

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Compliance and new regulations affecting trade finance

The 2017 ICC Global Survey on Trade Finance and Supply Chain Finance shows that 57% of surveyed banks anticipate that the usage of traditional trade finance instruments, such as letters of credits, would not post any growth in 2017, while 21.2% expected traditional trade finance instruments to register significant growth this year. In contrast, 22% of surveyed banks projected the usage of traditional trade finance to contract year-on-year. It said that 30% of respondents consider that compliance requirements would adversely impact their business in the short term and, in turn, the growth in traditional trade finance; followed by increasing regulations (21%), rising protectionist and trade-restrictive measures (18%) and capital constraints (11%). It added that only 1.4% of surveyed banks consider that competition and disruption from financial technology firms and non-bank financial institutions would weigh on the development of traditional trade finance instruments in the short term. In parallel, 28.6% of surveyed participants identified supply chain finance (SCF) as the most important area of development and strategic focus for the trade finance industry in the coming 12 months. The SCF is a set of technology-based business and financing processes that link various parties in a transaction. The survey added that 43.5% of respondents identify digitization and financial technology as priority areas of strategic focus. The survey, which was conducted between March and May 2017, was compiled from the responses of 255 banks located in 98 countries.

Source: ICC Banking Commission

EMERGING MARKETS

Sovereign credit quality broadly stable over past five years

S&P Global Ratings indicated that the average sovereign rating of the 20 emerging markets (EM) with the highest level of outstanding commercial debt stood at slightly below 'BBB-' as of June 2017. It said that overall sovereign creditworthiness across the 20 EMs has remained broadly stable over the past five years. It added that the upgrades of the ratings of Argentina and Indonesia since the start of the year were counterbalanced by the downgrades of Qatar and South Africa. S&P noted that 60% of the covered sovereigns had an investment-grade rating above 'BBB-' at end-June 2017, unchanged from December 2016. It added that 20% of the ratings were in the 'B' or 'CCC' categories at end-June 2017, up from 10% over the 2009-10 period, which reflects a deterioration in the credit quality of EM sovereigns that are rated at the lower end of the group's range. S&P said that the average sovereign rating becomes slightly above 'BBB+' when the ratings are weighted by nominal GDP, largely due to China, which is rated 'AA-' and that accounts for more than one-third of the aggregate GDP of the 20 countries. It said that the number of sovereign ratings with a 'negative' outlook or on CreditWatch Negative increased from six to eight in the first half of 2017. It added that 11 out of the 20 EM countries carry a 'stable' outlook on their sovereign ratings, while only Russia's ratings have a 'positive' outlook.

Source: S&P Global Ratings

MENA

Region's country risk level unchanged in second quarter of 2017

The Euromoney Group's quarterly survey on global country risk shows that the risk level in the Arab world was nearly unchanged quarter-on-quarter in the second quarter of 2017, as the average score of 19 Arab economies reached 38.3 points in the second quarter of the year, compared to 38.4 points in the preceding quarter. The region's risk level was higher than the global risk level of 42.4 points in the second quarter of 2017. It was also higher than the risk levels of North America (79.3 points), Western Europe (71.8 points), Central & Eastern Europe (47.4 points), Latin America (44.3 points) and Asia (42.9 points), while it was lower than the risk levels of the Caribbean (36.5 points), Sub-Saharan Africa (30.2 points) and Australasia (27.2 points). The GCC countries' average score regressed to 60.1 points in the covered quarter from 60.5 points in the first quarter of 2017, while the average score of non-GCC Arab countries was unchanged at 28.2 points in the covered quarter of the year. The Arab world's Political Risks level stood at 11.72 points, which was higher than the global average of 13.73 points; while the Economic Performance score of 12.82 points was below the global average of 13.39 points. Further, the region's Credit Ratings averaged 2.64 points relative to the global average of 3.04 points; while the Access to Bank Finance & Capital Markets score was 3.66 points, lower than the global average of 3.82 points. Qatar had the lowest country risk level in the Arab world and the 23rd lowest globally, followed by Kuwait (32nd), the UAE (35th), Saudi Arabia (47th) and Oman (49th).

Source: Euromoney Group, Byblos Research

Venture capital transactions up 43% to 175 deals, fundraising down 19% to \$172m in 2016

Figures released by the MENA Private Equity Association show that there were 175 venture capital (VC) deals in the Middle East & North Africa (MENA) region in 2016, constituting an increase of 43.4% from 122 VC deals in 2015. In comparison, there were 33 VC investments in 2014, 34 transactions in 2013, 54 VC deals in 2012 and 51 investments in 2011. As such, 297 VC deals took place in the 2015-16 period compared to 172 transactions between 2011 and 2014. Further, the value of the VC deals totaled \$127m in 2016, up from about \$100m in 2015. The information technology sector attracted 26% of the total invested amount in 2016, followed by the e-commerce sector (15%), the financial technology industry (12%), the healthcare sector (7%), the media, transportation and the food & beverage sectors (5% each) and the retail sector (3%). Further, the UAE attracted 34% of the total amount of VC investments in 2016, followed by Lebanon with 21%, Egypt with 10%, Saudi Arabia with 8%, Jordan with 4%, Morocco with 2% and Tunisia with 1% of the total. In parallel, VC funds raised \$172m in 2016, compared to \$213m in 2015 and \$205m in 2014. The drop in fundraising activity was partly attributed to the economic slowdown in the MENA region and to regional geopolitical factors that have impacted the short-term perceptions of foreign investors.

Source: MENA Private Equity Association

OUTLOOK

WORLD

Emerging Markets' real GDP growth to accelerate to 5.2% in 2017, risks of global recession decline

Goldman Sachs projected global economic growth to accelerate from 3.2% in 2016 to 3.7% in 2017 due to a pickup in activity in both developed markets (DMs) and emerging markets (EMs). It expected real GDP growth in DMs to increase from 1.7% last year to 2% this year, mainly driven by strong activity in the Eurozone and Japan. It forecast growth in EMs to accelerate from 4.6% in 2016 to 5.2% in 2017, supported by improved activity in India and Brazil. Further, it said that the recovery in global economic activity this year started with an improvement in industrial output in both DMs and EMs, which quickly spilled over into other sectors. As such, it noted that the pickup in global growth has been broadly balanced across sectors of the economy.

In parallel, Goldman Sachs pointed out that the risk of recession has regressed in major advanced economies, mainly as a result of stronger activity. It calculated each country's recession risk by taking into consideration several factors including lagged GDP growth, the slope of the yield curve, equity price changes, house price changes, the output gap, the private debt-to-GDP ratio, and economic policy uncertainty. It noted that the probability of an economic downturn within the next year stands at 19% for advanced economies, below the historical average of 28%. It added that the risk of a recession within the next year is 19% in each of the Eurozone and Japan, relative to historical averages of 35% and 36%, respectively, while it reached 18% in the U.S compared to a historical average of 24%. It said that the recession risk in the Eurozone and Japan declined substantially due to a strong pickup in domestic growth and a decrease in economic policy uncertainties in these countries, given that their growth levels are still below long-term potential. It added that the recession risk in the U.S. has declined slightly due to stronger growth and lower policy uncertainty, but the improvement has been more limited given that the labor market is at full employment. In parallel, it said that EM growth rates continue to be affected by changes in DM growth dynamics and financial conditions, as well as by fluctuations in commodity prices.

Source: Goldman Sachs

UAE

Medium-term economic activity to accelerate on easing fiscal consolidation

The International Monetary Fund projected the UAE's real GDP growth to decelerate from 3% in 2016 to 1.3% in 2017, mainly due to a drop in oil production under the OPEC agreement. But it expected growth to accelerate to 3.4% in 2018, supported by higher oil prices and easing fiscal consolidation. It forecast hydrocarbon output to contract by 2.9% in 2017 and to grow by 3.2% in 2018 relative to an expansion of 3.8% in 2016. It projected non-hydrocarbon real GDP growth to accelerate from 2.7% last year to 3.3% in 2017 and to 3.4% next year, which would reflect a pickup in global trade activity and an increase in investment activity ahead of the World Expo 2020. It noted that the UAE's substantial financial buffers, safe-haven status, sound banking system, and diversified and business-friendly economy continue to help the country weather the oil price shock. It said

that downside risks to the outlook include lower-than-anticipated export revenues from lower oil prices, tighter financial conditions, higher U.S. interest rates and an intensification of regional conflicts. It did not expect the planned introduction of the value-added tax in 2018 to have a significant adverse impact on growth. It forecast the average inflation rate at 2.2% in 2017 and 2.9% in 2018.

In parallel, the Fund anticipated that higher hydrocarbon export receipts would ease the pressure on the UAE's fiscal and external positions. It forecast the fiscal deficit to narrow from 4.1% of GDP in 2016 to 3.1% of GDP in 2017, while it projected the current account surplus to increase from 2.4% of GDP last year to 2.6% of GDP in 2017. The Fund noted that authorities should continue to implement fiscal and structural reforms to improve the fiscal adjustment process. In this context, it stressed on the importance of containing public spending and improving its efficiency, as well as on controlling the public sector wage bill. It added that stricter control of contingent liabilities arising from government-related entities and public-private partnership investments could prevent the buildup of fiscal risks.

Source: International Monetary Fund

NIGERIA

Economic recovery to remain subdued amid foreign currency restrictions

BNP Paribas projected Nigeria's real GDP to grow by 0.5% in 2017 following a contraction of 1.5% in 2016, supported by a rebound in oil production, an increase in oil prices, stronger agricultural activity and higher public spending. It said that the prevailing foreign currency restrictions would continue to weigh on industrial activity and weaken the exchange rate, which would prevent a stronger economic recovery. It noted that political instability and risks of terrorist attacks and sabotage of oil facilities constitute additional challenges to the country's growth outlook. It considered the government's Economic Recovery and Growth Plan for the 2017-20 period to be very optimistic, as it did not expect authorities to lift capital controls, trade restrictions or energy price regulations. Further, it forecast Nigeria's average inflation rate to rise from 15.7% last year to 17.4% in 2017, as it anticipated authorities to cut energy subsidies and to devalue the Nigerian naira in late 2017. It forecast the naira to trade at NGN340 against the US dollar at the end of 2017 relative to about NGN315 per dollar at end-2016.

In parallel, BNP Paribas expected Nigeria's public finances to be negatively affected by the slowdown in economic growth and sustained reliance on the hydrocarbon sector. As such, it forecast the country's fiscal deficit to widen from 4.7% of GDP in 2016 to 5% of GDP in 2017, and for the public debt level to grow from 18.6% of GDP last year to 23.3% of GDP this year. But it anticipated the external debt level to remain at a relatively low level of about 9.4% of GDP in 2017. Further, it pointed out that the recovery in oil prices and the narrowing spread between the parallel and official exchange rates have improved Nigeria's external liquidity. As such, it projected the current account surplus to increase from 0.6% of GDP in 2016 to 1.6% of GDP in 2017, and for foreign currency reserves to grow from \$28.2bn at the end of 2016 to \$29.2bn at end-2017.

Source: BNP Paribas

ECONOMY & TRADE

EGYPT

Reform program supporting market confidence

The International Monetary Fund considered that Egypt's reform program is on track following the transition to a flexible exchange rate regime, the significant narrowing of the spread between the official and parallel exchange rates, and the substantial increase in the Central Bank of Egypt's (CBE) foreign currency reserves. It added that market confidence is returning and capital inflows are increasing. It noted that the CBE's foreign reserves rose from \$17.1bn, or 3.1 months of import cover, at end-June 2016 to \$31bn, or 5.4 months of imports, at the end of June 2017 and projected them at \$30.2bn, or 5.1 months of import cover at end-June 2018. Further, it said that the reductions of energy subsidies, the control of the public-sector wage bill and the introduction of the value-added tax have helped narrow the fiscal deficit from 12.3% of GDP in the fiscal year that ended in June 2016 to 10.5% of GDP in FY2016/17, and forecast the deficit to reach 8.5% of GDP in FY2017/18. It anticipated the sustained fiscal consolidation to reduce the public debt level from 98.4% of GDP in FY2016/17 to 87.7% of GDP in FY2017/18. In parallel, the IMF indicated that the authorities' immediate priority is to reduce the inflation rate of 32.8% at end-June 2017, which poses a risk to macroeconomic stability. It noted that the CBE has raised the policy rates, absorbed excess liquidity, and developed a monetary framework with a clear policy anchor in order to reduce inflationary pressure and manage inflation expectations. As a result, it forecast the inflation rate to regress to 10.3% at end-June 2018.

Source: International Monetary Fund

SYRIA

Gross public debt at 150% of GDP

The World Bank indicated that the Syrian conflict has led to the deterioration of the country's fiscal and current account deficits, the depletion of foreign currency reserves and to an unsustainable public debt level. It estimated the current account deficit to have widened from 0.7% of GDP in 2010 to 28% of GDP in 2016 due mainly to the decline in oil export receipts and the loss of tourism revenues. It estimated total exports at \$631m in 2015, reflecting a drop of 92% from \$7.9bn in 2011, with mineral exports falling from \$4.7bn in 2011 to close to zero in 2015, while imports reached \$4.65bn in 2015, down by 73% from \$17.3bn in 2011. It added that the government has used foreign currency reserves at the Central Bank of Syria to finance the wide external deficit, which reduced reserves from \$21bn in 2010 to an estimated \$1bn in 2015. In parallel, the Bank indicated that Syria's public finances significantly weakened since 2011. It said that public revenues dropped from 23% of GDP in 2010 to less than 3% of GDP in 2015, mainly due to losses in oil and tax revenues, the collapse of international trade, a growing informal economy and weak administrative collection capacity. Also, it noted that capital expenditures declined from about 9% of GDP in 2010 to an estimated 1% of GDP in 2015, while current spending increased from 16% of GDP prior to the conflict to 18% of GDP in 2015 due to a rise in public sector wages, military spending and the costs of essential imported goods. Further, the Bank estimated the gross public debt to have increased from \$18bn, or 30% of GDP in 2010 to \$21bn, or 150% of GDP in 2015.

Source: World Bank

TUNISIA

Public finance imbalances are obstacle to reforms

The International Monetary Fund indicated that Tunisia's fragile socio-political environment has delayed the implementation of reforms in 2016, weighed on economic activity, led to wider-than-targeted fiscal and current account deficits, reduced foreign currency reserves and pressured the Tunisian dinar. But it noted that the pace of reform implementation accelerated in 2017. The IMF projected Tunisia's real GDP growth to improve from 1% in 2016 to 2.3% in 2017, mainly driven by a recovery in tourism activity and phosphate production. It noted that delays in the implementation of structural reforms and low private investment have prevented a stronger economic recovery. Further, it forecast the fiscal deficit at 5.9% of GDP in 2017, unchanged from the preceding year, as increases in public-sector wages, elevated energy subsidies and higher transfers to the public pension fund would offset revenues from the one-off tax hike and cuts in other current expenditures. It expected the public-sector wage bill, which is among the highest in the world, and the weak state of the pension funds to represent fiscal challenges over the medium term in the absence of reforms. In parallel, the Fund projected the current account deficit to slightly narrow from 9% of GDP in 2016 to 8.5% of GDP in 2017, and anticipated foreign currency reserves to improve from \$5.9bn, or 3.4 months of imports in 2016 to \$7.3bn or 4.3 months of imports in 2017. It pointed out that risks to the outlook mainly include a worsening of the domestic environment, security risks, regional conflicts and slower growth in Europe.

Source: International Monetary Fund

IRAN

Economic activity recovering after sanctions lifting

The Central Bank of Iran estimated Iran's real GDP growth at 13.4% in the fiscal year that ended in March 2017 relative to a contraction of 1.3% in FY2015/16, supported by a surge in hydrocarbon output following the easing of international sanctions in January 2016 and by a rebound in the petrochemical sector. It noted that hydrocarbon output expanded by 61.6% in FY2016/17 relative to a growth rate of 7.2% in FY2015/16, while non-hydrocarbon activity grew by 3.3% in FY2016/17 following a contraction of 3.1% in FY2015/16. The manufacturing & mining sector grew by 6.6% in FY2016/17, followed by the agricultural sector (+4.2%) and services (+3.6%), while activity in the construction sector contracted by 13.1%. In comparison, most non-hydrocarbon sectors shrank in real terms in FY2015/16, with contraction rates ranging between -17% for the construction sector and -5% for the manufacturing & mining sector, while the agricultural sector expanded by 4.6%. Further, the non-oil economy accounted for 87.7% of the nominal GDP in FY2016/17, while the oil sector represented the balance of 12.3%. In parallel, research and analytics provider IHS Markit indicated that Iran's official national accounts have often displayed significant lags and discrepancies between different national sources in recent years. Further, IHS Markit anticipated Iran's real GDP growth to slow down to 4% in FY2017/18, as hydrocarbon output normalizes. It projected hydrocarbon sector growth at between 2.5% and 3% in the current fiscal year as it expected hydrocarbon output to remain around 3.8 million b/d. It forecast non-oil growth at about 4% in FY2017/18, and to be the main driver of activity.

Source: Central Bank of Iran, IHS Markit



BANKING

MENA

Tier One capital of Arab banks at \$313bn at end-2016

The Banker magazine's annual survey of the Top 1000 Banks in the world by Tier One capital indicated that the aggregate Tier One capital of Middle Eastern banks included in the survey stood at \$313bn at the end of 2016 compared to \$303.7bn at end-2015. It noted that the Tier One capital of Middle Eastern banks in the survey accounted for 4.2% of the aggregate Tier One capital of the world's Top 1000 banks, which is lower than the share of banks in Asia (42.5%), Western Europe (26%) and North America (21.5%), but higher than the share of banks in Latin America & the Caribbean (3.2%), Central & Eastern Europe (1.6%) and Africa (0.8%). Also, the total assets of Middle Eastern banks included in the survey reached \$2,719bn at the end of 2016, and accounted for 2.4% of the aggregate assets of the world's top 1000 banks. As such, the Tier One capital-to-assets ratio (CAR) of banks in the Middle East was 11.51% at end-2016, which is higher than the Top 1000 banks' ratio of 6.5%, as well as of banks in Central & Eastern Europe (10.1%), North America (8.2%), Africa (7.7%), Latin America & the Caribbean (6.7%), Asia (6.3%) and Western Europe (5.3%). Qatar National Bank ranked in first place regionally and in 82nd place globally with a Tier One capital of \$17.2bn, followed by the National Commercial Bank of Saudi Arabia with \$15.9bn (87th place), Saudi Arabia's Al Rajhi Bank with \$13.9bn (101st place), Emirates NBD with \$13bn (109th place) and the National Bank of Abu Dhabi with \$12.5bn (112nd place) as the top five Arab banks. The Arab banks' return on capital (ROC) stood at 13.16% in 2016 relative to the Top 1000 banks' ROC of 13%, and their return on assets was 1.51% compared to 0.85% globally.

Source: *The Banker*, Byblos Research

DEM REP CONGO

Pressure on currency to continue over short term

Research and analytics provider IHS Markit indicated that Banque Centrale du Congo (BCC) increased its policy rate by six percentage points to 20% in an attempt to stabilize the Congolese franc and reduce inflationary pressure. It noted that this constituted the second increase so far this year after the BCC doubled its key rate in January 2017 from 7%. The franc is currently trading at CDF1,601 against the US dollar relative to CDF1,216 per dollar at the end of 2016 and CDF991 per dollar a year earlier, while the inflation rate averaged 20.8% in the first half of 2017 compared to an average of 1.1% in the same period of 2016. The depreciation of the currency reflects the fall in copper prices that started in 2015 amid the country's limited foreign currency reserves that reached \$708.8m, or 3.1 weeks of import cover, at the end of June 2017. IHS Markit indicated that the stabilization of the franc is contingent on the recovery of the country's copper exports. It considered that the BCC's decision could ease some of the pressure on the currency, but it anticipated structural bottlenecks to continue to weigh on the franc over the coming months. Overall, it said that there is a high likelihood that the BCC would inject further liquidity in the market and would maintain a tight monetary policy to address the prevailing challenges.

Source: *IHS Markit*, Banque Centrale du Congo

ARMENIA

New minimum capital requirements encouraging consolidation of banking sector

The International Monetary Fund indicated that the Armenian banking sector is sound, with strong capital adequacy and liquidity ratios. It said that the sector's capital adequacy ratio improved from 17.3% at the end of March 2016 to 20% at the end March 2017. It added that all banks in Armenia met the new minimum capital requirements mandated by the Central Bank of Armenia (CBA) either through mergers & acquisitions or the injection of new capital by the Armenian Diaspora and other foreign investors. The Fund considered that the CBA's decision to increase the minimum capital requirements from AMD5bn to AMD30bn increased competition to lend among banks, which, in turn, could weigh on lending rates and lead to further consolidation of the sector. Also, the sector's liquid assets were equivalent to 32% of total assets at end-March 2017, up from 29.2% a year earlier; while they represented 164.6% of short-term liabilities compared to 157.7% at the end of March 2016. However, the IMF pointed out that banks' conditions remain challenging with relatively weak asset quality, a high dollarization rate, low profitability and elevated credit concentration. It noted that the sector's non-performing loans ratio regressed from 10% at end-March 2016 to 6.8% at the end of March 2017, due in part to write-offs associated with the mergers of banks. In parallel, the IMF indicated that the CBA's stress tests show that fewer banks would face liquidity and capital strains in case of a shock.

Source: *International Monetary Fund*, Central Bank of Armenia

TURKEY

Banking sector has high funding risks

S&P Global Ratings maintained Turkey's Banking Industry Country Risk Assessment (BICRA) in 'Group 6', and its economic and industry risk scores at '6' 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 6' include Brazil, Colombia, Italy, Thailand, Slovenia and Uruguay. The agency indicated that Turkey's economic risk score reflects its "high risks" in economic resilience and economic imbalances, and its "intermediate" credit risks in the economy. It said that the economic risk assessment reflects Turkey's moderate per capita income, volatile economy, institutional challenges, as well as its sizable current account deficit and external financing needs. It noted that the banks' credit risk reflects the rapid lending growth and the high share of lending in foreign currency. It projected nominal lending growth at around 15% annually over the coming two years, which would be equivalent to a 7% annual growth in real terms. It said that the trend for economic risk is 'negative' due in part to an expected deterioration in the country's economic, fiscal and debt metrics. In parallel, S&P indicated that the industry score reflects the country's "very high risks" in its system-wide funding and "intermediate risks" in its institutional framework and competitive dynamics. It noted that the high industry risk and 'negative' trend reflect Turkey's relatively low domestic savings, and the banks' short-term structure of deposits and elevated reliance on short-term external debt.

Source: *S&P Global Ratings*



ENERGY / COMMODITIES

Crude oil prices to average \$52 p/b in 2017

JPMorgan Chase forecast crude oil prices to average \$51.9 per barrel (p/b) in 2017, which would constitute an increase of 15% from \$45.1 p/b in 2016. It indicated that the rise in U.S. shale oil output and the latent OPEC capacity have weighed on investors' sentiment and shifted the oil price outlook. It did not expect an extension of the OPEC deal beyond the March 2018 deadline. Also, it anticipated that OPEC and non-OPEC members would return to a market share-led oil policy once the oil deal expires, as U.S. shale oil output would continue to rise, pushing prices downward. But it said that the drop in oil prices would be unlike previous cycles, given that U.S. shale oil production would still be profitable at prices below \$50 p/b and Saudi Arabia's oil policy will continue to be led by geopolitics and a quest for a higher market share in the oil market. Overall, it did not expect the oil market to rebalance before 2020. In parallel, Julius Bär pointed out that markets are focusing too much on U.S. oil inventory trends due to data availability and reliability, while they are missing the bigger global picture. It noted that China does not report oil storage data, but based on its production and import trends, the country has lately been putting significant volumes of crude oil into storage. Further, it said that U.S. oil demand is at its seasonal peak, which means that refinery crude oil purchases are expected to slow in coming weeks and in turn weigh on oil prices.

Source: JPMorgan Chase, Julius Bär, Byblos Research

OPEC's oil output up 1% in June 2017

Crude oil production of the Organization of Petroleum Exporting Countries, based on secondary sources, averaged 32.6 million barrels per day (b/d) in June 2017, constituting an increase of 1.2% from 32.2 million b/d in the preceding month. Saudi Arabia produced 9.95 million b/d in June 2017, equivalent to 30.5% of OPEC's total oil production, followed by Iraq with 4.5 million b/d (13.8%) and Iran with 3.79 million b/d (11.6%).

Source: OPEC, Byblos Research

GCC economies to increase refining capacity by 26% over the 2017-21 period

The Arab Petroleum Investments Corporation (APICORP) expected countries in the Gulf Cooperation Council (GCC) to expand their oil refining capacity by 1.5 million barrels per day (b/d) over the 2017-21 period from an estimated 5.7 million b/d in 2016. It anticipated that the increase in refining capacity would allow GCC countries to meet the region's fast-growing oil demand, and to diversify away exports from crude oil to more specialized refined products. It expected Kuwait to lead the region with 615,000 b/d in additional refining capacity or 41.1% of the total, followed by Saudi Arabia with 400,000 b/d (26.7%) and Oman with 311,000 b/d (20.8%).

Source: APICORP Energy Research

Demand for renewable energy up 14% in 2016

BP estimated the consumption of global renewable energy at 419.6 million tons of oil equivalent (toe) in 2016, up by 14.4% from 2015. Consumption in the Asia-Pacific region averaged 144.5 million toe, or 34.4% of global demand for renewable energy last year, followed by Europe and Eurasia with 144 million toe (34%), North America with 97.1 million toe (23%), South and Central America with 28.2 million toe (6.7%), Africa with 5 million toe (1.2%) and the Middle East with 0.7 million toe (0.2%).

Source: BP, Byblos Research

COUNTRY RISK WEEKLY BULLETIN

Base Metals: Copper prices near four-month highs on higher Chinese demand

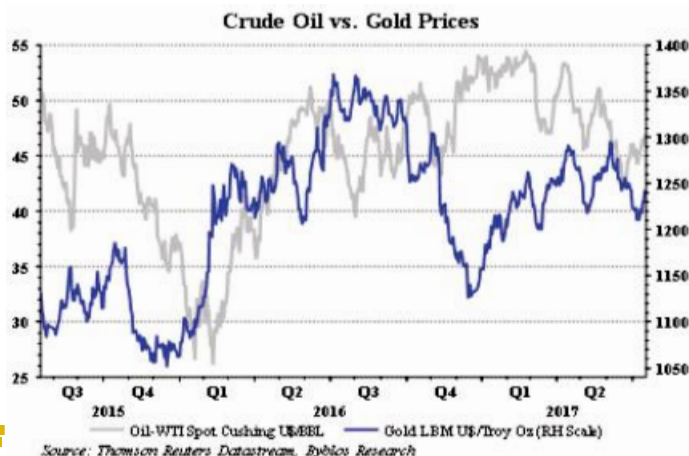
LME Copper three-month future prices continued to trade near four-month highs, closing at \$5,959 per ton on July 20, 2017. The metal's prices were supported by strong Chinese demand for the metal, amid a recovery in industrial activity in China, the world's largest copper consumer. In fact, the country's demand for the metal is forecast to rise by 2.8% in 2017. Also, copper supply disruptions from recent labor strikes in Peru, the world's second biggest copper producer, further supported the metal's prices. Copper prices are forecast to rise from \$4,874 a ton in 2016 to \$6,200 a ton in 2017 due to prospects of a wider deficit in the copper market this year. However, construction sector activity in the U.S., which remains constrained by rising lumber prices, as well as by labor and land shortages, would limit demand for the metal and, in turn, prevent a higher increase in the metal's price. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index rose by 3.4% in June and by 6.3% in the first half of 2017, while the Copper Sub-Index increased by 4.7% last month and rose by 7% from end-2016.

Source: Thomson Reuters, Bloomberg Indexes, Byblos Research

Precious Metals: Gold prices to rise in the second half of 2017

Gold prices rose for a fifth consecutive day to close at \$1,246 a troy ounce on July 20, 2017, up by 2.3% from a week earlier, as the US dollar continued to trade at 10-month lows. The weakness in the US dollar reflects political gridlock in the U.S., as well as uncertainties about further U.S. monetary tightening in the remainder of 2017. In fact, the U.S. Federal Reserve is expected to delay the next interest rate hike until December 2017, given the continued weakness in the U.S. inflation rate. Also, the 2.3% week-on-week rise in the metal's price coincided with a 1.6% drop in the trade-weighted US Dollar Index from a week earlier. Gold prices averaged \$1,239 an ounce in the first half of 2017, and are projected to rise to \$1,246 an ounce in the third quarter and to \$1,259 an ounce in the fourth quarter of the year, support in part by prospects of renewed physical demand in emerging markets such as India and China, in coming months. However, progress by the U.S. Administration on the implementation of its planned tax reforms and infrastructure program could support the country's economic growth, strengthen the US dollar and accelerate the increase in interest rates, which would constitute downside risks to the metal's prices.

Source: Thomson Reuters, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
	-	-	-	-	Negative								
Angola	B	B1	B	-	B+	-4.1	71.6	43.1	142.7	-	-	-4.3	-3.5
	Negative	Negative	Negative	-	Negative								
Egypt	B-	B3	B	B-	B-	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
	Stable	Stable	Stable	Stable	Stable								
Ethiopia	B	B1	B		B+	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
	Stable	Stable	Stable	-	Stable								
Ghana	B-	B3	B	-	B+	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
	Stable	Stable	Stable	-	Negative								
Ivory Coast	-	Ba3	B+	-	B+	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
	-	-	Stable	-	Negative								
Dem Rep Congo	B-	B3	-	-	CCC	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
	Negative	Stable	-	-	Stable								
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
	Stable	Positive	Stable	-	Stable								
Nigeria	B	B1	B+	-	B+	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
	Stable	Negative	Negative	-	Negative								
Sudan	-	-	-	-	CC	-1.7	58.3	53.2	-	-	-	-6.3	1.3
	-	-	-	-	Negative								
Tunisia	-	Ba3	B+	-	BB+	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
	-	Negative	Stable	-	Stable								
Burkina Faso	B-	-	-	-	B+	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
	Stable	-	-	-	Stable								
Rwanda	B	B2	B	-	B+	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
	Stable	Stable	Positive	-	Stable								
Middle East													
Bahrain	BB-	Ba2	BB+	BB+	BBB-	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
	Negative	Stable	Negative	Stable	Negative								
Iran	-	-	-	BB-	BB-	-2.6	17.5	2.2	8.8	-	-	-2.6	-
	-	-	-	Stable	Positive								
Iraq	B-	(P)Caa1	B-	-	CC+	-11.3	71.4	59.1	158.8	-	-	-2.8	-
	Stable	Stable	Stable	-	Stable								
Jordan	BB-	B1	-	BB-	BB+	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
	Negative	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B2	B-	B	B-	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
	Stable	Negative	Stable	Negative	Stable								
Oman	BB+	Baa1	BBB	BBB+	BBB	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
	Negative	Stable	Negative	Stable	Negative								
Qatar	AA-	Aa3	AA	AA-	AA-	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
	CWN***	Negative	CWN***	Negative	Stable								
Saudi Arabia	A-	A1	A+	A+	AA-	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
	-	-	-	-	Negative								
UAE	-	Aa2	-	AA-	AA-	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CCC	-10.0	67.3	17.3	-	-	197.2	-7.0	-0.2
	-	-	-	-	Negative								

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-	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
	-	Stable	Stable	-	Stable								
China	AA-	A1	A+	-	A	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
	Stable	Negative	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
	Negative	CWN***	Stable	-	Negative								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
	Negative	CWN***	Negative	-	Negative								
Turkey	BB	Ba1	BB+	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Negative	Negative	Stable	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 estimates for 2016



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	1.00-1.25	14-Jun-17	Raised 25bps	26-Jul-17
Eurozone	Refi Rate	0.00	20-Jul-17	No change	07-Sep-17
UK	Bank Rate	0.25	15-Jun-17	No change	03-Aug-17
Japan	O/N Call Rate	-0.10	20-Jul-17	No change	21-Sep-17
Australia	Cash Rate	1.5	04-Jul-17	No change	01-Aug-17
New Zealand	Cash Rate	1.75	21-Jun-17	No change	09-Aug-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Jun-17	No change	14-Sep-17
Canada	Overnight rate	0.75	12-Jul-17	Raised 25bps	06-Sep-17
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.50	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	22-Jun-17	No change	29-Sep-17
South Korea	Base Rate	1.25	13-Jul-17	No change	31-Aug-17
Malaysia	O/N Policy Rate	3.00	13-Jul-17	No change	07-Sep-17
Thailand	1D Repo	1.50	05-Jul-17	No change	16-Aug-17
India	Reverse repo rate	6.25	07-Jun-17	No change	02-Aug-17
UAE	Repo rate	1.50	14-Jun-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.00	15-Mar-17	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	06-Jul-17	Raised 200bps	28-Sep-17
Turkey	Base Rate	8.00	15-Jun-17	No change	27-Jul-17
South Africa	Repo rate	6.75	20-Jul-17	Cut 25bps	21-Sep-17
Kenya	Central Bank Rate	10.00	29-May-17	No change	25-Jul-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	05-Jul-17	No change	31-Jul-17
Mexico	Target Rate	7.00	22-Jun-17	Raised 25bps	10-Aug-17
Brazil	Selic Rate	11.25	31-May-17	Cut 100bps	26-Jul-17
Armenia	Refi Rate	6.00	27-Jun-17	No change	15-Aug-17
Romania	Policy Rate	1.75	03-Jul-17	No change	04-Aug-17
Bulgaria	Base Interest	0.00	30-Jun-17	No change	01-Aug-17
Kazakhstan	Repo Rate	10.50	05-Jun-17	Cut 50bps	17-Jul-17
Ukraine	Discount Rate	12.50	06-Jul-17	No change	03-Aug-17
Russia	Refi Rate	9.00	16-Jun-17	Cut 25bps	28-Jul-17

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