

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Trade-restrictive measures down 41%

The World Trade Organization indicated that 76 WTO members have put in place 108 new trade-restrictive measures between mid-October 2016 and mid-October 2017, down by 41% from 182 new restrictive measures applied between mid-October 2015 and mid-October 2016. WTO members introduced on average nine trade-restrictive measures per month during the covered period, compared to around 15 measures per month between mid-October 2015 and mid-October 2016. The distribution of new trade-restrictive measures shows that import-related restrictions accounted for 72.2% of total measures, while export-related restrictions represented 15.7% of the total during the covered 12-month period. Current trade-restrictive measures cover around 0.5% of world merchandise imports. In parallel, the WTO said that its members introduced 128 new trade-liberalizing or facilitating measures during the covered period, down by 40.7% from 216 new trade-facilitating measures between mid-October 2015 and mid-October 2016. As such, WTO members introduced on average 11 new trade-facilitating measures per month during the covered period, compared to around 18 monthly measures between mid-October 2015 and mid-October 2016. Import-related measures accounted for 86% of trade-facilitating procedures, while export-related measures represented the remaining 14%. Import-facilitating measures covered an estimated \$169.3bn of trade merchandise, while import-restrictive measures covered \$78.8bn of global trade.

Source: World Trade Organization

EMERGING MARKETS

Median corporate rating at 'BB+', speculative-grade ratings account for 52% of total

S&P Global Ratings indicated that it rated 1,638 corporate entities in emerging markets (EMs) as at the end of September 2017, which account for 23.5% of rated corporates worldwide. It said that 857 EM entities have speculative-grade ratings, while 781 entities have investment-grade ratings. It added that speculative-grade ratings accounted for 52.3% of total EM ratings at end-September 2017 compared to a share of 49% worldwide. The ratings' distribution of EM issuers shows that 30.3% of rated firms are in the 'BBB' range, 29.4% belong to the 'BB' category, 21.5% are in the 'B' range, 14.8% are in the 'A' category, 2.3% are in the 'AA' range and 0.3% belong to the 'AAA' segment, while 1.4% of EM firms are rated 'CCC' or lower. Also, the EM median rating is 'BB+' relative to the global median of 'BBB-'. Further, S&P indicated that non-financial entities represented 57.9% of EM issuers, 63.7% of EM speculative-grade issuers, and 51.6% of investment-grade entities in the region. It said that corporate issuers from China, Brazil and Mexico represented 32% of rated EM issuers at the end of September 2017, followed by those from Taiwan and Israel (8% each), and Russia and Hong Kong (6% each). In parallel, S&P noted that it downgraded 4.2% of EM corporate entities and upgraded 2.4% during the third quarter of 2017, while it withdrew the ratings on 2.6% of EM corporates. It said that the EM corporates' downgrade-to-upgrade ratio stood at 1.76% at the end of September 2017 compared to the global ratio of 1.45%.

Source: S&P Global Ratings

MENA

Stock markets up 1% in 2017

Arab stock markets improved by 0.9% and Gulf Cooperation Council equity markets regressed by 0.2% in 2017, relative to increases of 4.4% and 4.8%, respectively, in 2016. In comparison, global equities increased by 21.8%, while emerging market equities improved by 34.4% in 2017. Activity on the Damascus Securities Exchange jumped by 270% in the covered period, the Khartoum Stock Exchange rose by 38.5%, the Egyptian Exchange increased by 21.7%, the Tunis Bourse grew by 13.8%, the Boursa Kuwait improved by 11.5%, the Bahrain Bourse expanded by 9.1%, the Palestine Exchange rose by 8.4%, the Casablanca Stock Exchange grew by 6.4%, and the Saudi Stock Exchange increased by 0.2%. In contrast, activity on the Qatar Stock Exchange dropped by 18.3% last year, the Muscat Securities Market declined by 11.8%, the Iraq Stock Exchange decreased by 10.6%, the Beirut Stock Exchange regressed by 10%, the Dubai Financial Market dropped by 4.6%, the Abu Dhabi Securities Exchange decreased by 3.3% and the Amman Stock Exchange contracted by 2%. In parallel, activity on the Tehran Stock Exchange increased by 20.2% in 2017.

Source: Local stock markets, Dow Jones Indices, Byblos Research

Vast disparities in region's prosperity levels

The Legatum Institute's Prosperity Index for 2017 ranked the UAE in 39th place among 149 countries globally and in first place among 18 Arab economies. Qatar followed in 47th place, then Bahrain (62nd), Oman (73rd), Saudi Arabia (78th) and Kuwait (80th) as the most prosperous Arab countries; while Libya (136th), Iraq (142nd), Mauritania (144th), Sudan (147th) and Yemen (149th) were the least prosperous Arab economies. The Institute assesses the prosperity of citizens based on their material wealth and social well-being. The data covers 104 variables grouped in nine sub-indices that are the Economy, the Business Environment, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital and the Natural Environment, each identified as a foundation of prosperity. The rankings are based on the simple average of the scores of the nine sub-indices for each country. The rankings of six Arab countries improved from the previous survey and those of nine sovereigns deteriorated from 2016, while the rankings of three countries were unchanged year-on-year. In parallel, the scores of seven countries improved year-on-year, while those of 11 economies regressed from the 2016 survey. Further, the UAE ranked first among Arab countries on the Economic Quality, Business Environment, Governance, Social Capital, Safety & Security and the Natural Environment sub-indices. In parallel, Bahrain came in first place on the Education sub-Index, Qatar ranked first on the Health sub-index, while Djibouti came in first place on the Personal Freedom sub-index.

Source: Legatum Institute, Byblos Research

POLITICAL RISK OVERVIEW - December 2017

EGYPT

Security forces intensified their military operations against Jihadists and Islamic State (IS) militants in the North Sinai province. IS militants claimed a missile attack on a military airbase near the northern Sinai city of al-Arish, which targeted the Interior and Defense ministers. Security forces killed several suspected militants and arrested others in raids that they carried in the Arish area, as well as in the provinces of Alexandria, Qalyubiya and Sharqia. An Egyptian military court sentenced Colonel Ahmad Konsowa to six years in prison after he announced, while still on active duty, his intention to run against President Abdel Fattah el-Sisi in the 2018 elections. In addition, an Egyptian court sentenced former President Mohamed Morsi and 19 others to three years in prison on charges of insulting the judiciary.

DEM REP CONGO

The country's main opposition, Le Rassemblement Opposition Coalition, failed to mobilize protests in the capital city of Kinshasa against President Joseph Kabila, following his refusal to step down. The altercations between security forces and demonstrators resulted in the death of seven protestors. The Islamist armed group Allied Democratic Forces (ADF) attacked the United Nations troops in North Kivu, killing 14 UN peacekeepers and five Congolese air force members. Uganda launched attacks, in coordination with the Congolese government, on the ADF in border regions.

IRAN

A wave of protests erupted in the city of Mashhad and spread to several Iranian cities. Protestors demonstrated against rising food prices, unemployment and economic inequality, and called on Supreme Leader Ayatollah Ali Khamenei to step down. President Hassan Rouhani said that the people have the right to criticize authorities, but he warned that the government would take measures against those who use violence. The U.S. Congress passed legislation on December 14 that requires the Treasury Department to notify the Congress about Iranian purchases of U.S. aircraft and how those sales are financed. Iran rejected claims by U.S. Ambassador to the United Nations Nikki Haley that Iran had provided military support to Yemeni Huthi rebels.

IRAQ

Iraq announced on December 9 that it cleared the remaining areas under the control of Islamic State militants in the Jazeera desert in western Iraq. Prime Minister Haidar al-Abadi said that the Iraqi government has started to implement its policy of bringing all weapons under state control. Several leaders of the Shiite Popular Mobilization Units (PMU) announced that they have begun to hand over the command of their fighters and weapons to the central government as they prepare to run in the May 2018 legislative elections. Relations between the federal government and the Kurdish Regional Government remained at an impasse, as Baghdad kept the international flight ban on the Kurdistan region. The UN Security Council lifted the remaining "Food-for-Oil" sanctions imposed on Iraq since August 1990 after Saddam Hussein invaded Kuwait. Violence and acts of terrorism in Iraq led to 69 civilian deaths and 142 injuries in December 2017.

LIBYA

Field Marshal Khalifa Haftar publicly rejected the 2015 Libyan Political Agreement (LPA), raising risks of conflict between his western allies and forces aligned with the UN-backed Government of National Accord (GNA). In response, the UN Security Council stressed on the continuity of the LPA. Tensions rose between militias supporting the GNA and those supporting General Haftar in Tripoli and around Sirte. General Haftar's forces retook the last district of Benghazi from Islamist fighters. Unidentified gunmen kidnapped and killed Mr. Mohammed Eshtewi, the mayor of Misrata. Armed men blew up a crude oil pipeline, 130 kilometers South of Es Sider terminal in the East of the country.

NIGERIA

Boko Haram (BH) insurgents continued their attacks in the north-east of the country. They attacked a military-escorted World Food Program convoy on December 16, killing at least four people. The Nigerian military announced that it stepped up its fight against BH around Lake Chad in early December, and that it captured about 220 insurgents. The Nigerian police announced that BH insurgents are planning attacks on the capital city of Abuja, as well as in the states of Adamawa, Bauchi, Borno, Gombe, Jigawa and Yobe. Police forces attempted to interrupt illegal mining activities in the Taraba State and carried an attack against the illegal miners, as the latter refused to relocate.

SUDAN

President Omar al-Bashir visited Chad to take part in the celebrations marking Chad's National Day, in an attempt to strengthen relations with Chadian President Idriss Déby. The two presidents discussed security measures in the border region, and the ongoing detention in Khartoum of Darfur militia leader Musa Hilal, father of President Déby's wife, who was arrested in North Darfur following clashes with a pro-government militia. President al-Bashir imposed a six-month state of emergency in the Kassala and the North Kordofan states, in efforts to support his disarmament campaign.

SYRIA

Russian-backed regime forces attempted to gain control over areas around Khanasser and Abu Dali that were held by jihadist groups, including Hei'at Tahrir al-Sham. Pro-regime forces backed by Russian airstrikes intensified the siege and bombardment of the Eastern Ghouta suburb in response to an attack launched by rebel forces. Fighting continued between pro-regime forces and rebels around the Beit Jinn enclave near the Lebanese and the Israeli-controlled Golan borders. The Kurdish-led Syrian Democratic Forces and government-aligned forces seized oil and gas resources from the Islamic State (IS) group around the Euphrates River, but IS militants retained control over some of the resources and continued to launch small-scale attacks against pro-regime targets.

TUNISIA

The army confronted al-Qaeda in the Islamic Maghreb jihadists near the Algerian border, resulting in the death of a soldier. Protestors clashed with police forces during protests in several cities. The elections commission announced that the municipal elections will be held on May 6, 2018. The Council of the European Union included Tunisia among 17 non-cooperative jurisdictions on tax-related issues.

YEMEN

Huthi rebels killed former President Ali Abdullah Saleh on December 4, 2017, following the collapse of the alliance between Huthis and President Saleh, who had shifted his allegiance to the Saudi-led coalition. Following the assassination, Huthi rebels tightened the grip on the capital Sanaa, cracking down on members of the Saleh family and the General People's Congress party. The Huthis fired a missile at Riyadh, but it was intercepted and destroyed by Saudi government forces. Air strikes by the Saudi-led coalition significantly increased in the north of the country in December resulting in at least 224 deaths. UAE-backed Yemeni forces recaptured the port of Khawka on the Red Sea, as well as the town of Bayhan in the Shebwa province, which was the last Huthi foothold in the south of the country. Leaders from Saudi Arabia and the UAE held talks with the Saudi-aligned Yemeni Islamist party, Al-Islah in Riyadh, to discuss security and stability issues. The Saudi-led coalition said that it would allow aid and access to commercial goods through the port of Hodeidah for at least 30 more days.

Source: International Crisis Group, Newswires



OUTLOOK

GCC

Subdued growth prospects amid multiple challenges

The International Monetary Fund indicated that growth prospects for the Gulf Cooperation Council (GCC) economies remain subdued amid the low oil price environment and persistent geopolitical risks. It projected the region's real GDP growth to pick up from 0.5% in 2017 to 2.2% in 2018. It forecast hydrocarbon output to grow by 1.9% in 2018 following a contraction of 2.3% in 2017, and for non-hydrocarbon activity to expand by 2.4% in 2018 relative to a growth rate of 2.6% in 2017, which would reflect the easing of fiscal consolidation, the gradual recovery in oil prices and the progress in the implementation of reforms. It projected the region's average growth rate at about 3.4% over the medium-term, well below its annual average growth rate of 6.7% during the 2000-15 period. In parallel, it forecast the average inflation rate in GCC economies at 4.2% in 2018 relative to 0.8% in 2017 in case authorities introduce a value-added tax in 2018 and further lift subsidies on domestic fuel prices. The IMF noted that risks to the outlook are tilted to the downside and include lower-than-expected oil prices, faster-than-anticipated monetary normalization in the U.S. and heightened geopolitical risks.

Further, the Fund forecast the GCC's aggregate fiscal deficit to narrow from 6.3% of GDP in 2017 to 5% of GDP in 2018 and to further improve over the medium term, in case of higher oil receipts and continuing fiscal consolidation. It considered that the needed pace of fiscal adjustment varies across countries, given the different fiscal space available for each GCC economy. Still, it called on authorities to continue to rationalize spending, implement further energy price reforms, increase non-oil revenues and improve capital spending efficiency. In parallel, it estimated the GCC economies' aggregate current account to be balanced during the 2017-18 period compared to a deficit of 3.4% in 2016. Further, it said that the region's aggregate foreign assets have declined significantly from \$903bn at the end of 2014 to \$705bn at end-2016 despite external borrowing. But it estimated the pace of decrease to decelerate in 2017, with aggregate foreign assets reaching \$650bn in 2017, mainly due to improved current account balances.

Source: International Monetary Fund

EGYPT

Outlook dependent on accelerating structural reforms

The International Monetary Fund indicated that Egypt's reform program that is supported by the IMF is yielding positive results and that the economy is showing signs of stabilization, with GDP growth recovering, the inflation rate moderating, fiscal consolidation remaining on track, and foreign currency reserves reaching their highest level since 2011. It said that the country's outlook is favorable, but it noted that authorities need to maintain prudent policies and accelerate structural reforms in order to achieve their medium-term objective of inclusive growth and job creation. Further, it pointed out that the Central Bank of Egypt (CBE) has tightened its monetary policy in early 2017 to address the elevated inflation rate. It considered that the continuation of the disinflationary trend could allow for the gradual easing of interest rates, while it called on the CBE to be prepared to further tighten

the monetary stance if demand pressures reemerge. It said that the CBE plans to shift to an inflation-targeting framework in the medium term, which could help further reduce and stabilize the inflation rate. It added that the authorities' commitment to a floating exchange rate regime creates a buffer against external shocks.

Further, the Fund indicated that the authorities' fiscal consolidation efforts aim to reduce the government's debt level. It considered that the government's primary surplus target for the fiscal year that ends in June 2018 and for FY2018/19 are achievable, but are subject to risks such as higher oil prices. As such, it considered that the sustained reforms of energy subsidies are critical for achieving the program's fiscal objectives. It added that authorities need to implement tax policy reforms and modernize tax and customs administration over the medium term in order to create fiscal space for much-needed investment in human capital and infrastructure. Further, it called on authorities to improve the business environment by strengthening the regulatory framework, enhancing access to finance and improving the governance and transparency of state-owned enterprises, among others.

Source: International Monetary Fund

NIGERIA

Near-term outlook to remain challenging

The International Monetary Fund indicated that Nigeria's economic growth is accelerating, as real GDP growth reached 1.4% in the third quarter of 2017, the second consecutive quarterly growth, supported by a recovery in oil production and agricultural sector activity. But it said that the recovery continues to be challenging. It noted that growth in the other economic sectors, which represent 65% of GDP, contracted in the first nine months of 2017. It added that difficulties in accessing financing and the elevated inflation rates continue to weigh on the performance of companies and on consumer demand. In addition, it said that debt servicing is accounting for an unsustainable share of government revenues amid a wide fiscal deficit, large financing needs and tight monetary policy. Also, it indicated that the low growth environment and the difficulties facing the oil & gas sector negatively affected the banks' solvency and asset quality.

In parallel, the IMF indicated that authorities have started in 2017 to address macroeconomic imbalances and structural problems through the implementation of policies under the Economic Recovery & Growth Plan. It added that the Central Bank of Nigeria introduced in April 2017 a foreign exchange window that allows investors and exporters to sell foreign currency to willing buyers. It noted that the foreign currency window, along with the rise in global oil prices, increased investor confidence and portfolio inflows, which helped accumulate foreign currency reserves and reduce the spread between the official and parallel exchange rates. Still, it expected the near-term outlook to remain challenging in the absence of new policy measures. It projected real GDP growth at 2.1% in 2018, supported by foreign currency inflows and higher oil production. It said that risks to the near-term outlook include lower oil prices, tighter external market conditions, heightened security issues and slower implementation of reforms. It encouraged the authorities to mobilize non-oil revenues, reduce the inflation rate, unify and liberalize the exchange rate and rebuild external buffers.

Source: International Monetary Fund



ECONOMY & TRADE

UAE

Agencies affirm ratings of Abu Dhabi and Sharjah

Fitch Ratings affirmed at 'AA' the long-term foreign-currency Issuer Default Rating of Abu Dhabi, with a 'stable' outlook. It noted that the rating is supported by Abu Dhabi's strong fiscal and external metrics and high GDP per capita, but is constrained by the Emirate's high reliance on the hydrocarbon sector and relatively weak economic policy framework. It forecast the Emirate's fiscal deficit at 5% of GDP in 2018 and 3% of GDP in 2019 amid higher oil prices and moderate growth in government spending. It estimated the Emirate's net foreign assets at 281% of GDP in 2017, which it considered to be sufficient to finance the fiscal deficit in coming years. In addition, Fitch projected Abu Dhabi's real GDP to average 1.8% annually in the 2018-19 period, supported by improved non-hydrocarbon sector activity. In parallel, Moody's Investors Service affirmed at 'A3' the long-term issuer rating of the Emirate of Sharjah, with a 'stable' outlook. It noted that the rating reflects the anticipated broadening of the government tax base, the improved performance of government-related entities (GREs) and the Emirate's resilient and diversified economy. It expected the introduction of new revenue-raising measures in 2018 to narrow the fiscal deficit from 2.3% of GDP in 2017 and to stabilize the government debt levels in coming years. It said that Sharjah's fiscal strength is constrained by a rising debt level, which it estimates to have increased significantly from 142% of revenues in 2014 to 203% of receipts in 2017. In parallel, the agency indicated that the improved financial performance of GREs has reduced the need for budgetary support and lowered the risk of contingent liabilities for the government.

Source: Fitch Ratings, Moody's Investors Service

TUNISIA

Economic vulnerabilities increase in 2017

The International Monetary Fund indicated that two opposing trends characterized the Tunisian economy by the end of 2017. On one hand, it estimated real GDP to have recovered to about 2% last year amid sustained improvements in security conditions. It added that tourist arrivals increased by 30%, phosphate output rebounded, and foreign and domestic investment picked up. On the other hand, it said that macroeconomic vulnerabilities have significantly increased, which requires urgent action. It estimated the public debt level at 70% of GDP by the end of 2017, the current account deficit at a record wide double-digit ratio and foreign currency reserves at a lower level than a year earlier. It considered that the authorities' main challenge is to compensate for the significant delays in addressing challenges to economic growth, public finances and the external sector. In this context, it said that authorities took crucial steps towards adopting a bold budget law for 2018, which aims to narrow the fiscal deficit to below 5% of GDP. It encouraged the government to implement its tax strategy and to modernize the civil service in order to meet the fiscal target for 2018. It added that reducing energy subsidies and reforming the social security system would help stabilize the public debt level and fiscal deficit. In addition, the IMF indicated that the high inflation rate is weighing on the disposable income of the population and on long-term investment. It considered that maintaining a tight monetary policy would help anchor inflation expectations and support the currency.

Source: International Monetary Fund

IRAN

Economy facing near-term challenges

The International Monetary Fund projected Iran's real GDP growth at 4.2% in the fiscal year that ends in March 2018, and to reach about 4.5% over the medium-term in case authorities implement financial sector reforms. It forecast the inflation rate at 10% in FY2017/18 and to temporarily rise in FY2018/19 if authorities approve an increase in fuel prices. However, the Fund indicated that the economy continues to face near-term challenges, such as rising financial vulnerabilities and external uncertainties. In this context, it urged authorities to implement financial sector reforms. It also called for the implementation of a coordinated reform package that would reduce the public debt level, unify the exchange rate and help the transition to a market-based monetary policy framework. It noted that putting in place such reforms would send a strong signal about the authorities' commitment to stability. In addition, it encouraged authorities to implement structural reforms, to complete the reforms of the anti-money laundering and combatting the financing of terrorism framework, and to remove obstacles to the development of the private sector. In parallel, the IMF pointed out that local credit institutions and banks require urgent restructuring and recapitalization. It considered that authorities can meet the recapitalization cost by issuing long-term government bonds, but that this would trigger a strong increase in government debt and interest outlays. As such, it encouraged authorities to implement a gradual fiscal adjustment by allocating a share of oil revenues to cover the interest cost on bank recapitalization bonds, by removing tax exemptions and by reforming the pension system.

Source: International Monetary Fund

JORDAN

Ratings underpinned by external support

Moody's Investors Service considered that Jordan's 'B1' rating is underpinned by external donor support and a relatively strong institutional framework, but is constrained by high public debt levels, sustained external imbalances and heightened geopolitical risks. Further, Moody's projected the fiscal deficit to widen from 3.2% of GDP in 2016 to 3.9% of GDP in 2017, and to miss the government's target deficit of 2.5% of GDP, mainly due to lower foreign grants. It considered that the authorities' fiscal consolidation efforts in 2018, particularly income tax reforms and the planned removal of tax exemptions, would mitigate the negative impact of decreasing foreign donor support. As such, it forecast the fiscal deficit to narrow to 3.4% of GDP in 2018. In parallel, Capital Intelligence Ratings affirmed Jordan's long-term foreign and local currency ratings at 'BB-' and 'BB', respectively, and its short-term foreign and local currency ratings at 'B'. Also, it kept the 'negative' outlook on the long-term ratings. It noted that the ratings and outlook partly reflect the continued decline in foreign currency reserves, which is weighing the country's ability to absorb external shocks. It said that Jordan's external liquidity had been under pressure in 2017, and estimated the current account deficit at about 8.9% of GDP due to lower remittance inflows and tourism receipts. However, it considered that the government's adequate access to international markets, along with financial support from the IMF, could help ease near-term external refinancing risks and reduce pressure on the exchange rate.

Source: Moody's Investors Service, Capital Intelligence Ratings



BANKING

AFRICA

Banks facing elevated risks

Fitch Ratings indicated that risks facing banks in the Sub-Saharan Africa (SSA) region are elevated, given that the weak economic and business environments are weighing on their earnings, liquidity, asset quality and capitalization levels. It added that SSA banks have become sensitive to even modest shocks. It projected private sector lending growth to be slow in 2018, in line with the subdued domestic economic activity and the banks' risk averse approach. Further, it expected the banks' asset quality to deteriorate in 2018, but at a more moderate rate than during the 2016-17 period. It noted that the deterioration in asset quality could vary significantly across banking sectors in the region and that reported impaired loan ratios could be much higher, especially in the absence of loan restructuring. It anticipated that the slow credit growth in 2018 and the rise in loan impairments could weigh on the banks' profitability metrics. Further, Fitch indicated that a renewed shortage in foreign currency liquidity constitutes a major risk to SSA banks. It said that foreign currency reserves in commodity-dependent countries decreased significantly, which hinders the banks' ability to access foreign currency to meet customer demand, and raises uncertainties about the authorities' ability to support the banks' foreign currency obligations if needed. As such, it said that refinancing risks for banks are high, while negative investor sentiment could raise the cost of new debt in foreign currency for small banks. In parallel, the agency pointed out that SSA banks are adequately capitalized relative to their current ratings, but it noted that their buffers are declining. It expected banks that registered a significant rise in their non-performing loans to breach regulatory capital requirements.

Source: Fitch Ratings

EGYPT

Bank ratings affirmed, outlook 'stable'

Moody's Investors Service affirmed at 'B2' the local currency long-term deposit rating of Bank of Alexandria, at 'B3' that of Commercial International Bank (Egypt) (CIB) and of state-owned banks National Bank of Egypt (NBE), Banque Misr and Banque du Caire (BdC). Also, it affirmed at 'Caa1' the five banks' foreign currency long-term ratings and maintained the 'stable' outlook on their deposit ratings. The agency indicated that the rating of Bank of Alexandria is one notch higher than that of the sovereign due to the anticipated support from its high-rated foreign parent, Intesa Sanpaolo Group, in case of need. It noted that the remaining banks' ratings balance their improved standalone credit profiles with their high exposure to the sovereign. It added that the banks' large holdings of government debt make them vulnerable to sovereign credit risk and caps their ratings at the sovereign level. In parallel, Moody's upgraded from 'caal' to 'b3' the standalone baseline credit assessments (BCAs) of NBE, Banque Misr and BdC and affirmed at 'b3' the BCAs of Bank of Alexandria and of CIB. It indicated that the upgrade reflects the banks' stronger solvency, their high profitability metrics, as well as their solid funding profiles and high liquidity buffers, despite their modest capitalization levels. It added that the affirmation of the BCAs of Bank of Alexandria and CIB reflects their strong performance and improved financial fundamentals.

Source: Moody's Investors Service

MOROCCO

Banking sector faces significant economic risks

S&P Global Ratings maintained Morocco's banking sector in 'Group 7' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '7' and an industry risk score of '6'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 7' include Bahrain, Bulgaria, Croatia, Indonesia, the Philippines, Portugal and Romania. S&P indicated that Morocco's economic risk score reflects its "very high risk" in its economic resilience and credit risk in the economy, as well as "low risk" in its economic imbalances. It said that economic activity is concentrated in some cyclical sectors, mainly in agriculture, real estate and shipping, which leaves the economy vulnerable to external factors. It expected the non-performing loans ratio to stabilize at about 7% in the coming quarters, with high risks of deterioration in the quality of loans in the tourism, commercial real estate and construction sectors. Further, S&P said that the industry score reflects the country's "high risk" in its competitive dynamics and in its system-wide funding, and "intermediate risk" in its institutional framework. It considered that the banks' risk appetite is high given their rapid expansion, including in riskier African countries, and sector concentration. It noted that the banks have strong access to retail deposits that are non-interest bearing in large part, but have limited access to external funding. It pointed out that the trend for the banking sector's economic and industry risk is 'stable'.

Source: S&P Global Ratings

SUDAN

Liberalization of exchange rate crucial for macro-economic stability

The International Monetary Fund estimated that the real exchange rate in Sudan is overvalued by about 30%. It considered that the unification of the different exchange rates and the adoption of a market-based exchange rate are crucial to restore macro-economic stability, to slow down the outflow of foreign currency from the banking system, to eliminate the current distortions that deter investments and weigh on economic growth, as well as to support the credibility of the authorities' reform agenda. It added that the unification of exchange rates would significantly improve the fiscal and external positions, and would limit the monetization of fiscal deficits, which would reduce inflationary pressure and strengthen growth prospects. It noted that a gradual unification of the exchange rate could mitigate any risks of a large immediate currency depreciation, given the country's low level of foreign currency reserves. Further, the IMF pointed out that the success of any reforms to the exchange rate regime is contingent on appropriate fiscal, monetary and structural policies. It added that it would be important to review the banks' financial position and asset quality in order to assess their resilience to exchange rate changes. It noted that the Sudanese authorities favor a gradual reform to the exchange rate system and are considering to unify the commercial bank incentive rate and the parallel market exchange rate.

Source: International Monetary Fund



ENERGY / COMMODITIES

Oil prices start the year at above \$60 p/b

ICE Brent crude oil front-month prices averaged \$54.8 per barrel (p/b) in 2017, constituting an increase of 21.5% from 2016, while WTI oil prices grew by 17.5% to an average of \$50.8 p/b in 2017. The increase in prices was mainly due to several converging factors that include the implementation of oil production cuts under the OPEC deal, the closure of key pipelines in North America and the North sea, political unrest in the Middle East, supply disruptions in Angola, Iraq, Nigeria and Libya, and a weaker US dollar. In parallel, Moody's Investors Service expected oil prices to trade within the \$40 to \$60 p/b range in 2018 despite the extension of the oil agreement until the end of 2018. It noted that prices will remain volatile this year, as it expected prices to come under pressure in case oil producers do not comply with the production quotas, U.S. shale oil output continues to increase and the oil market remains oversupplied. However, Brent oil prices exceeded \$65 p/b since the last week of December 2017 and posted their strongest start of a calendar year since 2014, amid the OPEC-led production cuts, increased demand from an accelerating global economy and anti-government protests in Iran. Overall, Brent oil prices are forecast to average \$60.2 p/b in the first quarter of 2018 and \$59 p/b in the second quarter, while WTI oil prices are expected to average \$55.6 p/b in the first quarter and \$55 p/b in the second quarter of 2018.

Source: Moody's Investors Service, CNBC, Thomson Reuters

Nigeria's oil receipts up 34% year-to-September 2017

Nigeria's crude oil and condensate export receipts totaled \$2.63bn in the first nine months of 2017, constituting an increase of 34.1% from \$1.96bn in the same period last year. Export revenues in the first nine months of the year consisted of \$1.78bn from crude oil exports (67.4%), \$766.3m from gas exports (29.1%) and \$92.8m in other receipts (3.5%). The authorities transferred \$128.5m of total hydrocarbon revenues in September 2017 to the Federation Account, while they used the remaining balance of \$238.6m to pay global oil companies.

Source: Nigerian National Petroleum Corporation

OPEC's oil output unchanged in November 2017

Crude oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 32.45 million barrels per day (b/d) in November 2017, nearly unchanged from 32.6 million b/d in the preceding month. Saudi Arabia produced 10 million b/d in November 2017, equivalent to 30.8% of OPEC's total oil production, followed by Iraq with 4.4 million b/d (13.5%) and Iran with 3.8 million b/d (11.8%) and the UAE with 2.9 million b/d (8.9%).

Source: OPEC, Byblos Research

Iraqi oil export receipts at \$6.5bn in December 2017

Iraq's crude oil exports reached a record-high of 3.535 million barrels per day (b/d) in December 2017 compared to 3.5 million b/d in November 2017. The rise in hydrocarbon exports reflects increased shipments from central and southern fields that more than offset the shortfall in output from the northern Kirkuk fields. Also, oil export receipts reached \$6.5bn last month compared to \$6.8bn in November 2017.

Source: Iraq Ministry of Oil, Byblos Research

Base Metals: Copper prices to rise amid growing demand

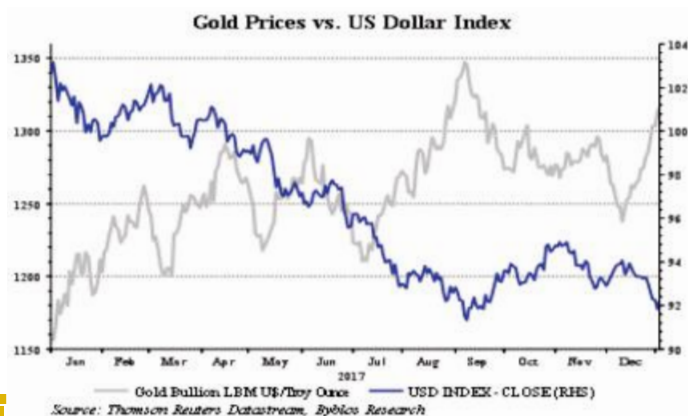
LME copper three-month future prices averaged \$6,198.7 per metric ton in 2017, up by 27.2% from \$4,874 per ton in 2016, due to stagnant mine and refined production, as well as to a stronger-than-expected Chinese demand for the refined metal. Copper prices are forecast to further rise to an average of \$6,600 a ton in 2018 and \$7,000 in 2020, driven by a higher global demand, government-mandated capacity cuts and the introduction of new regulations to limit scrap imports in China, as well as a weaker US dollar, amid subdued growth in the metal's supply. In parallel, the latest available figures show that global demand for refined copper was 17.7 million tons in the first nine months of 2017, nearly unchanged from 17.6 million tons in the same period of 2016, as Chinese demand was unchanged and global demand in the rest of the world increased by around 1% in the covered period. On the supply side, global refined copper production was 17.5 million tons in the first nine months of the year, nearly unchanged from 17.4 million tons in the same period of 2016. In fact, a 7.5% rise in Indian supply and a 6% growth in Chinese output were mostly offset by a 10% decline in Chilean production and an 8.5% decrease in US supply. On a regional basis, refined output grew by 4% in each of Asia and Europe, while it dropped by 9% in the Americas, by 8.5% in Oceania and by 2% in Africa.

Source: International Copper Study Group, Standard Chartered, Thomson Reuters, Byblos Research

Precious Metals: Gold prices to decline in 2018 due to additional interest rate hikes

The gold Bullion spot prices averaged \$1,258.5 a troy ounce in 2017, constituting an increase of 0.8% from an average of \$1,248.5 an ounce in 2016. The metal's prices were capped by three U.S. interest rate hikes in 2017, as well as a decline in global demand for gold. In fact, the metal's global consumption declined by 11.7% year-on-year in the first nine months of 2017, the latest available figures. Also, gold prices averaged \$1,219 an ounce in the first quarter of 2017, \$1,259 an ounce in the second quarter, \$1,279 an ounce in the third quarter and \$1,277 an ounce in the fourth quarter of 2017. Further, gold prices are expected to decline this year, and to average \$1,200 an ounce in the next six months and \$1,225 an ounce in the coming 12 months, due to three potential hikes in U.S. interest rates this year. Upside risks to the metal's price outlook include expectations of higher inflation in the U.S. in 2018.

Source: Goldman Sachs, 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/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-2.5	17.3	2.5	-	-	-	-12.3	
	-	-	-	-	Negative								
Angola	B-	B2	B	-	B+	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
	Stable	Stable	Negative	-	Negative								
Egypt	B-	B3	B	B	B-	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
	Stable	Stable	Stable	Stable	Stable								
Ethiopia	B	B1	B		B+	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
	Stable	Stable	Stable	-	Stable								
Ghana	B-	B3	B	-	B+	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
	Positive	Stable	Stable	-	Negative								
Ivory Coast	-	Ba3	B+	-	B+	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-16.4	78.2	-	-	-	-	-10.6	-
	-	-	Stable	-	Negative								
Dem Rep Congo	CCC+	B3	-	-	CCC	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
	Stable	Negative	-	-	Stable								
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
	Stable	Positive	Stable	-	Stable								
Nigeria	B	B2	B+	-	B+	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
	Stable	Stable	Negative	-	Negative								
Sudan	-	-	-	-	CC	-2.5	55.2	47.5	-	-	-	-4.7	-
	-	-	-	-	Negative								
Tunisia	-	B1	B+	-	BB+	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
	-	Negative	Stable	-	Stable								
Burkina Faso	B-	-	-	-	B+	-3.6*	33.3	23.1**	-	-	-	-7.2	-
	Stable	-	-	-	Stable								
Rwanda	B	B2	B	-	B+	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
	Stable	Stable	Positive	-	Stable								
Middle East													
Bahrain	B+	B1	BB+	BB+	BB+	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
	Stable	Negative	Negative	Negative	Negative								
Iran	-	-	-	BB-	BB-	0.7	29.2	2.0	-	-	-	5.3	-
	-	-	-	Stable	Positive								
Iraq	B-	Caa1	B-	-	CC+	-4.2	60.0	38.8	-	-	-	-4.4	-
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
	Stable	Negative	Stable	Stable	Stable								
Lebanon	B-	B3	B-	B	B-	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
	Stable	Stable	Stable	Negative	Stable								
Oman	BB	Baa2	BBB-	BBB+	BBB	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
	Stable	Negative	Negative	Stable	Negative								
Qatar	AA-	Aa2	AA-	AA-	AA-	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
	Negative	Negative	Negative	Negative	Stable								
Saudi Arabia	A-	A1	A+	A+	AA-	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Negative								
UAE	-	Aa2	-	AA-	AA-	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	-	Negative	-	Stable	Stable								
Yemen	-	-	-	-	CCC	-6.0	77.4	20.3	-	-	-	-4.2	
	-	-	-	-	Negative								



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	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	Stable	Stable	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	AA-	Aa3	A+	-	A								
	Stable	Negative	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	Negative	Stable	-	Negative	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB								
	Negative	Stable	Stable	-	Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Positive	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BB+	Ba1	BBB-	-	BB+								
	Negative	CWN***	Negative	-	Negative	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB	Ba1	BB+	BB+	BB-								
	Negative	Negative	Stable	Stable	Negative	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Stable	-	-	Stable	-3.0	89.8	144.5	226.4	32.1	827.4	-3.6	1.7

* including grants for Sub-Saharan African countries

** to official creditors

***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 2017



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	1.25-1.50	13-Dec-17	Raised 25bps	31-Jan-18
Eurozone	Refi Rate	0.00	14-Dec-17	No change	25-Jan-18
UK	Bank Rate	0.50	14-Dec-17	No change	02-Feb-18
Japan	O/N Call Rate	-0.10	21-Dec-17	No change	23-Jan-18
Australia	Cash Rate	1.5	05-Dec-17	No change	06-Feb-18
New Zealand	Cash Rate	1.75	08-Nov-17	No change	08-Feb-18
Switzerland	3 month Libor target	-1.25-(-0.25)	14-Dec-17	No change	15-Mar-18
Canada	Overnight rate	1.00	06-Dec-17	No change	17-Jan-18
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	28-Dec-17	No change	22-May-18
South Korea	Base Rate	1.50	30-Nov-17	Raised 25bps	18-Jan-18
Malaysia	O/N Policy Rate	3.00	09-Nov-17	No change	25-Jan-18
Thailand	1D Repo	1.50	20-Dec-17	No change	14-Feb-18
India	Reverse repo rate	6.00	04-Oct-17	Cut 25bps	07-Feb-18
UAE	Repo rate	1.75	13-Dec-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.50	13-Dec-17	Raised 25bps	N/A
Egypt	Overnight Deposit	18.75	28-Dec-17	No change	15-Feb-18
Turkey	Base Rate	8.00	14-Dec-17	No change	24-Jan-18
South Africa	Repo rate	6.75	23-Nov-17	No change	18-Jan-18
Kenya	Central Bank Rate	10.00	28-Nov-17	No change	24-Jan-18
Nigeria	Monetary Policy Rate	14.00	21-Nov-17	No change	23-Jan-18
Ghana	Prime Rate	20.00	27-Nov-17	Cut 100bps	22-Jan-18
Angola	Base rate	18.00	04-Dec-17	Raised 200bps	31-Jan-18
Mexico	Target Rate	7.25	14-Dec-17	Raised 25bps	08-Feb-18
Brazil	Selic Rate	7.00	06-Dec-17	Cut 50bps	01-Feb-18
Armenia	Refi Rate	6.00	26-Dec-17	No change	14-Feb-18
Romania	Policy Rate	1.75	07-Nov-17	No change	08-Jan-18
Bulgaria	Base Interest	0.00	02-Jan-18	No change	01-Feb-18
Kazakhstan	Repo Rate	10.25	27-Nov-17	No change	09-Jan-18
Ukraine	Discount Rate	14.50	14-Dec-17	Raised 100bps	25-Jan-18
Russia	Refi Rate	7.75	15-Dec-17	Cut 50bps	09-Feb-18



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (+961) 1 338 100
Fax: (+961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293

