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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Fine art auctions up 20% to $14.9bn in 2017

Art Price, an online art database, indicated that global sales through fine art auctions reached $14.9bn in 2017, which constitutes an increase of 20% from $14.5bn in 2016, following contractions of 23% in 2016 and 10% in 2015. It attributed the rise in global sales to a recovery in the Western and Chinese markets. It noted that the value of sales in the Chinese fine art auction market reached $5.1bn, or 34.2% of the total, in 2017, through the auction of 89,412 items. The U.S. followed with $5bn through the sale of 81,938 items, then the United Kingdom with $2.5bn (54,941 items), France with $783.7m (69,322 items) and Germany with $256m (41,880 items). Further, it said that the fine art auction market continued to be diversified last year, as the top 500 artists with the highest auction turnover were from 45 nationalities in 2017, up from 40 in 2016. European artists represented 47% of the top 500 artists, followed by artists from Asia (33%), North America (16%), Latin America (2%), and Africa and Oceana (1% each). In addition, it said that the item that was sold at the highest price on record was auctioned in the U.S. for $450.3m, accounting for 9% of the U.S. fine art auction turnover.

Source: Art Price

AFRICA

Sub-Saharan Africa's sovereign borrowing from commercial sources at $57bn in 2018

S&P Global Ratings projected the aggregate long-term sovereign borrowing from commercial sources by the 17 countries that it rates in Sub-Saharan Africa (SSA) at $57bn in 2018, which would constitute an increase of 7.4% from $53bn in 2017. South Africa is forecast to account for 32.8% of commercial long-term borrowing in 2018, followed by Angola (28%), Nigeria (11.4%) and Kenya (8.1%). S&P said that $24bn, or about 43% of total sovereign borrowing, would be used to refinance maturing long-term debt, which would result in net commercial borrowing requirements of $33bn in 2018. In parallel, it expected the total sovereign commercial debt stock of the 17 countries to increase from $369bn at end-2017 to $392bn at the end of 2018, and to consist of $66bn in short-term debt and of $326bn in medium- and long-term debt. South Africa would account for 48.8% of the commercial debt stock at end-2018, followed by Nigeria (13.4%), Angola (10.7%) and Kenya (7.5%). Further, gross long-term sovereign commercial borrowing would be equivalent to 4.7% of the aggregate GDP of the 17 economies this year, while the total commercial debt stock would be equivalent to 32.3% of the aggregate GDP. S&P noted that Nigeria and Kenya already issued $2.5bn and $2bn in commercial debt, respectively, in February. It anticipated conditions for Eurobond issuance this year to be challenging, as tighter financing conditions and currency depreciation would offset the more favorable commodity price environment.

Source: S&P Global Ratings

EMERGING MARKETS

Bank lending conditions improve in fourth quarter of 2017

The Emerging Markets (EMs) Lending Conditions Index reached 51.1 points in the fourth quarter of 2017 relative to 50.8 in the preceding quarter, its highest level since the second quarter of 2011. The Demand for Loans Index grew to 53.7 in the fourth quarter of the year from 52.9 in the third quarter of 2017, as demand for industrial and for residential real estate loans increased, while the Trade Finance Index remained at 53.6 in the fourth quarter of 2017. Further, the Non-Performing Loans (NPLs) Index improved significantly to 53.2 in the covered quarter from 47.7 in the third quarter of 2017, reflecting a decline in NPLs in most EM regions. Also, the Credit Standards Index was nearly unchanged at 49.1 in the covered quarter, while the Funding Conditions Index decreased to 46.6 in the fourth quarter of 2017 from 48.9 in the preceding quarter, as domestic and international funding conditions deteriorated. In parallel, the Lending Conditions Index in Emerging Europe improved marginally to 53.6 in the fourth quarter of 2017 from 53.4 in the third quarter, while the Index in Emerging Asia rose to 50.9 in the fourth quarter of last year from 50.2 in the preceding quarter. Further, the Index in Sub-Saharan Africa improved slightly to 48.3 in the covered quarter from 48 in the third quarter of 2017, while it increased in the Middle East & North Africa region to 46.7 in the fourth quarter of last year from 45.9 in the preceding quarter. In contrast, the Lending Conditions Index in Latin America decreased to 52.6 in the covered quarter from 53 in the third quarter of 2017.

Source: Institute of International Finance

Trading in Credit Default Swaps down 10% to $275bn in fourth quarter of 2017

Trading in emerging markets Credit Default Swaps (CDS) reached $275bn in the fourth quarter of 2017, constituting a decrease of 23% from $359bn in the third quarter of 2017 and a drop of 10% from $306bn in the fourth quarter of 2016. Trading reached $404bn in the first quarter and $261bn in the second quarter of the year. The most frequently traded sovereign CDS contracts in the fourth quarter of 2017 were those of Brazil at $33bn, followed by Turkey at $28bn and Mexico at $22bn. As such, traded sovereign CDS contracts on Brazil accounted for 12% of total trading in emerging market CDS in the covered quarter, followed by CDS contracts on Turkey (10.2%) and Mexico (8%). The most frequently traded corporate CDS contracts in the fourth quarter of 2017 were those of Brazil's Petrobras at $1.9bn, which accounted for 0.7% of total trading in emerging markets CDS. Overall, CDS trading totaled $1,298bn in 2017, down by 3% from $1,332bn in 2016 and compared to $1,287bn in 2015. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers, as well as from 12 major international

Source: EMTA

POLITICAL RISK OVERVIEW - February 2018

DEM REP CONGO

The crackdown by security forces on anti-government protests, led by the Comité Laïc de Coordination, resulted in the death of two people. Fighting intensified between the Hema and Lendu communities in the Dungu area of the Ituri province, leaving up to 100 people dead so far this year and displacing around 27,000 persons to Uganda. Government forces and the United Nations mission MONUSCO increased their presence in the Dungu area. The army apprehended a camp of the armed group Allied Democratic Forces and killed one commander in the Beni area in the North Kivu province. Three Congolese soldiers were killed and others wounded in a cross-border fight with Rwandan troops. The Rwandan government requested an investigation into the alleged invasion of its territories. General John Tshibangu, who threatened to overthrow President Joseph Kabila with an armed uprising, was arrested and extradited from Tanzania and will be prosecuted for rebellion. The Southern African Development Community announced that it will open a liaison office in the capital Kinshasa.

EGYPT

The Egyptian armed forces launched on February 9 a major operation against terrorists and criminal organizations in Northern and Central Sinai under the name of "Operation Sinai 2018", which resulted in the death of 82 Islamist militants and the arrest of 2,900 persons. Islamic State militants threatened to slaughter any citizen who votes or participates in the March 2018 presidential election. The government continued its crackdown on the political opposition in the run-up to the elections, and arrested several opposition leaders during the month.

ETHIOPIA

Prime Minister Hailemariam Desalegn announced that he will resign from office in an effort to ease the political turmoil amid violent anti-government protests, but said that he will stay in power until his successor is nominated. The government reimposed the state of emergency, a day after the Prime Minister's announcement. Six members of the Oromo Federalist Congress were released from prison, along with 746 other prisoners that were mostly detained during protests in the Oromia and Amhara regions, as part of efforts to ease political tensions in the country. Oromo People's Democratic Organization, which is part of the country's ruling alliance, elected former army intelligence officer Abiy Ahmed as its leader, in a bid to position him as the next Prime Minister of the country.

IRAN

The U.S. sought backup from European signatories in addressing flaws in the nuclear deal with Iran in order for the U.S. to extend the deal. The EU could reinstate "blocking regulations" to protect European firms doing business in Iran if the U.S. restores extra-territorial sanctions. Russia vetoed the UN Security Council's resolution that states that Iran had violated the arms embargo on Yemen by supplying weapons to Huthi militants. France, Germany, the United Kingdom and the U.S. called on Iran to cease all activities that do not abide by the arms embargo on Yemen. Protests by the Sufi order in Tehran against the detention of its members resulted in the death of five security forces personnel.

IRAQ

Islamic State militants killed at least 27 members of the government-aligned Popular Mobilization Units in Kirkuk. A suicide bomber reportedly killed two policemen at the Kirkuk oilfield. The Kurdistan Regional Government (KRG) representatives met with PM Haider al-Abadi in Munich but failed to resolve the deadlock between the two governments. The federal government maintained restrictions on the KRG, including the international flight ban, while Kurdish forces refused to relinquish control of their border crossings with Turkey.

LIBYA

The Libyan National Army (LNA)-Allied Forces clashed with Islamic State (IS) militants near the Dhahra oil field, leading to the death of two LNA-allied fighters and three militants. Twin bomb blasts struck a mosque in Benghazi. The IS group claimed responsibility for a suicide bombing that targeted an LNA checkpoint west of Waddan city and that killed three soldiers. Heavy clashes took place in Sabha after a month of tensions between LNA and Government of National Accord militias. Mediation attempts by the two rival governments in Libya have been delayed, and the conflict could endanger the nascent Tebu-Tuareg peace agreement, as Chadian mercenaries have joined Tebu in fighting.

SUDAN

The government and the opposition faction of the Sudan People's Liberation Movement-North (SPLM-N), led by Abdelaziz al-Hilu, held talks in the Ethiopian capital of Addis Ababa for the first time since October 2016. The two parties failed to reach an agreement about the cessation of hostilities, as well as over humanitarian access to the South Kordofan and Blue Nile states. Protestors continued demonstrations against rising bread prices, mainly in the capital Khartoum. Security forces released 80 detained protesters, after European and U.S. embassies condemned the harsh government crackdown that resulted in the imprisonment of hundreds of protestors. A government delegation met Egyptian counterparts in Cairo in order to ease tensions between the two countries and to reiterate the principles about the dispute over the construction of the Grand Ethiopian Renaissance Dam.

SYRIA

Regime forces increased airstrikes on Eastern Ghouta, which reportedly led to the death of 580 civilians. Turkey and allied rebels continued their attack on the Kurdish-held Afrin area in the north. In response, government-aligned forces joined Kurdish forces to resist the Turkish assault. The U.S. increased its military presence in the Kurdish-controlled city of Manbij, which is located east of Afrin. After an Iranian drone allegedly entered the Israeli airspace from Syria, Israeli jets carried out an attack on a suspected Iranian drone control site in Syria. In response, a Syrian anti-aircraft missile shot down an Israeli jet.

TURKEY

The Kurdistan Workers' Party (PKK) claimed responsibility for an explosion at a tax office in Ankara. Turkish military operations continued against PKK militants in the southeast of the country. The government launched a criminal investigation of Democratic People's Party co-chair Pervin Buldan and Member of Parliament Sırrı Süreyya Önder after the two criticized the government's attack on the Kurdish-held Afrin area in northern Syria. Authorities also detained and charged around 900 individuals for sharing social media posts criticizing the military operation in Afrin. President Recep Tayyip Erdoğan announced his intention to expel the Kurdish People's Protection Units (YPG) from the city of Manbij. The government criticized the United States' allocation of $300m to train and equip YPG-led Syrian Democratic Forces. But U.S. Secretary of State Rex Tillerson's visit to Ankara eased tensions between the two countries.

YEMEN

The UAE and Saudi Arabia imposed a truce after the UAE-aligned separatist Southern Transition Council (STC) took control of the port city of Aden. Saudi forces intercepted and destroyed a ballistic missile fired by Huthis towards the southwestern city of Khamis Mushait in Saudi Arabia. An Islamic State-claimed attack on Yemeni counter-terrorism headquarters in Aden resulted in 14 deaths and 40 persons wounded. UN Secretary General António Guterres announced the appointment of United Kingdom diplomat and Executive Director of the European Institute of Peace Martin Griffiths as his Special Envoy for Yemen.

Source: International Crisis Group, Newswires

OUTLOOK

MENA

Non-resident capital inflows to rise by 27% to $223bn in 2018

The Institute of International Finance projected total non-resident capital inflows to the Middle East & North Africa (MENA) region at $223bn in 2018, which would constitute an increase of 26.7% from an estimated $176bn in 2017. It attributed the increase in the inflows to the region mainly to a rise in portfolio investments from $82bn in 2017 to $113bn in 2018, with equity flows growing from $20bn in 2017 to $60bn in 2018 and debt flows decreasing from $62bn to $32bn in 2018. It noted that downside risks to portfolio inflows include a stronger-than-anticipated tightening in U.S. monetary policy. It also attributed the projected rise in the region's non-resident capital inflows to the anticipated $40bn in proceeds from the expected sale of a 5% share of the Saudi Arabian Oil Company ARAMCO in the second half of 2018. In addition, it anticipated sovereign bond issuance to be the main source of inflows in 2018, while it expected corporate bond issues to increase significantly in the first half of 2018, mainly due to the large refinancing needs of loans and bonds that mature this year.

Further, the IIF forecast foreign direct investment flows to remain subdued in the near term and to slightly rise from $41bn last year to $49bn in 2018, due to political uncertainties in some MENA countries, as well as to the lack of progress in improving the business environment. It anticipated higher outflows from the GCC to lead to an increase in intra-regional FDI flows. In parallel, it forecast resident capital outflows from the MENA region to increase from $113bn in 2017 to $226bn in 2018. In addition, the IIF projected non-resident capital inflows to GCC countries to rise by 42.5% to $140bn in 2018, which is equivalent to 9% of the GCC region's GDP, while it anticipated resident capital outflows from the GCC to increase to $209.5bn this year from $135.5bn in 2017.

Source: Institute of International Finance

QATAR

Fiscal and external balances to improve in medium term

The International Monetary Fund projected Qatar's real GDP growth to accelerate from 2.1% in 2017 to 2.6% in 2018, supported by the implementation of the government's public investment program and an anticipated easing in the pace of fiscal consolidation. But it noted that the sustained diplomatic, financial and economic rift with other GCC countries will continue to weigh on investor confidence. It forecast growth to average 2.7% annually during the 2019-23 period, driven by the authorities' plan to increase by about 30% the country's liquid natural gas output capacity by 2023. Further, it expected the average inflation rate at 3.8% in 2018, in case authorities introduce the value-added tax in the second half of 2018.

Also, the Fund projected the country's fiscal and external balances to improve in the near and medium term, due to spending controls and higher global hydrocarbon prices. It expected the fiscal deficit to narrow from 6% of GDP in 2017 to 1.1% of GDP in 2018, and to shift to a surplus of 4.6% of GDP in 2019. Also, it forecast the public debt level to slightly rise from 54% of GDP at end-2017 to 54.6% of GDP at end-2018, before regressing to 51% of GDP by the end of 2019. It anticipated the current account balance to post a surplus of 7% of GDP in 2018 and 2019.

In parallel, the IMF pointed out that the main risks to the outlook include lower global hydrocarbon prices, delays in the implementation of the planned fiscal measures, as well as uncertainties associated with the impact of a prolonged diplomatic rift with other GCC countries. First, it noted that weaker government spending amid lower global hydrocarbon prices could lead to slower non-oil activity and lending growth, as well as a deterioration in the quality of the banks' loan portfolios. Second, it considered that a delay in the implementation of fiscal measures could result in wider fiscal and current account deficits, as well as in higher public debt levels. Third, it said that tighter global financial conditions could increase funding costs and market risks for the sovereign, for banks and for corporates. Finally, it pointed out that an escalation in the ongoing diplomatic rift could weigh on external funding and economic growth.

Source: International Monetary Fund

NIGERIA

Improved near-term outlook, challenges persist

The International Monetary Fund indicated that the Nigerian economy is recovering from recession but remains vulnerable to significant risks. It noted that the new foreign currency measures, rising global oil prices, attractive yields on government securities, and tighter monetary policy, have improved foreign currency availability, increased foreign currency reserves to a four-year high, and contained inflationary pressures. In this context, it projected the country's real GDP growth to accelerate from 0.8% in 2017 to 2.1% in 2018, with hydrocarbon output growth rising from 7.6% in 2017 to 10.8% this year amid oil reforms. Further, it forecast the average inflation rate to regress from 16.5% in 2017 to 14% in 2018, but to remain well above the Central Bank of Nigeria's inflation target of between 6% to 9%. It considered that the main downside risks to the outlook include lower oil prices, tighter external market conditions, heightened security tensions, delayed fiscal policy response, and weak implementation of structural reforms.

In parallel, the Fund projected the fiscal deficit to narrow from 5.5% of GDP in 2017 to 4.5% of GDP in 2018, due to higher oil prices and after authorities clear the stock of arrears in 2018. It anticipated the public debt level to reach 25.3% of GDP at end-2018 compared to 22.3% of GDP at end-2017. But it anticipated interest payments to remain high and to absorb about 60% of federal revenues this year and about 82% of revenues by 2023 in the absence of fiscal measures, such as increasing revenues and reducing current expenditures. In parallel, the Fund forecast the current account surplus at 0.1% of GDP in 2018 relative to a surplus of 2% of GDP in 2017. However, it pointed out that renewed import growth could reduce gross foreign currency reserves despite continued access to international markets. It forecast foreign currency reserves to remain unchanged at $39.2bn at end-2018 and to decline to $36.6bn at end-2019.

Source: International Monetary Fund

GCC

Insurers face moderate credit risk

Moody's Investors Service anticipated that insurers in most Gulf Cooperation Council (GCC) economies would face moderate credit risk over the next 12 to 18 months, as a result of subdued economic growth and the low oil price environment, as well as the insurers' significant exposure to volatile investments. It indicated that the growth rate of GCC insurance premiums decelerated from 12.3% in 2015 to 3.3% in 2016, and estimated it at 3.5% 2017. It attributed the low premium growth to subdued economic activity, which has lowered personal income, reduced government spending and, in turn, negatively impacted the personal and commercial insurance segments. The agency noted that insurers increased their exposure to volatile equities and illiquid real estate investments due to limited fixed income investment options amid low levels of GCC sovereign and corporate bond issuance. However, Moody's anticipated strong premium growth over the next 12 to 18 months, supported by the expansion of compulsory medical coverage, as well as by rising motor and property insurance prices across the region. It also expected infrastructure spending, including on events such as EXPO 2020 in Dubai and the 2022 World Cup in Qatar, to support premium growth over the next five years. Further, the agency considered that improvements to the insurance regulatory frameworks in GCC countries, such as the introduction of risk-based capital and actuarial reserve requirements, are positive for the insurance sector, even though many smaller insurers are struggling with rising regulatory compliance costs.

Source: Moody's Investors Service

TURKEY

Sovereign ratings downgraded on higher risks of external shocks

Moody's Investors Service downgraded from 'Ba1' to 'Ba2' Turkey's long-term issuer and senior unsecured bond ratings, and revised the outlook from 'negative' to 'stable'. It attributed the downgrade to the continued erosion of Turkey's institutional strength, and the rising risk of external shocks amid elevated external debt and political risk levels. It said that the deterioration in institutional strength is reflected by adverse economic, financial and political conditions, which include a further erosion in monetary policy effectiveness and continued delays in the implementation of structural reforms. It pointed out that the government's willingness to support short-term growth through fiscal stimulus, rather than more sustainable growth through economic reforms, could lead to fiscal challenges. Also, it indicated that the inflation rate reached its highest level in nine years, and is unlikely to regress to single digits before 2020. It said that the government's tolerance for high inflation levels reflects its priority to support short-term growth regardless of medium-term consequences. Further, Moody's noted that Turkey's external financing needs are elevated given its wide current account deficits, maturing long-term debt and high level of short-term debt, while foreign currency reserves are very low compared to the external financing requirements. It also said that the country's heightened political and geopolitical risks continue to weigh on the tourism sector and, in turn, on economic activity, and have led foreign investors to increasingly reevaluate Turkey's country risk.

Source: Moody's Investors Service

EGYPT

Outlook revised to 'positive' on improved macroeconomic conditions

Capital Intelligence Ratings affirmed at 'B' Egypt's long-term foreign and local currency sovereign ratings, and revised the outlook from 'stable' to 'positive'. It attributed its outlook revision to the country's rising foreign currency reserves, narrowing fiscal deficit, declining debt levels, lower short-term financing risks and improving macroeconomic performance under the IMF program. It noted that foreign currency reserves increased from \$17.6bn, or three months of import cover, at end-June 2016 to a record high of \$38.2bn or more than seven months of imports at the end of January 2018. It said that the rise in foreign currency reserves reflects the transition to a flexible exchange rate regime, and the subsequent devaluation of the Egyptian pound that helped channel foreign currency liquidity to the banking system and ended the parallel exchange market. It added that the current account deficit narrowed from \$15.5bn in the first nine months of 2016 to \$7.5bn in the same period of last year, mainly due to a strong rebound in tourism receipts and lower non-hydrocarbon imports. Further, it said that authorities remain committed to gradually introduce the reforms needed to secure timely disbursements from the IMF. But it considered that implementation risks remain significant and that reform slippage could potentially hinder future IMF disbursements. It projected the fiscal deficit to narrow from 10.8% of GDP in the fiscal year that ended in June 2017 to 7.6% of GDP in FY2017/18, and for the public debt level to regress from about 97% of GDP in FY2016/17 to 91.7% of GDP in FY2017/18.

Source: Capital Intelligence Ratings

BAHRAIN

Ratings downgraded on weak public finances

Fitch Ratings downgraded Bahrain's long-term foreign and local currency Issuer Default Ratings from 'BB+' to 'BB-', which is three notches below investment grade, and revised the outlook on the ratings from 'negative' to 'stable'. It attributed the downgrade to the authorities' lack of a clear medium-term framework to address the country's wide fiscal deficits and to put the rising public debt level on a more sustainable path. It added that the domestic political environment and social expectations severely constrain the government's ability to implement a sharper fiscal adjustment and, therefore, increase uncertainty about the fiscal outlook. The agency projected the fiscal deficit to narrow from an estimated 11.6% of GDP in 2017 to 9% of GDP in 2019, in case oil prices average \$51.5 p/b in 2018 and \$55 p/b in 2019 and authorities implement some fiscal measures. But it expected the narrowing of the deficit to be insufficient to stabilize the public debt level, which it forecast at about 90% of GDP in 2019 and at more than 100% of GDP in 2023. It estimated that oil prices would need to average between \$70 p/b and \$75 p/b in order for the fiscal deficit to narrow to levels that would stabilize the government debt level over the 2018-19 period. In parallel, Fitch considered that the availability of financial support from other GCC countries has helped maintain Bahrain's market access and preserve its currency peg to the US dollar, despite its low foreign currency reserves that covered an estimated one month of current external payments at end-2017.

Source: Fitch Ratings

BANKING

IRAN

FATF extends suspension of counter measures

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that the timetable of Iran's action plan to address its AML/CFT deficiencies expired at the end of January 2018, with a majority of the plan's items still incomplete. In this context, it called on the authorities to adequately criminalize terrorist financing, identify and freeze terrorist assets, ensure an adequate and enforceable customer due diligence process, as well as guarantee the full independence of the Financial Intelligence Unit. Further, it added that authorities should ratify and implement the Palermo and Terrorist Finance Conventions, and clarify their capability to provide mutual legal assistance. In addition, it called on authorities to ensure that wire transfers at financial institutions contain complete originator and beneficiary information, and to make sure that banks establish a broader range of penalties for violations of money laundering offenses. Still, the FATF extended until June 2018 the suspension of the imposed counter measures used by international financial institutions against Iran. The FATF said that it will continue to monitor Iran's progress in addressing AML/CFT deficiencies, especially that Iran has AML/CFT draft legislation currently before Parliament. Until then, it considered that terrorism financing risks originating from Iran continue to pose a threat to the international financial system. As such, the FATF repeated its call on its members and on all jurisdictions to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with natural and legal persons from Iran.

Source: Financial Action Task Force

TUNISIA

Asset quality and challenging liquidity conditions to affect banks

Moody's Investors Service indicated that weak asset quality and challenging liquidity conditions will constrain the banks' creditworthiness in Tunisia. It anticipated lending growth to remain high at between 8% to 10% this year, in case economic activity continues to improve. It expected non-performing loans (NPLs) at Tunisian banks to be stable but to remain high at about 15% of gross loans. It attributed the stabilization of the NPLs ratio to the continuous growth in loans and the easing of write-off policies, especially at state-owned banks that have an NPLs ratio of 22%. It considered that a resolution of legacy NPLs would lead to a significant decline in the NPLs ratio. However, it noted that the banking sector's NPLs ratio is understated by about 80 basis points. Further, Moody's estimated that the banking sector's Tier One capital ratio regressed from 9.3% at the end of 2015 to 8.2% at end-September 2017, a ratio that it considers to be relatively low considering the fast lending growth, the elevated and sticky NPLs and the modest provisioning levels. It added that the banks' funding needs reached a record high of TND11bn, or $4.5bn in January 2018 compared to TND7bn a year earlier, which reflects increased liquidity challenges in the banking system. It noted that the banks' reliance on funding from Bank al-Maghrib increased to 8.4% of total funding last year and expected the banks' dependence on this source of funding to remain high in 2018, exposing the banks to adjustments in monetary policy.

Source: Moody's Investors Service

JORDAN

Solid capital and liquidity metrics to support banks' credit profiles

Moody's Investors Service considered that the solid capital levels and strong liquidity metrics of Jordanian banks will mitigate the negative impact of high credit risks. It indicated that credit risks in the Jordanian banking sector are elevated, as it anticipated that rising interest rates, high inflation rates, increasing unemployment levels and elevated household indebtedness would weigh on the borrowers' ability to repay their debt. As such, it projected the banking sector's non-performing loans ratio to slightly increase from 4.4% at the end of June 2017. It added that risks to the banks' credit profile are highly correlated with the sovereign, due to their significant holdings of Jordanian government securities. However, the agency expected the banks' capital levels to remain solid amid a modest growth in risk-weighted assets and some profit retention. It added that the banking sector's capital adequacy ratio under Basel III reached 17.8% at end-June 2017, one of the highest such ratios in the Middle East & North Africa region. It also noted that the banks' solid retail deposit base will limit their reliance on foreign and short-term market funding. In this context, it expected the banks' liquidity buffers, which reached 39% of total assets as at end-September 2017, to remain strong. Further, Moody's anticipated higher interest rates to lead to wider net interest margins, which will mitigate the impact of high loan-loss provisions, and lead to stable profitability metrics.

Source: Moody's Investors Service

PAKISTAN

Banking sector has stable outlook

Moody's Investors Service indicated that the stable outlook on Pakistan's banking sector for the coming 12 to 18 months balances improving economic activity and stable funding with the banks' large holdings of low-rated government bonds, modest capital levels and high asset risks. It forecast lending growth at 12% to 15% during the coming 12 to 18 months amid strong economic growth that is supported by higher domestic demand and Chinese-funded infrastructure projects. But it considered that the economy remains vulnerable to political instability and a deterioration in domestic security. Further, the agency expected the banks' asset quality to improve, supported by the banks' diversified loan portfolios and low corporate debt, as well as by higher economic growth. It estimated the non-performing loans ratio at 9.2% at the end of September 2017. However, it noted that asset risks are high due to weaknesses in the legal framework, as well as the banks' high exposure to low-rated government securities. In parallel, Moody's indicated that the banks' capital ratios have regressed, but it expected them to gradually recover once higher regulatory requirements come into force in 2018 and 2019. It anticipated higher profit retention, capital increases and capital optimization measures to support the banks' capitalization. Further, it expected the banks' profitability to remain flat despite interest margin pressure, supported by strong lending growth, stable funding from customer deposits, high liquidity levels and moderate provisioning needs. It projected customer deposits, which represent around 70% of total assets, to grow by 12% to 15% in the next 12 to 18 months.

Source: Moody's Investors Service

Oil prices pressured by trade-war concerns and higher U.S. production

ICE Brent crude oil front-month prices were volatile in the first two months of 2018, trading at a low of $62.6 per barrel (p/b) and at a high of $70.5 p/b. Oil prices dropped by 2.2% from end-February to close at $64.3 p/b on March 7, 2018, amid higher U.S. crude oil inventories and output, weaker economic performance in some Asian economies, and increased concerns that the U.S. will impose import tariffs. Further, the Energy Information Administration forecast U.S. crude oil production to rise by more than 120,000 barrels per day (b/d) to 11.2 million b/d by the fourth quarter of 2018, reflecting the strong pace of U.S. shale oil growth. In parallel, U.S. oil exports to Asia have declined from 676,190 b/d in January to about 560,000 b/d in February. U.S. shipments to Asia have been mainly affected by the narrowing Brent-WTI spread, which reached $3.5 p/b in February 2018, its lowest level since August 2017. In fact, Asian buyers would not find it economically attractive to import crude oil from the U.S. given these spreads, since they need a discount of at least $4 p/b to compensate the higher freight rates on the transportation cost. U.S. oil prices will remain competitive if the Brent-WTI spread widens amid rising shale oil output, declining U.S. refinery demand and ongoing OPEC-led cuts to keep Brent at higher levels than WTI prices. Overall, Brent and WTI oil prices are projected to average $61 p/b and $58 p/b, respectively, in 2018.
Source: Thomson Reuters, Standard Chartered, Byblos Research

Global steel output up by 1% in January 2018

Global steel production reached 139.4 million tons in January 2018, constituting an increase of 0.8% from 138.3 million tons in January 2017. Chinese steel production totaled 67 million tons in January 2018 and accounted for 48% of global production. Japan and India followed with 9 million tons or 6.5% of the total each, then the United States with 6.8 million tons (4.9%), South Korea with 6.1 million tons (4.4%), Russia with 5.7 million tons (4.1%) and Germany with 3.7 million tons (2.7%).
Source: World Steel Association, Byblos Research

Nigeria's oil production to rise by 11% in 2018

Nigeria's crude oil production is forecast to reach 2.1 million barrels per day (b/d) in 2018, which would constitute an increase of 10.5% from 1.9 million b/d in 2017. The implementation of reforms in the oil sector is anticipated to boost the country's oil output in the medium term and restore it to 2010 levels. Also, the country's crude oil receipts are projected at NGN5.3bn, or 3.7% of GDP, in 2018, up from NGN3bn, or 2.5% of GDP, last year.
Source: International Monetary Fund, Byblos Research

MENA's solar power project capacity to more than double in 2018

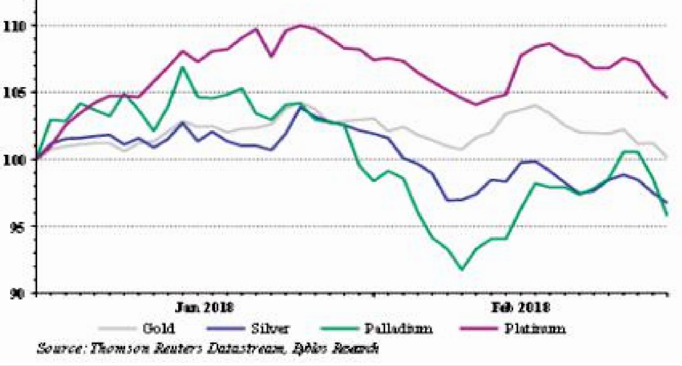
The aggregate capacity of solar power projects in the pipeline in the MENA region is estimated at 13 gigawatts (GW) in 2018, up 2.3 times from 5.7 GW in 2017. Solar photovoltaic projects would have a capacity of 11.89 GW, or 91.5% of the total, while Concentrated Solar Power projects would have a capacity of 1.2 GW, or 8.5%. Solar power projects in Saudi Arabia would have capacity of 6.4 GW, or 49% of the region's aggregate capacity of solar projects in the pipeline this year.
Source: Middle East Solar Industrial Association

Base Metals: Aluminum prices to average $2,250 a ton in 2018

The LME aluminum 3-month future prices closed at $2,097 per ton on March 7, 2018, constituting a decrease of 7.5% from the end of 2017, mainly driven by news that the U.S. Administration is considering to impose tariffs on imported aluminum and steel on the grounds of national security and to counter cheap imports, especially from China. In fact, the U.S. consumes more aluminum than it produces and, in turn, its demand for the metal has to be met through aluminum imports. Further, China's aluminum exports grew by more than 25% in the first two months of 2018, suggesting that winter production cuts by Beijing to battle air pollution have not been as effective as anticipated, resulting in excess supply of the metal and contributing to the decline in prices. However, aluminum prices averaged $2,197.3 per metric ton in the first two months of 2018, up by 20.4% from $1,824.5 per ton in the same period last year, and constituting the highest average for that period since 2012. Aluminum prices were supported by supply-side reforms and some mandatory closures of lower-grade producing factories in China. Overall, aluminum prices are projected to increase from an average of $1,980 a ton in 2017 to $2,250 a ton in 2018 and to reach $2,300 a ton in 2019.
Source: Standard Chartered, Thomson Reuters

Precious Metals: Gold Prices exceed $1,300 an ounce so far this year

Gold Prices averaged 1,330 per troy ounce so far in 2018, trading at a high of $1,359 an ounce and a low of $1,303 per ounce. Prices have traded above the $1,300 an ounce level so far this year, supported by uncertainties around the Italian general elections that were held on March 4, as well as expectations of rising U.S. inflation. In addition, recent fears over a global trade war following the U.S.'s announcement that it would impose tariffs on imported aluminum and steel have supported the metal's prices. Overall, gold prices are forecast to average $1,324 an ounce in 2018, which would constitute an increase of 5.2% from $1,258 an ounce in 2017. However, the performance of gold prices during the remainder of 2018 is subject to downside risks, which include expectations of strong U.S. economic growth, a stronger US dollar and further U.S. monetary tightening this year. In addition, North Korea's willingness to negotiate with the U.S. on abandoning its nuclear weapons in return for security guarantees could relieve tensions between the countries and, consequently, could push down gold prices.
Source: Standard Chartered, 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+								
	-	-	-	-	Negative	-2.5	17.3	2.5	-	-	-	-12.3	-
Angola	B-	B2	B	-	B-								
	Stable	Stable	Negative	-	Stable	-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	Positive	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	Stable	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	Ba2	BB+	BB+	BB-								
	Negative	Stable	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	08-Mar-18	No change	26-Apr-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-Mar-18	No change	03-Apr-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	07-Mar-18	No change	18-Apr-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	27-Feb-18	No change	12-Apr-18
Malaysia	O/N Policy Rate	3.25	07-Mar-18	No change	10-May-18
Thailand	1D Repo	1.50	14-Feb-18	No change	28-Mar-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	17.75	15-Feb-18	Cut 100bps	29-Mar-18
Turkey	Base Rate	8.00	07-Mar-18	No change	25-Apr-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	28-Feb-18	No change	30-Mar-18
Mexico	Target Rate	7.50	08-Feb-18	Raised 25bps	12-Apr-18
Brazil	Selic Rate	6.75	07-Feb-18	Cut 25bps	21-Mar-18
Armenia	Refi Rate	6.00	14-Feb-18	No change	28-Mar-18
Romania	Policy Rate	2.25	07-Feb-18	Raised 25bps	05-Apr-18
Bulgaria	Base Interest	0.00	01-Mar-18	No change	30-Mar-18
Kazakhstan	Repo Rate	9.50	05-Mar-18	Cut 50bps	16-Apr-18
Ukraine	Discount Rate	16.00	25-Jan-18	Raised 25bps	12-Apr-18
Russia	Refi Rate	7.50	09-Feb-18	Cut 25bps	N/A

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