well as lower appetite for foreign-currency loans. It noted that foreign-currency liquidity risks have receded for Nigerian banks since the introduction of the Investors and Exporters (I&E) window in April 2017, which established a market-driven price for foreign-currency trading. It said that a more transparent mechanism for portfolio investors and exporters to sell foreign currency has supported capital inflows. It added that higher oil prices and reduced disruption to oil exports have improved the banks' foreign-currency liquidity. It noted that most banks have enough foreign-currency liquidity to call or redeem their upcoming Eurobonds before they mature, with a limited need for refinancing given the lack of opportunities for the deployment of foreign currency. In parallel, S&P Global Ratings indicated that the Central Bank of Nigeria has managed to build its foreign currency reserves and stabilize the foreign currency market and the Nigerian naira in the previous 12 to 18 months. It noted that Nigerian banks implemented in 2018 the international accounting standard IFRS9 by mostly using their regulatory risk reserves and earnings, without hurting their minimum capital requirements. It expected the banking sector's stability to persist in the next 12 to 24 months, with the banks' profitability remaining strong over the same period. It also anticipated the banks' credit growth, excluding the impact of naira depreciation, at about 5% in 2018 and at about 8% to 10% in the 2019-20 period. It anticipated credit losses to start declining to below 3% during the 2018-19 period and towards 2.5% in 2020.

Source: Fitch Ratings, S&P Global Ratings

ARMENIA

Vulnerabilities persist amid high dollarization rates

The International Monetary Fund indicated that the Armenian banking sector's financial soundness indicators have improved from the sector's slowdown in 2014. It pointed out that all banks met the 12% minimum capital requirement, their profitability gradually recovered, and NPLs have fallen. It indicated that the banking sector's assets were equivalent to 78% of GDP, and subsidiaries of foreign banks account for a sizable proportion of banking assets. Further, it noted that external financing is important for long-term financing, given the small domestic investor base. It pointed out that the Central Bank of Armenia (CBA) has made progress in strengthening Armenia's financial system since the 2012 Financial System Stability Assessment. It noted that the CBA has adopted measures to mitigate risks from dollarization, imposed higher risk-weights and provisioning on dollar assets to absorb credit risks from unhedged borrowing, and introduced liquidity requirements to mitigate the liquidity risks of foreign exchange funding. However, it pointed out that vulnerabilities persist from high levels of dollarization and insufficient liquidity cushions in foreign currency. It called on authorities to adopt the capital conservation buffer, as well as to take measures to address credit risks from unhedged foreign exchange exposures. In addition, the Fund encouraged the introduction of a requirement for banks to maintain foreign currency reserves for their liabilities that are denominated in foreign currency. It called on authorities to improve the risk-based supervision framework for a more granular assessment of the banks' capital needs.

Source: International Monetary Fund

ETHIOPIA

Capital adequacy ratio at 22.4% at end-June 2018

The International Monetary Fund considered that most commercial banks in Ethiopia are well-capitalized and liquid, and have non-performing loans (NPLs) that are well below the regulatory ceiling of 5%. It noted that the banking system's aggregate capital adequacy ratio increased from 21.5% at end-June 2017 to 22.4% at the end of June 2018, while the banks' NPLs ratio slightly rose from 2.6% at end-June 2017 but remained low at 3% at end-June 2018. However, it pointed out that the National Bank of Ethiopia has instructed the state-owned Commercial Bank of Ethiopia to conduct a comprehensive asset quality review, given the bank's exposure to state-owned enterprises (SOEs). In this context, it pointed out that some SOEs' earnings could be adversely affected by the phasing out of subsidies. The Fund added that the NPLs ratio of the Development Bank of Ethiopia (DBE) reached 39% and exceeded the supervisory cap of 15% for development finance institutions, mainly due to the low productivity of agricultural projects and reduced international competitiveness of textile projects. It said that the NBE has been conducting a comprehensive financial assessment of DBE to ensure its viability, and is considering remedial strategies. In addition, the IMF pointed out that two small banks lost correspondent banking relations (CBRs) in the fiscal year that ended in June 2018, which brings the total number of banks with significantly reduced or no CBRs to six banks. It considered that the low business volume generated by these banks and the associated costs for correspondent banks are the main reasons behind the loss of CBRs.

Source: International Monetary Fund



ENERGY / COMMODITIES

Brent oil prices to average \$67 p/b in 2019

ICE Brent crude oil front-month prices traded at between \$59 per barrel (p/b) and \$62 p/b so far in December 2018, despite OPEC's decision to reduce its oil production and the disruption in Libyan oil exports. In this context, the Institute of International Finance indicated that current oil prices reflect the deteriorating sentiment among oil traders. But it expected that full compliance to the output cuts could stabilize the oil market in 2019 and reduce the risk of renewed decline in oil prices in the short term. Also, it noted that production growth and investment levels in the U.S. could decelerate in 2019 due to infrastructure bottlenecks and low oil prices. However, it expected the global oil market to post a production surplus in the medium term, driven by improved efficiency in the U.S. shale industry and the expected resolution of the U.S. pipeline bottlenecks in the second half of 2019. On the demand side, the IIF expected global oil demand growth to decline from 1.3 million barrel per day (b/d) in 2018 to 1.1 million b/d in 2019, given the expected economic slowdown in China, India and other Asian economies. It considered that risks to oil prices are skewed to the downside over the medium term. It noted that upside risks include larger-than-assumed cuts in Iranian oil exports and persistent infrastructure constraints in the U.S., while downside risks include very weak compliance to OPEC's output cuts. It projected Brent and WTI oil prices to average \$67 p/b and \$59 p/b, respectively, in 2019.

Source: Institute of International Finance, Byblos Research

OPEC's oil output at 33 million b/d in November

Crude oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 32.97 million barrels per day (b/d) in November 2018, nearly unchanged from the preceding month. Saudi Arabia produced 11 million b/d in November 2018, or 33.4% of OPEC's total oil output, followed by Iraq with 4.6 million b/d (14%), the UAE with 3.2 million b/d (9.8%) and Iran with 2.95 million b/d (9%).

Source: OPEC, Byblos Research

Iraq to raise renewable energy share in energy mix

Iraq plans to increase the share of renewable energy to 10% of its total energy mix by 2028 through investments of about \$50bn in the development of large-scale solar, wind and biomass facilities. The country had a generation capacity of 24,000 megawatts (MW) in 2017. Gas accounted for 57% of Iraq's electricity generation capacity last year, followed by steam (28%), diesel (8%) and hydropower (7%). Under its new plan, Iraq's electricity generation capacity would reach 44,000 MW by 2028, with gas accounting for 63% of total capacity, followed by steam (19%), solar (8%), hydropower (5%), diesel (3%), biomass (1.5%) and wind (0.5%).

Source: Frost & Sullivan, Byblos Research

ME&A's oil demand to rise by 1% in 2018

Crude oil consumption in the Middle East & Africa (ME&A) region is forecast to average 12.44 million barrels per day (b/d) in 2018, which would constitute an increase of 0.6% from 12.37 million b/d in 2017. The region's demand for oil would represent 38.1% of demand in developing countries and 12.6% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 2.77 million b/d in 2018, up by 1.8% from 2.72 million b/d in 2017.

Source: OPEC, Byblos Research

Base Metals: Nickel prices decrease amid trade tensions and supply concerns

The LME cash price of nickel reached \$10,908 per metric ton on December 17, 2018, constituting a decrease of 14.2% from \$12,706 per ton at the end of 2017, and compared to a peak of \$15,688 per ton on June 5 of this year. The metal's price increased by 16.7% in the first half of 2018, while it decreased by 26.4% so far in the second half of the year. The drop in nickel prices was mainly due to a stronger US dollar and concerns about weaker demand in China amid the U.S.-China trade tensions and German chemicals giant BASF's plans to curtail its use of nickel in its electric car batteries. In addition, prices were subdued by expectations of a supply surplus in 2019 as Indonesia plans to further increase its production capacity next year. In parallel, S&P Global Ratings projected the deficit in the nickel market to widen from 93,000 tons in 2018 to 99,000 tons in 2019 and to 114,000 tons in 2020. Still, the agency revised downward its forecasts for nickel prices from \$13,500 per ton previously to \$12,000 per ton in 2019, and from \$14,000 per ton to \$12,500 per ton in 2020, as global trade tensions continue to weigh on the metal's price.

Source: S&P Global Ratings, Thomson Reuters, Byblos Research

Precious Metals: Gold prices to average \$1,250 an ounce in 2019-20 period

S&P Global Ratings noted that gold prices have been the least volatile among metal and commodity prices during 2018. Gold prices reached a peak of \$1,359.3 per troy ounce in January 2018, and gradually declined thereafter from an average of \$1,329 per ounce in the first quarter of the year to \$1,306 an ounce in the second quarter and to \$1,213 per ounce in the third quarter 2018, mainly reflecting a stronger US dollar. However, prices have slightly recovered since October 2018 and are expected to average \$1,224 per ounce in the fourth quarter of the year. In addition, S&P anticipated that several opposing factors would lead to relatively stable gold prices over the coming years. It considered that rising U.S. interest rates in 2019 and the continued strength of the US dollar against major currencies next year would constitute downside risks to the metal's price. It noted that a strong US dollar has been historically negatively correlated with gold prices. In contrast, it said that expectations of global economic recession, heightened geopolitical risks and the ongoing U.S.-China trade tensions would support gold prices. It projected gold prices to average \$1,250 an ounce in 2019 and 2020.

Source: S&P Global Ratings, Thomson Reuters, Byblos Research

Price Performance of Precious Metals in First 11 Months of 2018



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-6.1	32.9*	2.1	-	-	-	-9	-
	-	-	-	-	Negative								
Angola	B-	B3	B	-	B-	-0.8	80.5	42.1**	50.5	26.7	102.2	-2.1	1
	Stable	Stable	Stable	-	Stable								
Egypt	B	B3	B	B+	B+	-9.3	92.5	35.8	51.8	45	115.4	-2.6	3
	Stable	Positive	Positive	Stable	Positive								
Ethiopia	B	B1	B		B+	-3.7	59.5	30.5**	27.2	3.6	146.2	-6.2	4.1
	Stable	Stable	Stable	-	Stable								
Ghana	B	B3	B	-	BB-	-6	71.2	34.5**	38.9	31.9	121.8	-4.1	6
	Stable	Stable	Stable	-	Stable								
Ivory Coast	-	Ba3	B+	-	B+	-3.8	48.8	33.5**	-	-	-	-4.6	-
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-25.1	112.1	-	-	-	-	-1.5	-
	-	-	Stable	-	Stable								
Dem Rep Congo	CCC+	B3	-	-	CCC	-0.6	16.2	12.9**	4.4	3	104.1	0	2.8
	Stable	Negative	-	-	Stable								
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.2	64.4*	34.6	30.6	7.4	93	-4.3	2.1
	Negative	Stable	Stable	-	Stable								
Nigeria	B	B2	B+	-	BB-	-5.1	24.8	8.2**	67.6	22.8	104.2	2	0.7
	Stable	Stable	Stable	-	Stable								
Sudan	-	-	-	-	CC	-4.1	167.5	166.6	-	-	-	-14.2	-
	-	-	-	-	Negative								
Tunisia	-	B2	B+	-	BB-	-5.2	70.5	82.6	-	-	-	-9.6	-
	-	Negative	Negative	-	Negative								
Burkina Faso	B	-	-	-	B+	-5.1	41.2	23.7**	21	4.6	145.4	-8.6	2.8
	Stable	-	-	-	Stable								
Rwanda	B	B2	B+	-	B+	-2	42.6	38.4**	13.2	5.1	102.8	-8.9	2.9
	Positive	Stable	Stable	-	Stable								
Middle East													
Bahrain	B+	B2	BB-	BB	BB+	-8.9	88.4	169.4	201.7	22.3	327.6	-2.5	0.4
	Stable	Stable	Stable	Stable	Stable								
Iran	-	-	-	B+	BB-	-3.2	44.2	2.1	-	-	-	1.3	-
	-	-	-	Negative	Negative								
Iraq	B-	Caa1	B-	-	CC+	5.6	51.8	32.5	3.7	2.2	100.9	6.9	1.0
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	96.0	70.1	63.6	9.4	151.0	-9.6	4.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	11.6	18.8	41.3	32.8	0.55	87.9	11.3	-5.5
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B3	B-	B	B-	-9.7	150.0	183.3	136.8	50.1	136.2	-25.6	2.8
	Stable	Negative	Negative	Negative	Stable								
Oman	BB	Baa3	BB+	BBB	BBB	-2.0	48.7	80.7	44.9	4.5	140.3	-3.3	1.5
	Stable	Negative	Stable	Negative	Stable								
Qatar	AA-	Aa3	AA-	AA-	A+	3.6	53.4	84.6	60.9	3.4	173.9	4.8	-1.0
	Stable	Stable	Stable	Negative	Stable								
Saudi Arabia	A-	A1	A+	A+	AA-	-4.6	19.4	27.6	8.0	1.2	36.9	8.4	0.3
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	0.6	17.8	54.9	-	-	-	7.2	-0.8
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-10.7	62.5	19.4	-	-	-	-9.3	-
	-	-	-	-	Negative								



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-	-2.7	52.5	82.8	-	-	-	-3.8	-
	-	Positive	Positive	-	Stable								
China	A+	A1	A+	-	A	-4.1	50.1	-	40.0	2.1	64.2	0.7	0.8
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa2	BBB-	-	BBB	-6.6	69.6	-	39.5	19.4	90.7	-3.0	1.6
	Stable	Stable	Stable	-	Stable								
Kazakhstan	BBB-	Baa3	BBB	-	BBB	1.4	17.8	-	25.7	4.7	87.4	-0.2	1.5
	Stable	Stable	Stable	-	Stable								
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB	-0.9	23.3	-	26.0	2.0	100.8	2.4	1.9
	Positive	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.6	37.2	-	25.8	4.2	95.1	-3.5	2.4
	Stable	Stable	Stable	-	Stable								
Russia	BBB-	Ba1	BBB-	-	BBB-	1.6	15.3	-	17.2	2.6	57.4	6.2	-1.3
	Stable	Positive	Positive	-	Stable								
Turkey	B+	Ba3	BB	BB-	B+	-4.0	32.3	-	84.3	5.9	176.4	-5.7	1.0
	Stable	Negative	Negative	Negative	Negative								
Ukraine	B-	Caa2	B-	-	B-	-2.5	70.5	-	59.3	9.3	129.2	-3.1	1.0
	Stable	Positive	Stable	-	Stable								

* Central Government

** External debt, official debt, debtor based

Source: International Monetary Fund; IHS Markit; S&P Global Ratings; Byblos Research - The above figures are projections for 2018



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.25-2.50	19-Dec-18	Raised 25bps	30-Jan-19
Eurozone	Refi Rate	0.00	13-Dec-18	No change	24-Jan-19
UK	Bank Rate	0.75	01-Nov-18	No change	20-Dec-18
Japan	O/N Call Rate	-0.10	20-Dec-18	No change	23-Jan-19
Australia	Cash Rate	1.50	04-Dec-18	No change	05-Feb-19
New Zealand	Cash Rate	1.75	07-Nov-18	No change	13-Feb-19
Switzerland	3 month Libor target	-1.25-(-0.25)	13-Dec-18	No change	21-Mar-19
Canada	Overnight rate	1.75	05-Dec-18	No change	09-Jan-19
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.75	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	27-Sep-18	No change	21-Dec-18
South Korea	Base Rate	1.75	30-Nov-18	Raised 25bps	18-Jan-19
Malaysia	O/N Policy Rate	3.25	08-Nov-18	No change	N/A
Thailand	1D Repo	1.75	19-Dec-18	Raised 25bps	06-Feb-19
India	Reverse repo rate	6.50	05-Dec-18	No change	07-Feb-19
UAE	Repo rate	2.25	14-Jun-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	2.50	14-Jun-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	15-Nov-18	No change	27-Dec-18
Turkey	Repo Rate	24.0	13-Dec-18	No change	11-Jan-19
South Africa	Repo rate	6.75	22-Nov-18	Raised 25bps	15-Jan-19
Kenya	Central Bank Rate	9.50	28-May-18	No change	N/A
Nigeria	Monetary Policy Rate	14.00	22-Nov-18	No change	N/A
Ghana	Prime Rate	17.00	26-Nov-18	No change	28-Jan-19
Angola	Base rate	16.50	30-Nov-18	No change	25-Jan-19
Mexico	Target Rate	8.00	15-Nov-18	Raised 25bps	20-Dec-18
Brazil	Selic Rate	6.50	12-Dec-18	No change	06-Feb-19
Armenia	Refi Rate	6.00	13-Nov-18	No change	26-Dec-18
Romania	Policy Rate	2.50	06-Nov-18	No change	08-Jan-19
Bulgaria	Base Interest	0.00	03-Dec-18	No change	N/A
Kazakhstan	Repo Rate	9.25	04-Dec-18	No change	14-Jan-19
Ukraine	Discount Rate	18.00	13-Dec-18	No change	31-Jan-19
Russia	Refi Rate	7.75	14-Dec-18	Raised 25bps	08-Feb-19



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