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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Announced venture capital deals down 22% to $31bn in first quarter of 2017

Research provider Preqin indicated that the aggregate value of announced venture capital (VC) investments reached $31.4bn worldwide in the first quarter of 2017, reflecting an increase of 23% from $25.5bn in the preceding quarter but a drop of 21.7% from $40.1bn in the first quarter of 2016. It added that a total of 2,420 VC financing deals were announced globally in the first quarter, down by 2.3% from 2,478 deals in the preceding quarter and by 15% from 2,844 announced deals in the same quarter last year. It pointed out that the Angel or Seed stage of financing was most common during the first quarter, accounting for 30% of the total number of deals. Further, Preqin indicated that 946 VC deals, or 39.1% of the total, were announced in North America in the first quarter of 2017, followed by Europe with 533 deals (22%), China with 456 transactions (18.8%) and India with 220 announced deals (9.1%). It added that the number of VC deals in North America regressed for the seventh consecutive quarter, while VC transactions in Europe have sustained their increase since the third quarter of 2016. Preqin pointed out that the amount of dry powder accessible to VC fund managers, or the amount of capital available for investment in start-up companies, reached $159bn at the end of March 2017, up by 13.7% from $140bn at end-2016, and accounted for 19% of total dry powder held by private equity funds.
Source: Preqin

EMERGING MARKETS

Tight lending conditions in first quarter of 2017

The Emerging Markets (EMs) Lending Conditions Index reached 48.7 points in the first quarter of 2017 relative to 48 in the preceding quarter. The Index remained below the threshold of 50, which means that lending conditions continued to tighten but at a slower pace. The Trade Finance Index increased to 53.4 in the first quarter of 2017 from 50.5 in the preceding quarter, while the Funding Conditions Index improved to 49.2 in the first quarter of the year from 45.8 in the fourth quarter of 2016. Also, the Non-Performing Loans (NPLs) Index rose to 48.3 in the covered quarter from 47.3 in the fourth quarter of 2016, which reflects an increase in NPLs in three out of five EM regions. In contrast, the Demand for Loans Index regressed to 48.8 in the first quarter of the year from 49.6 in the fourth quarter of 2016, as demand for corporate, commercial loans and mortgages decreased, while the Credit Standards Index declined to 46 in the first quarter of 2017 from 46.7 in the previous quarter. In parallel, the Lending Conditions Index in Emerging Europe improved to 52 in the covered quarter from 51.4 in the fourth quarter of 2016, while it increased in Emerging Asia to 50.7 in the first quarter of 2017 from 48.9 in the previous quarter. In addition, the Lending Conditions Index in Latin America decreased slightly to 47.7 in the first quarter of the year from 47.9 in the preceding quarter, while it improved in the Middle East & North Africa region to 44.9 in the covered quarter from 44 in the fourth quarter of 2016. Further, the index in Sub-Saharan Africa deteriorated from 43.5 in the fourth quarter of 2016 to 43.5 in the first quarter of 2017.
Source: Institute of International Finance

MENA

LinkedIn penetration rate at 6.8% in Arab world

Figures compiled by the Dubai-based Mohammed bin Rashid School of Government indicate that the penetration rate of LinkedIn accounts in 22 Arab countries, or the ratio of LinkedIn accounts to the total population, reached 6.8% as at October 2016, up from 3.8% two years earlier. The UAE had the highest penetration rate in the Arab region at 32.5%, followed by Qatar (22.4%), Bahrain (16.9%), and Jordan and Kuwait (11.3% each). In contrast, Syria (0.8%), Yemen (0.6%) and Somalia and Sudan (0.4% each) had the lowest LinkedIn penetration rates regionally. Further, the number of LinkedIn users in the UAE reached 3.01 million and accounted for 19.4% of the total number of users in the Arab world as at October 2016. Saudi Arabia followed with 2.5 million users (16.2%), Egypt with 2.4 million users (15.6%), Morocco with 1.5 million users (9.5%) and Algeria users with 1.3 million (8.4%). In addition, 72% of LinkedIn users in Arab countries were males and 28% were females as at October 2016. Further, 68% of LinkedIn users in the Arab world were under 35 years old, while 32% of users were 35 years old or above.
Source: Mohammed bin Rashid School of Government, Byblos Research

Health level better than global average

The Bloomberg 2017 Healthiest Country Index included 17 Arab countries, with five countries ranking in the top 50 globally. Lebanon came in 32nd place among 163 countries globally and in first place regionally. Qatar (36th), Bahrain (40th), the UAE (43rd) and Oman (48th) followed as the top ranked countries on the index, while the lowest ranked countries were Egypt (93rd), Syria (97th), Iraq (112th), Mauritania (129th) and Djibouti (137th). The index assesses a population's health level by evaluating health-related variables through the Health Score sub-indicator, and health-related risks through the Health Risk Penalties sub-indicator. The Health Score sub-indicator includes variables such as the causes of mortality, life expectancy and the survival ratio, while the Health Risk Penalties sub-indicator takes into account behavioral and environmental factors, such as the elevated level of blood pressure or cholesterol, tobacco and alcohol consumption, physical inactivity and the pollution level. A higher score on the overall index reflects a healthier population. The Arab region's average score stood at 49.45 points on the index, higher than the global average of 45.91 points. Also, the region’s score came higher than the average score of South Asia (34.84 points) and Sub-Saharan Africa (13.61 points), while it was lower than that of North America (78.81 points), Europe & Central Asia (67.94 points), Latin America (51.33 points) and East Asia & Pacific (51.15 points). In parallel, Lebanon ranked first on the Health Score sub-indicator, while the UAE had the highest level of health-related risks in the region. The index is based on data from the World Health Organization, the United Nations Population Division and the World Bank.
Source: Bloomberg, Byblos Research

OUTLOOK

SAUDI ARABIA

Fiscal deficit to narrow to 3.4% of GDP by 2025 with increase in oil prices

The Institute of International Finance assessed the impact of changes in global oil prices on Saudi Arabia during the 2018-25 period through a base case scenario and a low oil price scenario. Under both scenarios, it anticipated public spending to remain constant in real terms in 2018 and onwards, while it projected non-oil revenues to increase from about 8% of GDP in 2016 to 11% by 2025.

Under its base case scenario, the IIF projected global oil prices to rise from $52.2 p/b in 2017 to $53.7 p/b in 2018 and to reach $66.1 p/b by 2025, which would increase Saudi Arabia's hydrocarbon exports from $153.6bn this year to $161.5bn in 2018 and $229bn by 2025. It expected the gradual improvement in oil prices, along with the government's fiscal consolidation efforts, to narrow the fiscal deficit from 10.5% of GDP this year to 8.5% of GDP in 2018 and 3.4% of GDP by 2025. As such, it projected the public debt level to increase from 20% of GDP at the end of 2017 to 27% of GDP at end-2018 and to reach 49% of GDP at end-2025. Also, it expected the current account deficit to narrow from $14.4bn or 2.1% of GDP in 2017, to $10.9bn or 1.5% of GDP in 2018, and to shift to a surplus of $6.3bn or 0.6% of GDP in 2025. Further, it projected the Saudi Arabian Monetary Authority's (SAMA) net foreign currency reserves to decline from $492.8bn in 2017 to $476bn in 2018 and to $442bn in 2025.

Under its low oil price scenario, the IIF assumes that oil prices would be $10 p/b lower than the base case scenario. As such, it forecast oil prices at $43.7 p/b in 2018 and to reach $56.1 p/b by 2025, which would reduce Saudi Arabia's hydrocarbon exports by about $30bn each year compared to the baseline scenario. It expected the fiscal deficit to widen to 12.5% of GDP in 2018 and to gradually narrow to 6.3% of GDP by 2025, while it forecast the public debt level to rise to 32% of GDP at end-2018 and to reach 71.1% of GDP at end-2025. It noted that a higher public debt level would increase borrowing costs, crowd-out credit growth and exert pressure on the exchange rate peg. Further, it projected the current account deficit to widen to $52.1bn or 7.7% of GDP next year and to reach $49.1bn or 4.9% of GDP in 2025. Also, it anticipated SAMA's net foreign currency reserves to decline to $446.8bn in 2018 and to reach $157.6bn in 2025.

Source: Institute of International Finance

DEM REP CONGO

Economic growth to average 3.2% in 2017-18

The International Monetary Fund projected economic growth in the Democratic Republic of Congo (DRC) to slightly improve from 2.4% in 2016 to 2.8% in 2017 and 3.5% in 2018. However, it anticipated domestic political tensions and security issues to continue to weigh on economic activity in the country. In comparison, it forecast growth at 2.6% in 2017 and 3.5% in 2018 for Sub-Saharan Africa (SSA), and at 5.1% in 2017 and 5.3% in 2018 for members of the Common Market for Eastern & Southern Africa (COMESA), in which the DRC is a member. It projected the DRC's inflation rate to average 15% in 2017 compared to average rates of 10.7% in SSA and 7.4% in the COMESA, and expected it to reach 10% in 2018. Further, it forecast the DRC's real GDP per capita to shrink by 0.2% in 2017 and to grow by 0.4% in 2018 following a contraction of 0.6% in 2016. It also projected total investment at 11.8% of GDP this year and 13.1% of GDP in 2018, relative to 11.4% of GDP in 2016.

In parallel, the Fund projected the DRC's fiscal balance, excluding grants, to post deficits of 3.5% of GDP in 2017 and of 1.4% of GDP in 2018, compared to a deficit of 2.8% of GDP in 2016; while it forecast the government's fiscal balance, including grants, to post a deficit of 1% of GDP in 2017 and a surplus of 0.1% of GDP in 2018, compared to a deficit of 0.8% of GDP last year. It projected public revenues, excluding grants, at 8.4% of GDP in 2017 and 9.1% of GDP in 2018, and total expenditures at 11.9% of GDP in 2017 and 10.4% of GDP in 2018. It forecast the total external debt to rise from 15.9% of GDP at the end of 2016 to 20% of GDP at end-2017 and 24% of GDP at end-2018. Further, it expected the current account deficit to narrow from 4.4% of GDP in 2016 to 3.8% of GDP in 2017 and 2.9% of GDP in 2018. It projected gross official reserves to decrease from 0.6 months of imports of goods & services in 2016 to 0.4 and 0.3 months of import cover in 2017 and 2018, respectively.

Source: International Monetary Fund

IRAQ

Growth outlook to improve but to remain subject to significant downside risks

The World Bank projected Iraq's real GDP to contract by 3% in 2017 following a growth of 10.1% in 2016, due to a 6% drop in oil production under the November 2016 OPEC agreement. But it noted that the country's economic outlook would improve in coming years in case of better security conditions and sustained fiscal consolidation. It anticipated non-hydrocarbon sector activity to rebound in 2017, following three consecutive annual contractions, mainly due to improved security conditions. Further, it projected the inflation rate to average 2% in 2017 relative to an average rate of 0.4% in 2016.

In parallel, the Bank projected Iraq's fiscal deficit to narrow from 8.2% of GDP in 2016 to 4.4% of GDP in 2017, and for the current account deficit to narrow from 7.2% of GDP in 2016 to 4.5% of GDP this year due to higher oil export revenues. Also, it forecast the public debt level to regress from 63.1% of GDP at end-2016 to 59.8% of GDP at the end of 2017 and to remain sustainable over the medium term, given the projected fiscal consolidation and improved growth prospects. It expected oil production and exports to return to their 2016 level in 2018 and 2019.

Further, the Bank indicated that downside risks to the outlook are significant and include weaker-than-expected global economic growth and lower-than-anticipated oil prices, which would weigh on the country's fiscal and external balances. It added that the country's external debt remains highly vulnerable to a current account shock, such as a further decline in oil prices or a depreciation of the real exchange rate. It said that a setback in the fight against the Islamic State group and a worsening of domestic political tensions could significantly weaken Iraq's economic activity, increase security-related expenditures and undermine reforms.

Source: World Bank

ECONOMY & TRADE

EGYPT

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'B-/B' Egypt's long-term foreign and local currency sovereign credit ratings, with a 'stable' outlook. It said that the ratings are constrained by a wide fiscal deficit, elevated public debt level, low income levels and fragile social conditions. It noted that the 'stable' outlook balances Egypt's external and fiscal vulnerabilities with the financial support from the IMF program, as well as the gradual implementation of reforms. Further, the agency anticipated real GDP growth to decelerate from 4.3% in the fiscal year that ended in June 2016 to about 3.8% in FY2016/17 due to the authorities' tight fiscal and monetary policies and subdued domestic demand. It projected real GDP growth to average about 3.9% annually during the 2017-20 period, and to be mainly supported by higher investments and net exports. In parallel, S&P forecast Egypt's fiscal deficit to narrow from an annual average of 12% of GDP between FY2011/12 and FY2015/16 to an annual average of 8.6% of GDP between FY2016/2017 and FY2019/20, mainly due to cuts in subsidies and the planned 1% increase in the value-added tax rate in FY2017/18. As a result, it projected the government's debt level to regress from 92% of GDP in FY2015/16 to 82% of GDP in FY2019/20. Further, S&P forecast the current account deficit to gradually narrow from 6% of GDP in FY2015/16 to 3.2% of GDP in FY2019/20 due to an anticipated improvement in the trade balance and in case gas production increases as planned. It projected Egypt's gross external financing needs to reach 113% of current account receipts and usable reserves at end-June 2017.

Source: S&P Global Ratings

SAUDI ARABIA

Profits of listed companies up 38% to $8bn in first quarter of 2017

The cumulative net income of 175 companies listed on the Saudi Arabia Stock Exchange, or Saudi Tadawul, totaled SAR30.9bn, or $8.2bn, in the first quarter of 2017, constituting an increase of 38.2% from SAR22.4bn, or $6bn in the same quarter of 2016. Listed banks generated net profits of $3.1bn and accounted for 37.7% of total net earnings in the covered quarter. Basic materials companies followed with $2.3bn (27.9%), utilities with $1.3bn (16.2%), telecom firms with $625.1m (7.6%), energy companies with $150.5m (1.8%), and the food & beverage industry with $119.3m and retail firms with $117.9m (1.4% each). Further, the net earnings of capital goods corporates rose by 3.3 times year-on-year in the first quarter of 2017, followed by financial services institutions with a threefold increase, real estate management & development firms (+64.8%), consumer goods corporates (+59.7%), basic materials companies (+50.4%), retail firms (+19.3%), pharmaceuticals, biotechnology & life science corporates (+13.8%), telecom companies (+10.3%), healthcare equipment & services firms (+10.1%) and food & staples retailing (+5%). In contrast, the profits of listed insurers regressed by 78.3%, followed by consumer services companies (-32.6%), energy firms (-25.8%), transportation companies (-25%), media corporates (-24.6%), commercial & professional services firms (-21.4%), the food & beverage industry (-14.6%) and banks (-0.6%); while utilities shifted from losses of $199.6m in the first quarter of 2016 to profits of $1.3bn in the first quarter of 2017.

Source: KAMCO

GHANA

Outlook on ratings revised to 'stable' on currency stability and higher reserves

Fitch Ratings affirmed at 'B' Ghana's long-term foreign and local currency Issuer Default Ratings (IDRs), and revised the outlook from 'negative' to 'stable'. It attributed the outlook revision to a recovery in domestic economic activity, a lower inflation rate, a more stable currency, rising foreign currency reserves, as well as to an expected narrowing of the fiscal deficit. It projected Ghana's real GDP growth to accelerate from an estimated 3.6% in 2016 to 6% in 2017 due to rising oil production and better power supply. It noted that the inflation rate regressed from a peak of 19% in March 2016 to 12.9% in March 2017, while the Ghanaian cedi strengthened from GHS4.7 against the US dollar in early March 2017 to about GHS4.2 per dollar currently. Further, the agency projected the fiscal deficit to narrow from 8.9% of GDP in 2016 on a cash basis to 7.5% of GDP in 2017 and 5.5% of GDP in 2018. It expected the public debt to regress from 73% of GDP at end-2016 to 71% of GDP at end-2017 due to the appreciation of the currency, a narrowing of the fiscal deficit and robust nominal GDP growth. In parallel, it forecast the current account deficit to narrow from 6.7% of GDP in 2016 to 6.3% of GDP in 2017 due to rising hydrocarbon exports, but it considered that the increase in imports would prevent a significant narrowing of the deficit. Further, it projected foreign currency reserves to increase from $4.9bn, or about 2.8 months of current external payments, at end-2016 to $5.2bn at end-2017, as external debt payments due in 2017 would limit reserve accumulation.

Source: Fitch Ratings

UAE

Profitability varies among insurers

S&P Global Ratings indicated that the gross premiums of 29 listed insurance companies in the UAE reached AED18.9bn or $5.1bn in 2016, constituting a rise of 10% year-on-year. It noted that the growth in premiums was driven by the implementation of compulsory medical insurance scheme in Dubai, as well as by improved business in personal lines and increased premium rates for property and fire risks across the country. Further, it said that the net income of the 29 insurers recovered significantly and reached AED906m, or $247m, in 2016, compared to net losses of AED154m in 2015, supported by an 85% rise in net investment income. It pointed out that the listed insurers' net combined ratio, which is the ratio of incurred losses and expenses to earned premiums, declined from a peak of 105% in 2015 to 99% at end-2016, reflecting a recovery in profitability. However, S&P pointed out that the UAE insurance market is over-crowded and fragmented. It noted that the largest five listed insurers generated 56% of gross written premiums and 82% of consolidated net income in 2016. It noted that the five insurers' net combined ratio reached 90% last year compared to 107% for the remaining insurance companies, which reflects better profitability by the larger insurers given their size and economies of scale. It added that 15 out of 29 insurers were not profitable last year, as they posted combined ratios in excess of 100% each. S&P expected the UAE insurance market to continue to grow in 2017, driven by the motor, medical and property insurance segments. It anticipated the insurers' combined ratios to improve marginally to around 97%.

Source: S&P Global Ratings

AFRICA

Recovery in foreign currency reserves contingent on continued higher commodity and oil prices

Moody's Investors Service indicated that the stabilization of global oil and commodity prices in recent months would help ease the shortages of foreign currency in Sub-Saharan African (SSA) countries. First, it said that the dollar rationing, currency devaluation and foreign currency borrowing by SSA governments have limited the depletion of foreign currency reserves, mainly in Angola and Nigeria. But it noted that these measures have weighed on the non-oil economy, price stability and government balance sheets in both countries. Further, it expected foreign currency reserves in Gabon and the Republic of Congo to continue to decline in 2017, but at a slower pace. Second, it pointed out that banks in Angola, Nigeria and the Democratic Republic of Congo have become the most affected in SSA by foreign currency shortages, given the countries' high reliance on US dollars. It noted that banks have a limited capacity to source new foreign funding following the depletion of foreign currency deposits. It added that currency devaluations in the three countries have weighed on the banks' asset quality, profitability and capital. It expected the easing of the pressure on banks to be gradual, and to be contingent on the inflow of US dollars to commodity exporters and the narrowing of the spread between the official and parallel exchange rates. Third, Moody's indicated that non-financial companies in oil-exporting countries, such as Nigeria and Angola, have been the most affected by the shortages of foreign currency and the depreciation of the local currency. It expected the challenges to foreign currency liquidity to ease by 2018.

Source: Moody's Investors Service

EGYPT

Increase in policy rates to support banks' net interest margins in 2017

Regional investment bank EFG Hermes considered that the Central Bank of Egypt's (CBE) decision to raise the policy rates would benefit the banking sector. It noted that the CBE increased its overnight deposit and lending rates by 200 basis points each to 16.75% and 17.75%, respectively. It indicated that the banks' net interest margins would improve because corporate loans are benchmarked to corridor rates and that the increase in interest rates on bank deposits would not match the full rise in the CBE's rates. It added that the banks' holdings of Treasury bills, which range between 15% to 25% of assets on average, would quickly adjust to the new rates. In parallel, EFG considered that higher borrowing costs would put at risk the expected recovery in lending. It did not expect banks to reflect the full 200 basis points increase in corporate lending rates. But it noted that the low leverage in the corporate sector would allow firms to absorb the anticipated rise in rates. It said that weaker retail credit demand could pose downside risks to lending growth this year. In parallel, EFG noted that the CBE increased its policy rates due to concerns that the 300 basis points rise in rates in November 2016 would be insufficient to prevent future inflationary pressure. It anticipated the CBE to meet its inflation target of 13% +/- 3% by the fourth quarter of 2018, which means that additional increases in policy rates are unlikely.

Source: EFG Hermes

JORDAN

Banking sector assessment maintained

S&P Global Ratings maintained Jordan's banking sector in 'Group 7' under its Banking Industry Country Risk Assessment (BICRA), with the economic and industry risk scores at '7' each. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 7' include Bulgaria, Croatia, El Salvador, Indonesia, Morocco, the Philippines and Portugal. S&P indicated that Jordan's economic risk score reflects its "very high risks" in economic resilience and credit risk in the economy, as well as "intermediate risks" in economic imbalances. It pointed out that the banking sector benefits from sound capital metrics and a solid customer deposit base, which is providing banks with a stable and less costly source of funding. However, it noted that the banks' performance is linked to the cost of risk that reflects the vulnerability of the country's growth prospects mainly to donors' willingness to provide financial support and to regional political instability. It said that the trend for the economic risk is 'negative', reflecting subdued growth prospects and challenges to the implementation of structural reforms. In parallel, S&P said that the industry score reflects the country's "high risks" in each of its institutional framework, competitive dynamics and system-wide funding. It expected banks to continue to generate sufficient profits, and in turn, increase loan-loss reserve buffers to absorb the elevated cost of risk. It said that the trend for the banking sector's industry risk is 'stable', but it noted that the industry risk increased due to the banks' growing exposure to the sovereign.

Source: S&P Global Ratings

SAUDI ARABIA

Rising funding costs and loan impairment charges weigh on banks' profitability

Fitch Ratings indicated that the low oil price environment weighed on Saudi Arabia's banking sector in 2016, as it led to a tightening in the banks' liquidity, a weakening in their asset quality and a slowdown in lending growth. It said that the banks' net income dropped by 6% last year, the first annual decrease in profitability since 2010, due to the worsening operating environment amid slower lending growth, higher funding costs and rising impairment charges. But it noted that the banks' operating return on risk-weighted assets was 2.1% in 2016, nearly unchanged from 2.2% a year earlier. Further, the agency indicated that the amount of non-performing loans (NPLs) increased by 10% in 2016, but the NPL ratio remained at 1.2% at end-2016, nearly unchanged from 1.1% a year earlier. It added that the banks' reserves were equivalent to 178% of NPLs at the end of 2016 and to 2.2% of gross loans. In parallel, Fitch pointed out that liquidity in the banking sector has tightened significantly during most of 2016, before it eased in the fourth quarter of the year following the injection of SAR20bn in term deposits by the authorities. As such, it noted that the banks' average liquidity ratio, which fell to 156% at end June-2016, recovered to 203% at end-2016. The agency expected the banks' metrics to continue to worsen but at a manageable pace. It projected impairment charges to rise, lending growth to remain subdued and funding costs to continue rising.

Source: Fitch Ratings

ENERGY / COMMODITIES

Oil prices to reach $57 p/b in second half of the year

Crude oil prices increased to their highest level in more than a month, supported by rising confidence that the OPEC-led agreement to cut oil production would be extended until March 2018. ICE Brent crude oil front-month prices reached $54.2 per barrel (p/b) on May 23, 2017, constituting an increase of 4.7% from the end of April 2017, while WTI oil prices rose by 3.7% from end-April to close at $51.1 p/b. Goldman Sachs indicated that oil prices are rebounding amid a drawdown in crude oil inventories and greater certainty about an extension of the production cuts. It said that the 9-month extension would help normalize the inventories of the Organization for Economic Co-operation and Development (OECD) economies by early 2018, which would help the oil market to rebalance. It said that downside risks to the price outlook include an increase in oil production by OPEC members and a faster-than-anticipated rise in U.S. shale oil production. Goldman Sachs projected Brent oil prices to average $57 p/b in the second half of 2017. Overall, the expected extension of the OPEC deal could lead oil prices to trade at between $60 p/b and $65 p/b in coming months. According to the International Monetary Fund, the probability of Brent and WTI oil prices rising above $65 p/b in the next 12 months decreased to 8.6% and 6.3%, respectively, in May 2017.

Source: Goldman Sachs, IMF, Thomson Reuters, Byblos Research

MENA's oil production to remain stable in 2017

The Middle East & North Africa region's crude oil production is forecast to average 27.89 million barrels per day (b/d) in 2017, nearly unchanged from 27.94 million b/d in 2016. The Gulf Co-operation Council (GCC) countries' crude oil production would account for 63.3% of the region's oil output in 2017, while non-GCC producers would represent the remaining balance of 36.7%. Saudi Arabia's crude oil production is projected at 10.11 million b/d in 2017, equivalent to 36.2% of the region's oil output, followed by Iraq with 4.35 million b/d (15.6%), Iran with 3.8 million b/d (13.6%) and the UAE with 2.9 million b/d (10.3%).

Source: International Monetary Fund, Byblos Research

Power demand to rise by 7% per year through 2021

The Arab Petroleum Investments Corporation (APICORP) expected demand for power in the Arab region to grow by 7.4% annually through 2021. It said that gas shortages in some Arab countries, the high reliance on liquid fuels and rising environmental concerns have increased the need to diversify energy sources. It anticipated the UAE, as well as energy-importing countries such as Morocco and Jordan, to continue to accelerate the development of their renewable energy sectors, while it noted that Saudi Arabia has launched a program to diversify energy sources.

Source: APICORP Energy Research, Byblos Research

ME&A's oil demand to rise by 2% in 2017

Crude oil consumption in the Middle East & Africa (ME&A) region is forecast to average 12.28 million barrels per day (b/d) in 2017, up by 1.7% from 12.07 million b/d in 2016. The region's demand for oil would account for about 38.4% of demand in developing countries and for about 12.7% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 3.39 million b/d in 2017, up by 0.3% from a year earlier.

Source: OPEC, Byblos Research

Base Metals: Copper prices to rise on ongoing supply disruptions

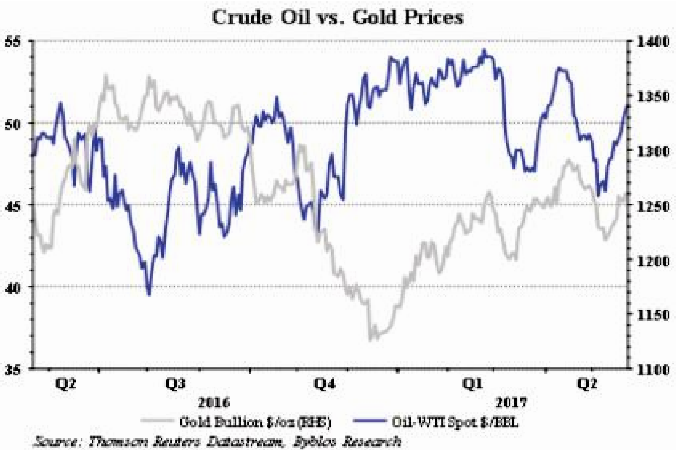
LME copper cash price closed at a three-week high of $5,695 per metric ton on May 23, 2017, constituting an increase of 2.4% from a week earlier, due to a weaker US dollar. But the metal's price dropped to $5,672 a ton in intra-day trading on May 24 following the downgrade of China's sovereign ratings, the world's largest copper consumer. Copper prices are projected to increase from $4,871 a ton in 2016 to $5,750 a ton in 2017, driven by ongoing production disruptions from labor strikes in Chile and unfavorable weather conditions in Peru. In parallel, global demand for refined copper decreased by 3.5% year-on-year to 3.6 million tons in the first two months of 2017. Demand for refined copper grew by 1.5% in Europe, while it declined by 1% in the Americas and by 5% in Asia. On the supply side, the metal's global refined production was 3.76 million tons in the first two months of 2017, nearly unchanged year-on-year, due to a 16% decline in output in Chile, which was offset by a 4% supply growth in China. On a regional basis, refined output grew by 3% in Asia, by 2% in Africa and by 1.5% in Europe, while it declined by 11% in the Americas and by 5% in Oceania.

Source: International Copper Study Group, Thomson Reuters

Precious Metals: Gold prices to gradually increase in 2017

The gold bullion spot price rose to a three-week high of $1,260.3 a troy ounce on May 23, 2017, due to political uncertainties in the United States and reduced expectations of additional increases in U.S. interest rates this year. In fact, investors are concerned about the U.S. Administration's ability to implement its promised fiscal stimulus, which fuelled demand for the safe haven asset. Gold prices are forecast to rise gradually from $1,219 an ounce in the first quarter of 2017 to $1,248 an ounce in the second quarter, $1,250 an ounce in the third quarter and $1,265 an ounce in the fourth quarter of the year. The expected increase in gold prices in 2017 would reflect a narrower deficit in the physical gold market as a result of a drop in gold mine production and a gradual recovery in physical gold demand during the year. In addition, market sentiment-driven factors, such as political risks in Europe and the United States, would also contribute to the increase in the metal's price this year. According to the International Monetary Fund, the probability of the 12-month forward gold price increasing above $1,300 a troy ounce declined to 28.8% from 41.3% previously.

Source: Thomson Reuters, International Monetary Fund



COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	IHS	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 (%)
			LT Foreign currency rating										
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B	B1	B	-	B+								
	Negative	Negative	Negative	-	Negative	-4.1	71.6	43.1	142.7	-	-	-4.3	-3.5
Egypt	B-	B3	B	B-	B-								
	Stable	Stable	Stable	Stable	Stable	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B-	B3	B	-	B+								
	Stable	Stable	Stable	-	Negative	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B	-	B-								
	-	-	Stable	-	Negative	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep	B-	B3	-	-	CCC								
Congo	Negative	Stable	-	-	Stable	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B	B1	B+	-	B+								
	Stable	Negative	Negative	-	Negative	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3	B+	-	BB+								
	-	Negative	Stable	-	Stable	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B-	-	-	-	B+								
	Stable	-	-	-	Stable	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B	B2	B	-	B+								
	Stable	Stable	Positive	-	Stable	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB-	Ba2	BB+	BB+	BBB-								
	Stable	Stable	Stable	Stable	Negative	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB-	BB-								
	-	-	-	Stable	Positive	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B-	(P)Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB-	B1	-	BB-	BB+								
	Negative	Stable	-	Stable	Stable	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Negative	Stable	Stable	Stable	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B-	B2	B-	B	B-								
	Stable	Negative	Stable	Negative	Stable	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BB+	Baa1	BBB	BBB+	BBB								
	Negative	Stable	Stable	Stable	Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA	Aa2	AA	AA-	AA-								
	Negative	Negative	Stable	Negative	Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C								
	-	-	-	-	Negative	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-								
	-	Negative	-	Stable	Stable	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC								
	-	-	-	-	Negative	-10.0	67.3	17.3	-	-	197.2	-7.0	-0.2

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	Stable	Stable	-	Stable	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
China	AA-	A1	A+	-	A								
	Stable	Negative	Stable	-	Stable	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	CWN***	Stable	-	Negative	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB								
	Negative	Stable	Stable	-	Stable	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Negative	Stable	-	Positive	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
Russia	BB+	Baa3	BBB-	-	BB+								
	Negative	CWN***	Negative	-	Negative	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
Turkey	BB	Ba1	BB+	BB+	BB-								
	Negative	Negative	Stable	Stable	Negative	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Negative	-	-	Stable	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1

**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 estimates for 2016

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.75-1.00	03-May-17	No change	14-Jun-17
Eurozone	Refi Rate	0.00	27-Apr-17	No change	08-Jun-17
UK	Bank Rate	0.25	11-May-17	No change	15-Jun-17
Japan	O/N Call Rate	-0.10	27-Apr-17	No change	16-Jun-17
Australia	Cash Rate	1.5	02-May-17	No change	06-Jun-17
New Zealand	Cash Rate	1.75	10-May-17	No change	21-Jun-17
Switzerland	3 month Libor target	-1.25-(-0.25)	17-Mar-17	No change	15-Jun-17
Canada	Overnight rate	0.50	24-May-17	No change	12-Jul-17
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.25	15-Mar-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	24-Mar-17	No change	29-Jun-17
South Korea	Base Rate	1.25	13-Apr-17	No change	25-May-17
Malaysia	O/N Policy Rate	3.00	12-May-17	No change	13-Jul-17
Thailand	1D Repo	1.50	24-May-17	No change	5-Jul-17
India	Reverse repo rate	6.25	06-Apr-17	No change	07-Jun-17
UAE	Overnight repo rate	1.75	15-Mar-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.00	15-Mar-17	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	21-May-17	Raised 200bps	06-July-17
Turkey	Base Rate	8.00	26-Apr-17	No change	15-Jun-17
South Africa	Repo rate	7.00	30-Mar-17	No change	25-May-17
Kenya	Central Bank Rate	10.00	27-Mar-17	No change	29-May-17
Nigeria	Monetary Policy Rate	14.00	23-May-17	No change	25-Jul-17
Ghana	Prime Rate	22.50	22-May-17	Cut 100bps	24-Jul-17
Angola	Base rate	16.00	31-Jan-17	No change	01-Jun-17
Mexico	Target Rate	6.75	18-May-17	Raised 25bps	22-Jun-17
Brazil	Selic Rate	12.25	12-Apr-17	Cut 100bps	31-May-17
Armenia	Refi Rate	6.00	16-May-17	No change	27-Jun-17
Romania	Policy Rate	1.75	05-May-17	No change	30-Jun-17
Bulgaria	Base Interest	0.00	02-May-17	No change	01-Jun-17
Kazakhstan	Repo Rate	11.00	10-Apr-17	No change	05-Jun-17
Ukraine	Discount Rate	14.00	13-Apr-17	Cut 100bps	25-May-17
Russia	Refi Rate	9.25	28-Apr-17	Cut 50bps	16-Jun-17

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