500 ISSUES+
Issue 523 | February 8, 2018

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Corporate debt of $10 trillion maturing in 2018-22

S&P Global Ratings indicated that $10,231bn in corporate debt worldwide will mature between 2018 and 2022, constituting an increase of 6.6% from $9,594bn that mature between 2017 and 2021. It noted that companies have benefited from the accommodative global financing conditions in 2017, which allowed them to refinance their debt and extend their debt maturities until 2020 and beyond. It added that $1,722bn in corporate debt is due in 2018, $1,980bn in 2019, $2,177bn in 2020, $2,086bn in 2021 and $2,267bn in 2022. The U.S. has $4,402bn in maturing debt during the 2018-22 period or 43% of the total, followed by Europe with $4,015bn (39.2%), other developed countries with $1,089bn (10.6%) and emerging markets with $726bn (7.1%). Further, investment-grade corporate debt that matures during the 2018-22 period totals $8,000bn, or 78.2% of maturing corporate debt. In parallel, non-financial corporate debt that matures during the 2018-22 period totals $6,116bn and accounts for 59.8% of the debt that matures during the covered period. Maturing corporate debt in the oil & gas sector totals $704bn and accounts for 11.5% of non-financial maturing corporate debt, followed by consumer products companies with $638bn (10.4%), the telecommunications sector with $566bn (9.3%), the healthcare sector with $507bn (8.3%), utilities with $499bn (8.2%) and high tech firms with $488bn (8%). S&P expected current credit conditions and issuance levels to be sufficient for companies to manage corporate debt maturities through 2022. However, it noted that several global risks could weaken credit quality or increase funding costs, such as a faster-than-expected inflation rate or monetary tightening, heightened geopolitical tensions, and rising volatility in financial asset prices.

Source: S&P Global Ratings

EMERGING MARKETS

Debt stock up 10% to $7.4 trillion at end-2017

ICE Market Data Services indicated that outstanding debt in emerging markets (EMs) reached $7,416bn at the end of 2017, constituting an increase of 10.1% from $6,737bn at end-2016. The debt stock includes the local and external debt of sovereign and non-sovereign issuers. In comparison, the global bond market rose by 4.8% year-on-year to $63,847bn at the end of 2017, mainly supported by the growth in EM debt during the year. Outstanding local sovereign debt in EMs increased by 7.5% year-on-year to $4,787bn at end-2017, and accounted for 64.6% of the total EM bond stock, mainly due to a rise of $209bn and $17bn in Chinese and Russian local debt, respectively. The external non-sovereign debt stock followed with $1,472bn, or 19.8% of the total, then external sovereign debt with $900bn (12.1%) and the local non-sovereign bond market with $256.6bn (3.5%). In parallel, ICE indicated that outstanding local non-sovereign debt in EMs rose by 56% at the end of 2017, the largest year-on-year increase among debt segments, followed by external sovereign bonds (+16%), external non-sovereign debt (+9.5%) and local sovereign bonds (+7.5%).

Source: ICE Market Data Services

MENA

Value of M&A deals down 4% to $57bn in 2017

The value of merger & acquisition (M&A) deals targeting companies in the Middle East & North Africa (MENA) region totaled $56.6bn in 2017, constituting a decrease of 4.1% from $59bn in 2016. The value of M&A transactions in Egypt reached $24.8bn in 2017, or 43% of the region's aggregate deal value last year. The UAE followed with M&A deals valued at $8.4bn (15%), then Iran with $6.3bn (11%), Kuwait with $5.4bn (9.4%), Saudi Arabia with $5bn (8.8%) and Oman with $3.3bn (5.7%). In parallel, there were 609 M&A deals targeting MENA-based companies in 2017, down by 14.7% from 714 deals in the preceding year. Egypt had 149 M&A deals in 2017, followed by the UAE with 138 transactions, Jordan with 74 deals, Kuwait with 52 transactions and Iran with 41 deals. Further, there were 62 M&A deals that targeted companies in the MENA region in December 2017 with a total value of $22.4bn, the highest monthly value on record, compared to $5.3bn through 73 transactions in November 2017 and to $4.9bn through 59 deals in December 2016.

Source: Zephyr, Bureau Van Dijk, Byblos Research

Economic freedom slightly deteriorates in Arab countries

The Heritage Foundation Index of Economic Freedom for 2018, a broad indicator of economic freedom in 180 countries, shows that economic freedom in 15 Arab countries slightly deteriorated from the 2017 survey. The region's level of economic freedom stood at 59.1% in 2018, down from an 59.8% in 2017, and compared to the global average of 61.1% this year. The GCC countries had an average score of 66.8% in 2018, compared to 68.4% on the 2017 index, while non-GCC Arab countries posted an average of 53.9%, nearly unchanged from 54% last year. The index evaluates individual economies on the basis of 12 equally-weighted broad factors of economic freedom. The rankings of three Arab countries improved, eight deteriorated and four were unchanged, while the scores of five countries improved and those of 10 Arab economies regressed. The UAE is the tenth freest economy in the world and is the only Arab country to rank among the top 20 worldwide. Qatar followed in 29th place, then Bahrain (50th) and Jordan (62nd). In contrast, Sudan (161st), Djibouti (171st) and Algeria (172nd) are the lowest ranked Arab countries. Two Arab economies came in the "mostly free" category, five countries had economies that were "moderately free", five were "mostly unfree" and three were "repressed" economies. Also, the economy of Saudi Arabia was downgraded to the "mostly unfree" category from the "moderately free" category. Further, the region's level of economic freedom was higher than in Latin America & the Caribbean (59%), South Asia (55%) and Sub Saharan Africa (54.6%), while the level of economic freedom in the Arab region was lower than in North America (76.7%), Europe & Central Asia (67.6%) and East Asia & Pacific (62.9%).

Source: Heritage Foundation, Byblos Research

POLITICAL RISK OVERVIEW - January 2018

EGYPT

Islamic State (IS) militants claimed responsibility for two attacks on Coptic Christians in the Helwan district in southern Cairo. The Parliament extended for three months the state of emergency that has been in place since April 2017 in response to bombings inside Coptic churches in the Gharbiya and Alexandria governorates. It also imposed a curfew on parts of North Sinai and around the cities of Al-Arish and Rafah. President Abdel Fattah al-Sisi announced on January 19 that he will run for a second term. The presidential elections are scheduled for March 2018. In parallel, President al-Sisi met with the Ethiopian Prime Minister in Cairo to resolve the dispute over the construction of the Grand Ethiopian Renaissance Dam project, a $4bn hydroelectric project that Cairo claims could threaten its water supply and harm the environment. The leaders of Ethiopia, Egypt and Sudan set on January 29 a one-month deadline to break the deadlock in talks over Ethiopia's dam on the Nile River.

DEM REP CONGO

Anti-government demonstrations led by the Comité Laïc de Coordination erupted in the capital city of Kinshasa and other major cities, calling for President Joseph Kabila to step down. The anti-government Kamwina Nsapu militia killed nine civilians in the villages of Bata Ishama and Kakenge in the Kasai province. Congolese troops launched a military offensive against the Allied Democratic Forces in the eastern province of North Kivu, which resulted in the death of 20 military personnel. Fighting escalated between security forces and the Mai-Mai militia in South Kivu, resulting in the displacement of over 8,000 people.

IRAN

Anti-government protests subsided towards mid-January, after the government intensified its crackdown on protestors and deployed the Revolutionary Guards in three provinces. The U.S. Administration waived a set of nuclear-related sanctions against Iran as part of the 2015 nuclear agreement. But it warned its European allies and the U.S. Congress that the waiver would be the last if they fail to agree to radical changes to the deal. The U.S. Administration imposed financial sanctions on 14 individuals and entities, including the head of Iran's judiciary, for human rights abuses and for supporting Iran's ballistic missile program.

IRAQ

Prime Minister Haidar al-Abadi's alliance with several Popular Mobilization Unit factions, including the Badr Organization, collapsed as members accused each other of corruption and sectarianism. The Parliament confirmed that parliamentary and provincial elections will take place simultaneously on May 12, 2018, despite calls by some Sunni and Kurdish political blocs to delay the voting. The federal government announced that it would lift the restrictions on the Kurdish Regional Government if the latter relinquishes control over its border crossings and airports. Two suicide bombings, claimed by Islamic State militants, killed at least 38 people in central Baghdad. Turkey conducted several airstrikes against militants of the Kurdistan Workers' Party in the north of Iraq. Violence and acts of terrorism in Iraq led to 115 civilian deaths and 250 injuries in January 2018.

LIBYA

The Special Deterrence Force armed group, which is aligned with the UN-backed Government of National Accord (GNA), clashed with the Zimrina militia in Tripoli, leading to a five-day closure of the Mitiga airport. Unidentified attackers carried out two car bombings outside a mosque in the eastern city of Benghazi. The election commission noted that over 1.9 million people registered to vote in the 2018 parliamentary elections. Field Marshal Khalifa Haftar announced that Libya was not ready for democracy, and that he would intervene if elections fail to ease the current turmoil.

NIGERIA

Boko Haram (BH) insurgents continued their attacks in the northeast of the country, as they carried attacks on the village of Kaje and near Ngala. Army forces attacked BH on January 9 in the Borno state, killing 107 insurgents. Further, militant group Niger Delta Avengers announced that it will resume attacks on offshore oil facilities, in case authorities fail to provide a greater share of the oil revenues to the country's southern region. In parallel, the United Nations High Commissioner for Refugees, along with humanitarian partners, launched a funding appeal for $157m to help more than a quarter of a million victims affected by the BH insurgency in the Lake Chad Basin region.

SUDAN

Tensions between Sudan and Egypt heightened following Turkish President Recep Tayyip Erdoğan's visit to Khartoum. President Omar al-Bashir agreed to lease to Turkey the Saukin Island on the Red Sea coast, which prompted speculation that Turkey intends to build a military base on the island. Following the alleged deployment of Egyptian troops to western Eritrea near the Sudanese border, Sudan recalled its ambassador to Egypt, deployed troops to the eastern state of Kassala region and reportedly closed its border with Eritrea. In parallel, the announcement of subsidy cuts in the 2018 budget caused nationwide protests. Security crackdowns led to the arrest of about 100 protestors, including opposition leader Omar al-Digar.

SYRIA

Regime forces continued their efforts to recapture areas held by the Hei'at Tahrir al-Sham (HTS), including areas in the north of the Hama province and in the southeast of the Idlib province. Instead, Islamic State militants took over some of the areas in the northeastern part of Hama that were initially captured from the HTS by regime forces. The U.S. announced plans to set up a new border force of 30,000 personnel in areas controlled by the U.S.-backed Kurdish People's Protection Units (YPG). It noted that the border security force aims to counter IS militants, achieve a political transition and contain Iranian influence. However, the U.S. plans angered the Turkish government, which, in turn, launched an attack on the Kurdish YPG around the northwestern district of Afrin. Turkey also threatened to extend its offensive towards the Kurdish-controlled Manbij town, where U.S. forces are based.

TUNISIA

Riots and protests erupted across the country following the increase in taxes on gasoline, phone cards, Internet, fruits and vegetables, which came into force at the start of January. Clashes between protestors and the police in the northern Tebourba town led to over 800 arrests. Special Forces killed Bilel Kobi, a leader in the al-Qaeda in Islamic Maghreb, during an ambush near the country's borders with Algeria.

YEMEN

The UAE-aligned Southern Transition Council (STC) accused President Abd Rabbuh Mansur Hadi's government of corruption and negligence and issued an ultimatum to the President to form a new Cabinet by January 28, 2018. The government responded by banning public gatherings in the port city of Aden. The STC held demonstrations, ignoring the ban, which led to altercations between government forces and demonstrators. STC forces took control of Aden, confining the government to al-Maasheeq Palace and resulting in the death of at least 10 people. Huthi rebels informed the UN Deputy Special Envoy to Sanaa that they were open to UN-led negotiations, but threatened to block the strategic Red Sea shipping lane if the Saudi-led coalition continued its military offensive on the port of Hodeidah. The Huthis fired three ballistic missiles into Saudi Arabia, which were intercepted and destroyed by Saudi government forces.

Source: International Crisis Group, Newswires

OUTLOOK

GCC

External breakeven oil prices to stabilize in 2018

The Institute of International Finance expected the external breakeven oil prices in Gulf Cooperation Council (GCC) countries to stabilize in 2018, after declining from an average of $62 p/b in 2014 to $49 p/b in 2017. The external breakeven oil prices are the oil prices that cover the import bill of a hydrocarbon-exporting economy and at which the current account is balanced. The IIF said the decline in the external breakeven oil price, along with the modest recovery in oil prices, have put the external and fiscal positions of GCC economies on a more sustainable path. The IIF projected the external breakeven oil price in Bahrain to decrease from $77 p/b in 2014 to $54 p/b in 2018, and to fall from $73 p/b in 2014 to $45 p/b in 2018 in Saudi Arabia, to regress from $53 p/b in 2014 to $44 p/b in 2018 in Qatar and to drop from $47 p/b in 2014 to $44 p/b in 2018 in the UAE. In contrast, it forecast the external breakeven oil price in Oman at $87 p/b in 2018, nearly unchanged from $88 p/b in 2014, while it expected Kuwait's external breakeven oil price to increase from $43 p/b in 2014 to $52 p/b in 2018.

In parallel, the IIF anticipated the average fiscal breakeven oil prices in the GCC to decline in 2018, given the expected increase in non-hydrocarbon revenues, the rise in hydrocarbon export receipts and the cuts in public spending. It considered that the recent recovery in oil prices has encouraged GCC authorities to ease fiscal consolidation and increase spending to support non-oil growth. However, it expected the modest increase in public spending to be offset by the mobilization of additional non-hydrocarbon revenues. In this context, it projected the fiscal breakeven oil price in Bahrain to decrease from $116 p/b in 2014 to $96 p/b in 2018, and to fall from $103 p/b in 2014 to $82 p/b in 2018 in Oman, to regress from $106 p/b in 2014 to $74 p/b in 2018 in Saudi Arabia, to drop from $83 p/b in 2014 to $62 p/b in 2018 in the UAE and to decline from $56 p/b in 2014 to $53 p/b in 2018 in Kuwait. Also, it expected Qatar's fiscal breakeven oil price to rise from $54 p/b in 2014 to $60 p/b in 2018.
Source: Institute of International Finance

SAUDI ARABIA

Economic activity to pick up in 2018

Samba Financial Group projected Saudi Arabia's real GDP to grow by 1.8% in 2018 following a contraction of 0.7% in 2017, supported mainly by an increase in consumption, a rise in non-hydrocarbon exports and higher public investment. It anticipated economic growth to be constrained by flat oil production this year, while it forecast non-hydrocarbon sector activity to accelerate from 1.1% in 2017 to 2.7% in 2018. It expected economic growth to reach 3.2% in 2019 and 3.8% by 2020, in case foreign investment flows recover, government spending continues to be strong and household confidence further improves. In addition, it forecast the inflation rate to average 2.9% in 2018, driven by fiscal easing and the introduction of the value-added tax (VAT). It projected the inflation rate to average 3.6% in the 2019-22 period, in case authorities continue to cut subsidies and increase public spending, and if the US dollar remains weak.

In parallel, Samba forecast Saudi Arabia's fiscal deficit at 8.9% of GDP in 2018, nearly unchanged from the preceding year, as it expected public spending to increase by 10% this year. It estimated the net gains from the introduction of the VAT to be negative this year, as the rollout of cash payments to lower-income households would offset the increase in VAT receipts and the cuts in subsidies. It considered that Saudi Arabia's looser fiscal policy is in line with the IMF advice to adopt a gradual fiscal adjustment, and does not signal any significant change in the government's commitment to the National Transformation Plan. It anticipated the Kingdom to use a mix of domestic and external debt issuance, along with a drawdown of foreign assets, to fund the aggregate fiscal deficit during the 2018-22 period, which it estimated at around SAR765bn. As such, it projected the government's domestic and external debt levels to reach 12% of GDP and 16% of GDP, respectively, by the end of 2022.

In parallel, Samba forecast the current account surplus to increase from 1.4% of GDP in 2017 to 1.7% of GDP in 2018 and to 5.4% of GDP in 2022, partly due to higher export receipts and portfolio inflows. In addition, it projected SAMA's net foreign assets to decline from $489bn or 71.5% of GDP in 2017, to $470.4bn or 71.7% of GDP this year, but to rise gradually thereafter to $597.7bn, or 71.5% of GDP, by 2022.
Source: Samba Financial Group

TURKEY

Challenging growth outlook for 2018

The Institute of International Finance projected Turkey's real GDP growth to decelerate from 7% in 2017 to 4% in 2018 due to reduced lending activity. It noted that economic activity last year was supported by increased private consumption as a result of the government's employment incentives and Credit Guarantee Fund (CGF) stimulus. It said that the government extended to 2018 its quasi-fiscal support to the economy by making the capacity of the TRY250bn CGF scheme available to small- and medium-sized enterprises on a rolling basis. But it indicated that about TRY195bn, or 7% of GDP, of the CGF's capacity was utilized in 2017, which means that TRY55bn in new CGF loans will be available in 2018. In this context, it anticipated credit growth to slow and to be a drag on economic activity.

The IIF expected the slowdown in growth this year to increase the pressure on policy makers ahead of the local, parliamentary and presidential elections scheduled for 2019. It expected the government to introduce fiscal incentives, such as VAT cuts or employment incentives. In this context, it projected the central government deficit to widen from 1.5% of GDP in 2017 to 2.9% of GDP in 2018, and to miss the government's target deficit of 1.9% of GDP this year amid cyclical revenue weaknesses, tax cuts and pre-election spending. It considered that the government's accommodative fiscal and quasi-fiscal policies ahead of the 2019 elections would support growth in the near term, but that they would exacerbate the already sizable macroeconomic imbalances. Further, the IIF noted that the inflation and external financing outlook this year are challenging, as higher oil prices would prevent a faster slowdown in the inflation rate and would weigh on the sizable current account deficit, which it projects to widen from an estimated 5.2% of GDP in 2017 to 6% of GDP in 2018. Also, it forecast the country's gross external financing needs to remain high at about $210bn, or 24% of GDP in 2018.
Source: Institute of International Finance

GCC

Agency takes rating actions on Oman and Qatar

Capital Intelligence Ratings (CI Ratings) downgraded Oman's long-term foreign and local currency sovereign ratings from 'BBB+' to 'BBB', and its short-term foreign and local currency ratings from 'A2' to 'A3', with a 'stable' outlook on the long-term ratings. It attributed the downgrades to its expectations of a sustained decrease in Oman's foreign currency reserves, double-digit fiscal and external deficits, declining financial assets and rising public debt level during the 2018-19 period. In this context, it expected the government to become a net external debtor of 5.4% of GDP in 2018. It added that the ratings are constrained by the country's high reliance on the hydrocarbon sector and increasing geopolitical risks. But it noted that the ratings are supported by a relatively high GDP per capita, strong banking sector, still manageable government debt level, and potential support from other GCC economies in case of financial distress. In parallel, CI Ratings affirmed at 'AA-' Qatar's long-term foreign and local currency sovereign ratings, and kept the 'negative' outlook on the ratings. It noted that the 'negative' outlook reflects its expectations that the low hydrocarbon price environment and elevated geopolitical risks would continue to weigh on Qatar's fiscal and external positions over the medium term. It reduced its projection for real GDP growth to 2% annually over the 2018-19 period from 2.9% previously, amid the country's ongoing rift with some other Arab countries. CI considered that Qatar's foreign assets, estimated at about $340bn, would help it absorb external shocks and mitigate concentration risks from its reliance on hydrocarbons.

Source: Capital Intelligence Ratings

KUWAIT

Agencies affirm sovereign ratings

S&P Global Ratings affirmed at 'AA/A-1+' Kuwait's long- and short-term foreign and local currency sovereign credit ratings, with a 'stable' outlook on the long-term ratings. It indicated that the ratings are supported by Kuwait's high fiscal and external buffers estimated at about 3.9 times the country's GDP at end-2017, but that the ratings are constrained by the economy's dependence on hydrocarbons and by ongoing geopolitical tensions. The agency projected the country's real GDP growth at 2.5% in 2018 and at an average of about 3% annually during the 2019-21 period, in case oil prices trend higher, public spending increases and oil production recovers from 2019 onward. Further, it estimated the central government's fiscal deficit to widen from 14% of GDP in the fiscal year that ended in March 2017 to 16% of GDP in FY2017/18 due to higher capital expenditures. It anticipated the government to meet its financing needs by increasingly relying on debt issuance rather than on asset drawdowns from the Kuwait Investment Authority. As such, it projected the government's debt level to increase from 19.1% of GDP in FY2017/18 to 23.5% of GDP in FY2018/19. In parallel, Capital Intelligence Ratings affirmed at 'AA-/A1+' Kuwait's long-term and short-term foreign and local currency ratings, with a 'stable' outlook. It noted that Kuwait has the lowest fiscal breakeven oil price among GCC economies at about $47 per barrel. It added that Kuwait's public finances have weathered the low oil price environment and are in a better position than most GCC peers due to the country's large financial buffers and substantial room for borrowing.

Source: S&P Global Ratings, Capital Intelligence Ratings

ANGOLA

Ratings under review for downgrade

Moody's Investors Service placed under review for downgrade Angola's 'B2' long-term issuer ratings and senior unsecured rating. It attributed its decision to the deterioration of the government's balance sheet and to a larger-than-anticipated increase in the government's gross borrowing requirements. It said that many of Angola's credit metrics have deteriorated in recent months to levels that are more in line with lower sovereign ratings. It pointed out that the government's debt-to-GDP ratio is already 10 percentage points higher than the level that the agency projected in October 2017, mainly due to the depreciation of the Angolan kwanza and the extension of financial support to state-owned companies. It expected the government debt level to exceed 70% of GDP by end-March 2018 relative to about 66% of GDP, or $74bn at the end of 2017, amid the ongoing currency adjustment and the clearance of $5bn in commercial arrears. It noted that the more flexible exchange rate system has exacerbated fiscal pressures because about 80% of the government debt is denominated in or is indexed to foreign currency. In parallel, the agency projected the government's gross borrowing requirements to exceed 21% of GDP in 2018, significantly higher than similarly-rated peers, and reflecting sizeable maturing government debt, a fiscal deficit of 3% of GDP and the clearance of about 3.7% of GDP in arrears. Moody's said that it will downgrade the ratings in case the government is unlikely to stop or reverse the erosion of its fiscal strength and the rise in liquidity risks.

Source: Moody's Investors Service

DEM REP CONGO

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'CCC+/C' the Democratic Republic of Congo's (DRC) long- and short-term sovereign credit ratings, and maintained a 'stable' outlook on the long-term ratings. The agency indicated that the ratings are constrained by the ongoing political deadlock that is weighing on the country's already weak institutions and fragile economy, and that is constraining public financing options. However, it said that the DRC does not have any commercial debt coming due during the 2018-21 period, which reduces the probability of a default in payment. S&P projected real GDP growth to decelerate from an annual average of 7% during the 2011-16 period to 2.5% annually between 2018 and 2021, in case the lack of visibility about the elections and the risks of an escalation in violence continue to weigh on investors' confidence and on domestic demand. Further, it anticipated the political deadlock to continue to limit the authorities' external financing options, including from donors. Consequently, it forecast the fiscal deficit to remain broadly balanced during the 2018-21 period amid the DRC's limited access to financing. It projected the DRC's gross external financing needs to average 107% of current account receipts plus usable reserves in the 2018-21 period. It anticipated the current account deficit to remain at 2% of GDP in 2018, and expected foreign currency reserves to reach $739m at the end of 2018, nearly unchanged from $735m a year earlier. It forecast the Congolese franc to depreciate and for the inflation rate to remain high as a result of the elevated political and social tensions.

Source: S&P Global Ratings

SAUDI ARABIA

Liquidity conditions improve in 2017

Moody's Investors Service indicated that liquidity conditions at banks in Saudi Arabia have improved in 2017 despite subdued deposit growth and challenging business conditions. It said that the banks' domestic liquid assets increased by 11% to a record high of SAR457bn, or $121.9bn, at the end of 2017, and accounted for 20% of the banks' total assets. It added that the banks' reserves were equivalent to 14.8% of their total deposits, the highest such ratio since December 2012. It attributed the banks' improved liquidity to subdued lending growth and to a significant increase in their holdings of domestic government bonds. It said that funding pressures eased in late 2016 and in 2017, as lending growth slowed and the government increased its external debt issuance to finance its budget deficit. It noted that lending contracted by 1% in 2017, which has reduced liquidity challenges and allowed banks to build liquidity buffers. It added that the banks' loans-to-deposits ratio was broadly stable at 86% at the end of 2017 relative to 87% at end-2016. Also, it pointed out that successive sovereign debt issuances in 2017 have allowed banks to transfer their excess liquidity to high-quality government investments. It added that government bonds accounted for about 56% of the banks' domestic liquid assets at end-2017, relative to a 27% share at end-2015. Moody's expected lending to grow by 4% in 2018 and considered that banks are well-positioned to absorb the anticipated pickup in lending.

Source: Moody's Investors Service

EGYPT

Banking sector faces significant economic risks

S&P Global Ratings maintained Egypt's Banking Industry Country Risk Assessment (BICRA) in 'Group 10', with an economic risk score of '10' and an industry risk score of '8'. The BICRA framework evaluates banking systems based on economic and industry risks facing a banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 10' include Belarus, Greece, Nigeria and Ukraine. S&P indicated that Egypt's economic risk score reflects its "extremely high risks" in its economic resilience and credit risks in the economy, as well as "high risks" in its economic imbalances. It expected banks to face rising credit losses in the short term, mainly due to the inflationary pressure caused by the devaluation of the Egyptian pound and the government's fiscal consolidation. It anticipated the banks' non-performing loans ratio to gradually increase from 5.5% at end-June 2017 to 5.9% at end-June 2018. In addition, it said that banks remain highly exposed to the sovereign, with their holdings of sovereign debt equivalent to about 50% of their aggregate assets at the end of June 2017. Further, it revised Egypt's economic risk trend from 'stable' to 'positive', as authorities continue to implement structural reforms to support investment and economic activity, which would improve the operating environment for banks. In parallel, S&P said that the industry score reflects the country's "extremely high risks" in its institutional framework, and "high risks" in its system wide funding and competitive dynamics. It revised the industry risk trend from 'negative' to 'stable', due to the government's commitment to strengthen the banking sector's regulatory framework.

Source: S&P Global Ratings

ETHIOPIA

Capital adequacy ratio at 21.5% at end-June 2017, NPLs ratio at 2.6%

The International Monetary Fund indicated that financial stability indicators of Ethiopia's banking sector do not indicate emerging vulnerabilities, with banks being well-capitalized, profitable and liquid. It noted that the banks' risk-weighted capital adequacy ratio rose from 14.7% at end-June 2016 to 21.5% at the end of June 2017. It added that the sector's liquid assets represented 12.9% of total assets at end-June 2017, up from 11.9% at end-June 2016, while they were equivalent to 17% of total short-term liabilities at the end of June 2017 compared to 15.6% at end-June 2016. Also, it pointed out that the sector's non-performing loans ratio (NPLs) regressed from 2.9% at end-June 2016 to 2.6% at the end of June 2017, below the statutory benchmark of 5%. But it said that the rise in the NPLs ratio to 15% at the Development Bank of Ethiopia (DBE), a state-owned development financial institution, constitutes a contingent fiscal liability. It added that authorities are taking actions to address bad loans at DBE, such as foreclosing and seizing collateral on NPLs related to non-viable projects. Further, the Fund indicated that small banks in Ethiopia have struggled to maintain correspondent banking relationships (CBRs), mainly due to high compliance costs for correspondent banks and the small business volume with such banks. It welcomed Ethiopia's efforts to strengthen its anti-money laundering framework in order to limit additional losses in CBRs.

Source: International Monetary Fund

GHANA

Subdued lending growth weighs on profitability

Moody's Investors Service indicated that lending growth in Ghana continued to decelerate, as it reached 5.9% in 2017 relative to growth rates of 18.3% in 2016 and 41.5% in 2014, amid a deterioration in the domestic operating environment. It estimated the slowdown in credit growth in 2017 to have reduced the banks' interest income from loans, loan-related fee & commission income and, in turn, operating revenues. It noted that the share of interest income from loans and advances regressed from 50.4% of total revenues in October 2016 to 45% in October 2017. In addition, it said that the slowdown in lending growth is occurring amid a decline in interest rates, with the sector's interest spread narrowing from 12.7% in 2016 to 9.5% in October 2017. In this context, it estimated that the banks' expenditures could have increased at a faster pace than their operating revenues in 2017. It noted that this trend could continue in 2018, which would negatively affect the banks' efficiency ratios. It added that the banks' cost-to-operating income ratio deteriorated from 49% in October 2015 to 54% in October 2017, while their return on assets decreased from 5.3% in October 2015 to 3% in October last year. In addition, Moody's pointed out that the non-performing loans (NPLs) ratio rose from 17.9% at end-2016 to 22.7% at the end of 2017, which means that the banks' loan-loss provisioning remains elevated and constrains their profitability. It said that banks continue to face high asset risks despite the restructuring in 2017 of some problem loans related to state-owned enterprises. But it anticipated the slowdown in lending growth to limit the formation of new NPLs in 2018 and 2019.

Source: Moody's Investors Service

Oil prices to remain volatile in 2018

ICE Brent crude oil front-month prices dropped to their lowest level so far in 2018 to close at $65.5 per barrel (p/b) on February 7, 2018, mainly due to increased volatility in global financial markets after the sharp sell-off in equities, as well as to a stronger US dollar, expectations of higher U.S. crude oil production and the start of the refinery maintenance season in the northern hemisphere, mainly in the United States. However, the significant sell-off in global equities, which was triggered by concerns about rising interest rates and inflation, did not substantially weigh on oil prices, given that oil is a consumption-driven asset as opposed to equities or bonds which are investment-driven assets. Further, the decline in oil prices came amid an increase of 1.9 million barrels in U.S. output that undermined OPEC's efforts to reduce the oversupply in the market, and despite an outage in the North Sea pipeline and record Chinese oil imports. In addition, demand for oil is expected to slow down as refineries go through maintenance and reduce their crude oil purchases. In parallel, the U.S. Energy Information Administration expected U.S. oil output to reach an average of 10.6 million barrels per day (b/d) in 2018 and to increase to 11.2 million b/d by 2019, potentially replacing Russia as the world's largest oil producer. As such, the oil market outlook remains highly volatile, while downside risks to prices include the anticipated strong growth in U.S. oil supply and the possible exit of OPEC and non-OPEC members from the oil deal. In this context, Brent oil prices are forecast to average $60 p/b in 2018 despite the relatively high current prices.

Source: CNBC, Jadwa Investment, Thomson Reuters

Saudi Arabia's oil export receipts up 14% in 2018

Samba Financial Group forecast Saudi Arabia's crude oil production to reach 10.08 million barrels per day (b/d) in 2018, nearly unchanged from 10.06 million b/d in 2017. But it projected the Kingdom's hydrocarbon export receipts at $155.7bn in 2018, which would represent a rise of 14% from $136.6bn in 2017. The anticipated increase in hydrocarbon receipts reflects higher oil prices during the year.

Source: Samba Financial Group

DRC's copper production up by 7% in 2017

The Chamber of the Mines of the Democratic Republic of Congo (DRC) indicated that the country's copper production reached 1.09 million tons in 2017, constituting an increase of 6.9% from 2016, while the country's cobalt supply surged by 15.5% year-on-year to 73,940 tons. Also, it noted that the DRC's gold output stood at 23.3 tons last year, up 2.7% from 2016.

Source: Chamber of the Mines of DRC

Egypt's natural gas production to reach 6 bcf per day before end-2018

Egypt's natural gas production rose by 1.6 billion cubic feet (bcf) per day to reach 5.5 bcf per day in 2017. Egypt plans to cease imports of liquefied natural gas (LNG) by the end of June 2018, as new output from the newly-discovered natural gas fields comes online. The country's gas output is expected to exceed 6 bcf per day before the end of 2018. In addition, the Egyptian Natural Gas Holding Company (EGAS) is planning to issue natural gas exploration tenders for 11 blocks by the end of June 2018 that consist of eight offshore and three onshore blocks.

Source: Thomson Reuters, Zawya

Base Metals: Aluminum prices to average $2,100 a ton in first quarter of 2018

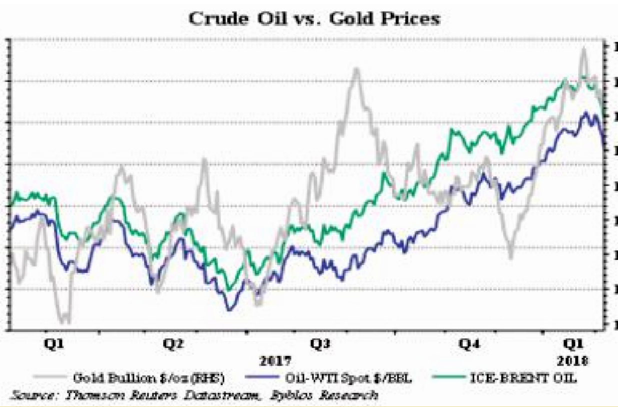
The LME aluminum 3-month future prices averaged $2,220 per metric ton in January 2018, up by 24.5% from $1,783 per ton in the same month last year, and constituting the highest average for the month of January since 2012. China's supply side reforms, which are in line with its environmental initiatives to tackle pollution, have supported the metal's price since the last quarter of 2017, as prices gradually increased from an average of $2,027 per ton in the third quarter to $2,124 per ton in the fourth quarter of 2017. Also, the rally in aluminum prices reflects mandatory closures of lower-grade producing factories in China, as authorities step up efforts to reduce overcapacity in the metal's market. In parallel, global refined aluminum production is forecast to increase by 4.6% to 66.4 million tons in 2018, while global consumption is projected to expand by 5.3% to 66.3 million tons this year. As such, aluminum prices are forecast to average $2,100 a ton in each of the first and second quarters of 2018, as the sustained increase in global production, mainly in China, will be mitigated by higher demand for the metal. The metal's price is projected to rise from an average of $1,980 a ton in 2017 to $2,100 a ton in 2018 and to reach $2,200 a ton in 2019.

Source: Citi Research, Bloomberg, Thomson Reuters

Precious Metals: Palladium prices to rise in 2018 due to wider production deficit

Palladium prices are forecast to average $1,150 per troy ounce in 2018, which would constitute an increase of 32.2% from an average of $870 an ounce in 2017. The anticipated rise in the metal's price reflects expectation of solid global economic growth and a widening of the production deficit in the palladium market in 2018. The metal's global demand is forecast to rise by 4.6% to 10.7 million ounces in 2018, mainly driven by an expected increase of 4.7% in autocatalyst demand for the metal. In fact, autocatalyst consumption is projected at 8.2 million ounces in 2018, which would represent 76.8% of total demand, followed by industrial demand with 2.3 million ounces (21.5%) and jewelry demand with 328,000 ounces (3.2%). In parallel, palladium production is forecast at 9.8 million ounces this year, which would constitute a rise of 1.1% from 2017, with mine production accounting for 71.3% of the metal's output. As such, the production deficit in the palladium market is expected to widen from 475,000 ounces in 2017 to 835,000 ounces in 2018. Downside risks to the metal's price outlook in 2018 include a weaker-than-anticipated growth in car sales, while stronger Chinese industrial demand constitutes an upside risk to prices.

Source: Citi Research, Byblos Research



COUNTRY RISK METRICS

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

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								
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	31-Jan-18	No change	21-Mar-18
Eurozone	Refi Rate	0.00	25-Jan-18	No change	08-Mar-18
UK	Bank Rate	0.50	08-Feb-18	No change	22-Mar-18
Japan	O/N Call Rate	-0.10	23-Jan-18	No change	09-Mar-18
Australia	Cash Rate	1.5	06-Feb-18	No change	06-Mar-18
New Zealand	Cash Rate	1.75	08-Feb-18	No change	21-Mar-18
Switzerland	3 month Libor target	-1.25-(-0.25)	14-Dec-17	No change	15-Mar-18
Canada	Overnight rate	1.25	17-Jan-18	Raised 25bps	07-Mar-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	21-Dec-17	No change	22-Mar-18
South Korea	Base Rate	1.50	18-Jan-1	No change	27-Feb-18
Malaysia	O/N Policy Rate	3.25	25-Jan-18	Raised 25bps	07-Mar-18
Thailand	1D Repo	1.50	20-Dec-17	No change	14-Feb-18
India	Reverse repo rate	6.00	07-Feb-18	Cut 25bps	N/A
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	07-Mar-18
South Africa	Repo rate	6.75	18-Jan-18	No change	28-Mar-18
Kenya	Central Bank Rate	10.00	24-Jan-18	No change	27-Mar-18
Nigeria	Monetary Policy Rate	14.00	23-Jan-18	No change	21-Mar-18
Ghana	Prime Rate	20.00	22-Jan-18	No change	26-Mar-18
Angola	Base rate	18.00	29-Jan-18	No change	28-Feb-18
Mexico	Target Rate	7.25	14-Dec-17	Raised 25bps	08-Feb-18
Brazil	Selic Rate	6.75	07-Feb-18	Cut 25bps	21-Mar-18
Armenia	Refi Rate	6.00	26-Dec-17	No change	14-Feb-18
Romania	Policy Rate	2.25	07-Feb-18	Raised 25bps	05-Apr-18
Bulgaria	Base Interest	0.00	01-Feb-18	No change	01-Mar-18
Kazakhstan	Repo Rate	9.75	15-Jan-18	Cut 50bps	20-Feb-18
Ukraine	Discount Rate	16.00	25-Jan-18	Raised 150bps	01-Mar-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

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