

## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## WORLD

**Outlook 'stable' on 81% of bank ratings**

Fitch Ratings indicated that it downgraded 33 banks worldwide in the second half of 2017, which consist of 28 banks in emerging economies and five banks in developed countries. It noted that banks in the Middle East & Africa accounted for 45.5% of total downgrades, followed by those in Emerging Americas (30.3%), Emerging Europe (9%), Developed Americas and Developed Europe (6% each), as well as in Developed Asia (3%). In contrast, Fitch upgraded 32 banks globally in the second half of 2017, including 18 banks in emerging economies. It said that banks in Emerging Europe accounted for 38% of upgrades globally, followed by banks in Developed Europe (31%), Developed Americas (13%), as well as Developed and Emerging Asia (9% each). It pointed out that the ratio of upgrades to downgrades was the lowest since the first half of 2014. Further, it attributed 23 downgrades and six upgrades, or almost half of all banks rating actions, to similar actions on the sovereign ratings or a reassessment of the sovereign risk. Also, it noted that over two-thirds of the upgrades reflect stronger standalone profiles of banks. In parallel, the agency said that 81% of bank ratings had 'stable' outlooks in the second half of 2017, 11% of ratings had 'negative' outlooks, while 8% of them had 'positive' outlooks. It added that 16% of banks in emerging markets had 'negative' outlooks on their ratings, while only 7% had 'positive' outlooks.

Source: Fitch Ratings

## EMERGING MARKETS

**Sovereign borrowing from commercial sources to reach \$1.5 trillion in 2018**

S&P Global Ratings projected the long-term sovereign borrowing from commercial sources by emerging economies at \$1,517bn in 2018, which would reflect an increase of 1.9% from \$1,489bn in 2017. The figures cover 20 emerging markets with the highest estimated debt stock. S&P expected Emerging Asia to account for 63.4% of total commercial long-term borrowing in 2018, followed by Latin America (20.5%) and Emerging Europe, the Middle East & Africa (8.1%). It forecast China's gross sovereign commercial borrowing to account for 45.9% of the total, followed by Brazil with 12.2% and India with 8.1%. It indicated that \$723bn, or about 47.7% of total sovereign borrowing, would refinance maturing long-term debt, which would result in net borrowing requirements of about \$795bn in 2018. In parallel, S&P forecast the total sovereign commercial debt stock of the 20 countries at \$7,444bn at the end of 2018 relative to \$6,866bn at end-2017, which would consist of \$467bn in short-term debt and \$6,977bn in medium- and long-term debt. It projected China's debt to account for 30% of the commercial debt stock at end-2018, followed by Brazil (15.5%) and India (14.2%). Further, gross long-term sovereign commercial borrowing would be equivalent to 5.4% of the aggregate GDP of the 20 economies this year, while the commercial debt stock would be equivalent to 26.6% of their combined GDP. S&P projected Egypt's debt rollover ratio at 41.2% of GDP in 2018, followed by Lebanon (24.2% of GDP), and Hungary and Qatar (18.5% of GDP each).

Source: S&P Global Ratings

## MENA

**Region's wealth at \$158,892 per capita**

The World Bank estimated wealth in the Middle East & North Africa (MENA) region at \$158,892 per capita, the third highest behind North America (\$986,621) and Europe & Central Asia (\$368,233), and ahead of East Asia & Pacific (\$140,042), Latin America & the Caribbean (\$138,294), Sub-Saharan Africa (\$25,562) and South Asia (\$18,400). When excluding the MENA region's high-income countries, the Bank estimated the region's wealth at \$48,495 per capita, the fourth highest behind Latin America & the Caribbean (\$133,614), East Asia & Pacific (\$91,581) and Europe & Central Asia (\$70,530). The World Bank's wealth estimates broaden the measures used to assess a country's economic progress by including wealth as a complementary indicator to gross domestic product (GDP). It measures national wealth for 141 countries based on four asset categories that are produced capital & urban land, natural capital, human capital and net foreign assets. It estimated the MENA region's natural capital at \$70,137 per capita, the highest among all regions. Also, the region's human capital reached \$54,871 per capita, higher than in Sub-Saharan Africa (\$12,680) and South Asia (\$9,393), while the value of produced capital & urban land in the region was \$23,984 per capita, higher than in South Asia (\$4,797) and Sub-Saharan Africa (\$4,017). Further, the Bank estimated the MENA region's net foreign assets at \$9,900 per capita, the highest in the world.

Source: World Bank

**Arab countries accelerate efforts to improve energy efficiency despite significant challenges**

The World Energy Council included 13 Arab countries on its Energy Trilemma Index for 2017, which measures a country's ability to provide a secure, affordable and environmentally-sustainable energy system. It assessed a country's energy performance based on three dimensions that are Energy Security, Energy Equity and Environmental Sustainability. The UAE ranked first in the Arab region and came in 40th place globally on the index, followed by Kuwait (42nd) and Qatar (51st), while Iraq (80th), Jordan (87th) and Lebanon (95th) came last regionally. In parallel, the World Energy Council indicated that Arab countries performed well on the energy equity dimension, while they continued to face significant challenges in terms of energy security and environmental sustainability. It said that most Arab countries face high energy intensity and greenhouse gas emissions, high penetration of conventional energy resources, and growing water scarcity. In parallel, it indicated that many countries in the region are increasing their efforts to improve energy efficiency and diversify their energy mix through the increased use of solar energy among other renewables. In parallel, the UAE ranked in first place in the region, while Lebanon came in last place regionally on the Energy Security dimension. Also, Qatar came in first place and Lebanon came last on the Energy Equity indicator. Further, Egypt ranked in first place, while Oman came in last place regionally on the Environmental Sustainability dimension.

Source: World Energy Council

# OUTLOOK

## IRAQ

### Economy to grow by 4% in 2018

The Institute of International Finance projected Iraq's real GDP growth to accelerate from 0.2% in 2017 to 4% in 2018 and 4.4% in 2019. It expected hydrocarbon output to grow by 3% in 2018 and 4% in 2019 following a contraction of 2.1% in 2017. It forecast growth in the non-hydrocarbon sector at 6% this year and 5% in 2019, relative to 5% last year, mainly due to the government's expansionary fiscal stance and the recovery from a low output base following three years of contraction, and as the new reconstruction phase begins following the defeat of Islamic State militants. It said that the Iraqi government still has to implement many reforms, such as improving access to credit and developing the banking sector in order to develop the non-oil sector. It added that the government plans to gradually raise electricity tariffs above cost recovery to attract investment to the sector. It indicated that the main risks to the outlook include the intensification of sectarian tensions and lower-than-anticipated oil prices that could generate substantial revenue losses, weaken the fiscal and trade balances, and increase pressure on foreign currency reserves and on the exchange rate peg.

Further, the IIF forecast the fiscal balance to post a deficit of 1.1% of GDP in 2018 and to shift to a surplus of 0.2% of GDP next year relative to a deficit of 4.1% of GDP in 2017, supported by higher oil export receipts. But it cautioned that the ongoing dispute between the central government and the Kurdistan Regional Government over the level of fiscal transfers to Erbil could constrain the implementation of the 2018 budget. It projected the public debt level to regress from 61.8% of GDP at end-2017 to 57.2% of GDP at end-2018 and 53.3% of GDP at end-2019. In parallel, it expected the current account surplus at 4.7% of GDP this year and 3.3% of GDP next year, while it anticipated foreign currency reserves to increase from \$43.8bn at the end of 2017 to \$53.3bn at end-2018 and \$62.3bn at end-2019.

*Source: Institute of International Finance*

## PAKISTAN

### Growth prospects face significant risks

The International Monetary Fund considered that Pakistan's near-term growth prospects are favorable. It projected the country's real GDP growth to increase from 5.3% in the fiscal year that ended in June 2017 to 5.6% in FY2017/18, supported by improved power supply, increased investments related to the China-Pakistan Economic Corridor, strong consumption growth, and the ongoing recovery in agricultural activity. But it noted that Pakistan's macroeconomic resilience is weakening, amid widening external and fiscal imbalances, declining foreign currency reserves, as well as rising risks to the country's economic and financial outlook and to its medium-term debt sustainability. The Fund welcomed the authorities' decision to allow some exchange rate adjustment in December 2017, but stressed the importance of greater exchange rate flexibility to preserve external buffers and improve competitiveness. It considered that further monetary tightening, in addition to the recent increase in the policy interest rate, would be crucial to address inflationary risks and help reverse external imbalances. It expected the inflation rate to average 5% in FY2017/18 compared to 4.1% in FY2016/17.

In parallel, the Fund projected Pakistan's fiscal deficit at 5.5% of GDP in FY2017/18 following significant fiscal slippages in FY2016/17. But it said that the deficit could be wider due to spending pressure ahead of the July 2018 general elections, and forecast the government debt level at 67.2% of GDP at the end of June 2018. It called for better fiscal discipline, for prudent debt management and for carefully phasing in new external liabilities. Also, it encouraged the government to address rising fiscal risks from sustained losses at public-sector enterprises.

Further, the IMF pointed out that the current account deficit widened from 1.7% of GDP in FY2015/16 to 4.1% of GDP in FY2016/17, amid a significant increase in imports. It expected the deficit to further widen to 4.8% of GDP in FY2017/18, and for foreign currency reserves to continue to decline from \$16.1bn at end-June 2017 to \$12.1bn at end-June 2018 amid limited exchange rate flexibility. It considered that risks to Pakistan's medium-term capacity to repay its obligations to the Fund have increased in the context of rising external and fiscal financing needs and declining reserves.

*Source: International Monetary Fund*

## ANGOLA

### Outlook constrained by structural challenges

Barclays Capital expected Angola's economic activity, public debt level and inflation rate to continue to deteriorate over the coming months, despite the positive direction of the government's economic policies. It anticipated Angola to go through a deep economic adjustment this year, with a new managed exchange rate and tighter fiscal and monetary policies. It said that the Banco Nacional de Angola (BNA) expects real GDP growth to be about 1% this year relative to a previous growth target of 4.9% in the 2018 budget. Barclays forecast economic activity this year to be mainly driven by growth in the hydrocarbon sector amid higher global oil prices and export receipts, while it projected non-hydrocarbon sector activity to continue to contract. It anticipated Angola's oil output to face challenges in the medium term, given the lack of investment in the sector as a result of foreign currency shortages and the backlog of payments to oil companies.

In parallel, Barclays indicated that Angolan authorities are targeting a fiscal deficit of 3% of GDP in 2018 relative to a deficit of 5.3% of GDP last year. But it anticipated the deficit to exceed 3% of GDP when including a portion of the \$5bn in arrears identified in 2017. Further, it noted that the government has significant gross borrowing needs of about \$30bn in 2018. But it considered that higher oil prices and export receipts would limit the country's near-term financing risks. It said that the government will be able to raise most of its financing needs this year, as it has so far identified \$6bn in potential external financing that include \$2bn in Eurobond issuance, \$2bn in credit lines from Brazil and \$2bn still to be negotiated with China. Further, it noted that the government does not plan to restructure its debt with creditors, while it remains committed to honoring all its debt payments. It added that the government seeks to cut guaranteed credit lines, reduce the oil-guaranteed debt stock, and review contract conditions with commercial creditors.

*Source: Barclays Capital*



# ECONOMY & TRADE

## SAUDI ARABIA

### Insurance sector faces low industry and moderate country risks

S&P Global Ratings assessed as "intermediate" the property casualty (P/C) and health insurance sectors in Saudi Arabia. It noted that the assessment is derived from a "moderate" country risk and "low" industry risk for the domestic P/C and health insurance sectors. The risk scale ranges from "low" to "intermediate", "moderate" and "high". It pointed out that the Saudi insurance market is profitable, with the sector's return on equity at above 10%. It said that larger insurers are more profitable, as they benefit from economies of scale, while smaller local insurers achieve only modest returns. In parallel, S&P indicated that Saudi Arabia's P/C market growth prospects are "positive". It noted that gross written premiums grew by an annual average rate of 15% during the 2012-16 period, supported by higher mandatory medical coverage for foreigners and for Saudi nationals in the private sector, as well as by sharp increases in motor tariffs. It expected the growth in written premiums to remain flat in 2018, similar to 2017. But it expected premium growth to recover in the medium term, driven by efforts to address the large number of uninsured drivers, as well as by the anticipated lifting of the ban on female drivers in mid-2018. In addition, S&P considered that the Saudi insurance sector has high regulatory and operational barriers. It added that the Saudi Arabian Monetary Authority is not issuing new insurance licenses, while regulatory fees are high.

*Source: S&P Global Ratings*

## ALGERIA

### Economy faces challenges amid low oil prices

The International Monetary Fund indicated that the Algerian economy continues to face significant challenges as a result of low hydrocarbon prices. It said that economic activity slowed despite stable growth in the non-oil sector. It added that the fiscal and current account deficits remain wide despite the implementation of fiscal consolidation during the 2016-17 period, while foreign currency reserves declined by \$17bn from the end of 2016 to \$96bn at end-2017. It indicated that authorities have modified their short-term macroeconomic strategy since the end of 2017 and have adopted an expansionary budget for 2018, mostly financed by Banque d'Algerie (BA). It added that authorities intend to resume fiscal consolidation starting in 2019. The IMF considered the government's new short-term policy mix to be risky, as it said that it could widen imbalances, increase inflation and accelerate the decline in foreign currency reserves. It added that authorities can gradually reduce spending to the level of public revenues without resorting to monetary financing from BA. It noted that authorities can finance well-chosen investment projects through domestic debt issuance, public-private partnerships, the sale of state-owned assets and external borrowing. Also, it encouraged authorities to reduce tax exemptions and strengthen tax collection, as well as to decrease current spending and inefficient investment. It added that a gradual devaluation of the currency, along with efforts to eliminate the parallel foreign exchange market, would support the adjustment process. In parallel, the Fund called on the government to implement structural reforms, irrespective of the policy mix, in order to support the private sector.

*Source: International Monetary Fund*

## ARMENIA

### Ratings affirmed, outlook revised to 'positive'

Moody's Investors Service affirmed at 'B1' Armenia's long-term issuer and senior unsecured debt ratings, and revised the outlook from 'stable' to 'positive'. Also, it upgraded the long-term local currency bond and deposit ceilings from 'Ba2' to 'Baa3'. It attributed the outlook revision to improved macroeconomic policies that are expected to reduce Armenia's vulnerability to potential external shocks, as well as to ongoing fiscal reforms that would support the country's fiscal strength. It added that the government's effective monetary and prudential policies have helped maintain macroeconomic and currency stability, which is crucial given the reliance of the government and banks on external and foreign currency funding. Further, it anticipated that the full implementation of the mandatory pension contributions in July 2018 would help increase domestic savings and narrow the savings-investment gap, which, in turn, would reduce the country's reliance on external funding. In parallel, Moody's indicated that Armenia is implementing fiscal reforms, such as the introduction of budget allocation rules for projects and a new e-procurement system, which will help reduce the scope for corruption and strengthen fiscal discipline. Also, it considered that the introduction of a modernized fiscal rule this year will help control current expenditures. In this context, Moody's projected Armenia's fiscal deficit to narrow from 4.7% of GDP in 2017 to 2.6% of GDP in 2018 and 2.5% in 2019, while it forecast the government debt at 56.5% of GDP at the end of 2018 and 54.2% at end-2019.

*Source: Moody's Investors Service*

## ETHIOPIA

### Heightened political tensions and limited external borrowing exacerbate external risks

European credit insurance group Credendo indicated that Ethiopia's economic growth has averaged 9.9% yearly in the last decade, and has outperformed all other countries in East Africa. It noted that the country's economic activity has been mainly driven by state-led infrastructure investments and foreign investments in specific sectors. In parallel, it said that the country has run a structurally large current account deficit in previous years, but it projected the deficit to gradually narrow from 8.2% of GDP in the fiscal year that ends in July 2018 to about 6% by FY2020/21. It pointed out that the main funding source of the deficit has shifted in recent years from public external borrowing to foreign direct investments. But it considered that the two funding channels are currently under pressure, given the heightened political tensions and the country's limited ability to increase external borrowing. It added that political risks increased amid ongoing protests and the declared state of emergency that followed the resignation of Prime Minister Hailemariam Desalegn. Further, it estimated Ethiopia's external debt level at about 233% of current account receipts, which reflects its weak exports. In parallel, Credendo pointed out that heightened political risks and the country's reduced ability to increase external borrowing could further weigh on foreign currency reserves, which have been under pressure in recent years. It added that the government responded to the increased pressure by devaluing the Ethiopian birr by 15% in October 2017. However, it expected foreign currency shortages to persist in coming months.

*Source: Credendo*



# BANKING

## SAUDI ARABIA

### **Banks' profitability up on lower cost of funds**

Moody's Investors Service considered that the recovery in the net profits of banks in Saudi Arabia is credit positive for the banking sector, as it took place amid subdued domestic economic activity that weighed on credit demand and on the banks' revenues. It said that the banks' aggregate net profits increased by 9% in 2017 following a decline of 5% in 2016, mainly due to lower interest expenses. It noted that the banks' interest expenses decreased by 12% in 2017, which reflects an improvement in domestic funding conditions, following a significant tightening in 2016. Also, it pointed out that the Saudi Arabian Interbank Offered Rate declined from a peak of around 2.4% in October 2016 to between 1.7% and 1.9% in mid-2017, while the repo rate was unchanged at 2% despite three U.S. interest rate hikes, which has supported the banks' liquidity and contained funding costs. It added that Saudi banks managed to reduce more expensive funding sources, such as time deposits and wholesale funds. In parallel, Moody's pointed out that the banks' operating income grew by 4% in 2017, supported by a 9% rise in net interest income, and despite a 7% drop in non-interest income from lower fee-based businesses for banks, such as trade finance and foreign exchange transactions. It anticipated that a gradual pick up in credit growth and higher net interest margins would support the banks' profitability in 2018 and would offset their continued provisioning efforts. It also expected the banks' profitability to continue to outperform other banking systems in Gulf Cooperation Council countries.

*Source: Moody's Investors Service*

## TURKEY

### **Agency takes rating actions on 17 banks**

Moody's Investors Service downgraded from 'Ba1' to 'Ba2' the long-term debt and local-currency deposit ratings of Ziraat Bankasi, Akbank, Turkiye IS Bankasi (Isbank), Turkiye Garanti Bankasi, Yapi ve Kredi Bankasi (YapiKredi), Turkiye Vakiflar Bankasi, Turk Ekonomi Bankasi, Turkiye Sinai Kalkinma Bankasi, Export Credit Bank of Turkey, Alternatifbank, QNB Finansbank and ING Bank, and from 'Ba2' to 'Ba3' the ratings of Turkiye Halk Bankasi (Halkbank). It also affirmed at 'Ba2' the ratings of Denizbank, at 'Ba3' those of HSBC Bank Turkey and Odea Bank, and at 'B2' the ratings of Sekerbank. Further, it maintained the 'negative' outlook on the ratings of Isbank, YapiKredi, Halkbank, Denizbank and HSBC Bank Turkey, while it revised the outlook on the ratings of the remaining banks from 'negative' to 'stable'. The agency attributed the downgrade of the banks' ratings to its similar action on the sovereign ratings, which reflects the weakening capacity of the Turkish government to provide support in case of need, as well as a challenging operating environment. It considered that Turkey's institutional strengths continue to erode and that the risk of external shocks is rising amid high global interest rates and elevated political risk levels. In parallel, Moody's indicated that lending grew by 21% last year, given the government's stimulus measures and a relaxation of regulatory standards. It added that the double-digit lending growth reduced the non-performing loans ratio to 3% at the end of 2017. It expected the banks' asset quality to deteriorate, mainly due to elevated foreign-currency lending to corporates and to weaker construction activity.

*Source: Moody's Investors Service*

## MOROCCO

### **Weak capital and asset quality persist**

Fitch Ratings indicated that the weak asset quality and capital adequacy ratios of Moroccan banks continue to weigh heavily on their standalone viability. It said that the impaired loans ratio, which averaged 9.6% at Morocco's seven largest banks at end-June 2017, is high, with no signs of improvement despite stronger economic activity. Further, it pointed out that single-borrower concentration risks at Moroccan banks are very high, given that the top 20 loans represent almost an average of 24% of total loans among Fitch-rated Moroccan banks. It considered that high concentration levels expose the banks to higher borrower default risks and reflect weaker underwriting standards and risk controls than in more established markets in Africa, as well as compared to international standards. In parallel, it indicated that the banks' capitalization is not sufficiently strong to offset the sector's asset-quality weaknesses, and that the banks' ability to build up capital is limited. It noted that Moroccan banks must comply with a minimum 9% regulatory Tier One capital ratio, which is stricter than international standards. It expected the country's systemically important banks to continue to operate with ratios barely above this minimum. Further, Fitch anticipated the implementation of IFRS9 to require additional provisioning, which would further weigh on the banks' capital. But it noted that Bank Al-Maghrib may allow a five-year transition period for the banks to make up for reserve shortfalls. As such, it did not expect the viability ratings of Moroccan banks to improve unless there is a significant improvement in the capital ratios or a reduction in risk appetite.

*Source: Fitch Ratings*

## NIGERIA

### **NPLs ratio at 15% at end-September 2017, capital adequacy ratio at 11%**

The International Monetary Fund indicated that vulnerabilities in the Nigerian banking sector persist amid a deterioration in the banks' capitalization and asset quality. It noted that the banks' risk-weighted capital adequacy ratio regressed from 15% at the end of September 2016 to 10.6% at end-September 2017, and compared to the 8% minimum regulatory requirement of Basel II, due to four undercapitalized small- and medium-sized banks. It added that the sector's liquid assets represented 17% of total assets at end-September 2017, up from 15% at end-September 2016, while they were equivalent to 25.5% of total short-term liabilities at the end of September 2017 compared to 23.1% at end-September 2016. Also, it pointed out that the sector's non-performing loans ratio increased from 13.4% at end-September 2016 to 15.1% at the end of September 2017 and to 15.6% at end-October 2017. But it said that some banks restructured certain loans to contain a more significant deterioration in asset quality. In parallel, it pointed out that higher net interest margins, mainly from high yielding government securities, improved the banks' profitability. In fact, it noted that the banks' return on average assets was 2.4% in September 2017 on an annualized basis relative to 1.3% in September 2016, while their return on average equity increased to 20.5% in September 2017 on an annualized basis from 10% in September 2016. The IMF encouraged the Central Bank of Nigeria to adopt a more prudent approach to assess doubtful loans in order to detect any potential capital needs.

*Source: International Monetary Fund*



## ENERGY / COMMODITIES

### Oil prices remain stable on healthy demand, U.S.-supply risks persist

Crude oil prices have been stable so far in March 2018, trading in a narrow range of between \$63.6 per barrel (p/b) and \$65.8 p/b. ICE Brent crude oil front-month prices reached \$64.9 p/b on March 14, 2018, constituting an increase of 1% from \$64.3 p/b a week earlier and a decrease of 1.4% from \$65.8 p/b at end-February 2018. Oil prices have been mainly supported by healthy global demand, strong Chinese factory activity and a decline in China's oil production. China's industrial output rose by 7.2% year-on-year in the first two months of 2018, while its crude oil output regressed by 1.9% in the covered period, which increased the country's demand for oil imports and, in turn, supported oil prices. In addition, South Korea's oil imports have surged following the country's move to shut down its coal-fired generators to control air pollution, and as its nuclear reactors go into scheduled maintenance, which have supported oil prices. In parallel, the replacement of U.S. Secretary of State Rex Tillerson has lifted oil prices, given that the decision could have implications on the nuclear deal between the U.S. and Iran, which, in turn, could affect Iran's oil industry and exports. Also, oil prices remain constrained by the persistent rise in U.S. shale oil output, which could undermine the OPEC-led efforts to cut production and reduce the over-supply in the oil market. Overall, Brent and WTI oil prices are forecast to average \$62 p/b and \$56 p/b, respectively, in 2018.

Source: Thomson Reuters, Deutsche Bank, Byblos Research

### OPEC's oil basket price down 5% in February 2018

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged \$63.48 per barrel (p/b) in February 2018, constituting a decrease of 5% from \$66.85 p/b in the preceding month. Angola's Girassol crude oil was at \$66.09 p/b, followed by Nigeria's Bonny Light at \$66.02 p/b and Algeria's Saharan blend at \$66.01 p/b. All 14 prices included in the OPEC reference basket posted monthly decreases that ranged from \$1.5 p/b to \$4.04 p/b in February 2018.

Source: OPEC, Byblos Research

### Nigeria's oil receipts up 50% to \$3.6bn in 2017

Nigeria's crude oil and condensate export receipts totaled \$3.6bn in 2017, constituting an increase of 49.6% from \$2.4bn in 2016. Export revenues in 2017 consisted of \$2.5bn from crude oil exports (69.4%), \$960.4m from gas exports (26.8%) and \$136.3m in other receipts (3.8%). The authorities transferred \$2.65bn of total hydrocarbon revenues in 2017 to the Federation Account, while they used \$942.2m to pay global oil companies.

Source: Nigerian National Petroleum Corporation

### OPEC's oil output unchanged in February 2018

Crude oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 32.19 million barrels per day (b/d) in February 2018, nearly unchanged from 32.26 million b/d in the preceding month. Saudi Arabia produced 10 million b/d in February 2018, equivalent to 31% of OPEC's total oil production, followed by Iraq with 4.4 million b/d (13.7%), Iran with 3.8 million b/d (11.8%) and the UAE with 2.8 million b/d (8.8%).

Source: OPEC, Byblos Research

### Base Metals: Copper market to post modest surplus in 2018 and 2019

LME copper three-month future prices averaged \$7,082 per metric ton in the first two months of 2018, up from an average of \$6,198 a ton in 2017, mainly driven by the introduction of new regulations to limit scrap imports in China and strong global demand associated with the rise in the sales of electric vehicles. Prices are forecast to average about \$7,000 a ton in the first and second quarters of 2018, and to increase to an average of \$7,200 a ton in the third quarter and \$7,400 a ton in the fourth quarter of the year. The expected rise in the metal's price reflects stronger demand in Brazil and Russia, as well as a recovery in U.S. consumption of the metal. In addition, copper demand in India is forecast to pick up this year, supported by the "Make in India" campaign to build new smart cities. However, growth in Chinese demand is anticipated to slightly decelerate in 2018, mainly due to slower activity in the property and construction sectors. In fact, unsupportive mortgage policies in China are expected to weigh on demand for the metal this year, while investment in railway construction is forecast to fall by 8.6% in 2018. Overall, the copper market is expected to post a modest surplus in 2018 and 2019.

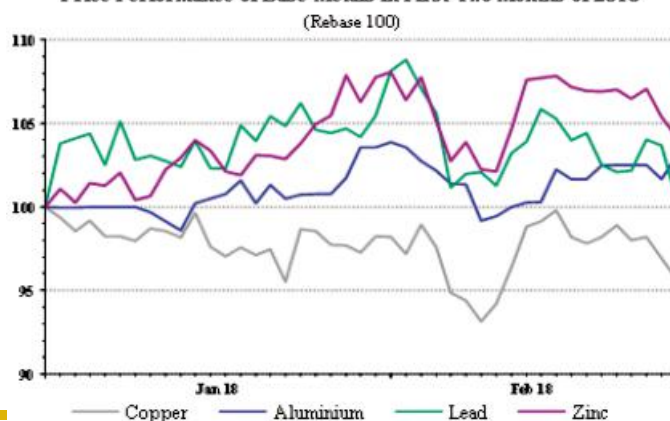
Source: Thomson Reuters GFMS, Standard Chartered

### Precious Metals: Production surplus in platinum market to narrow in 2018

Platinum prices averaged \$983 a troy ounce so far in 2018 and struggled to increase further, due to a court ruling in Germany last month to ban diesel-powered vehicles in the country, which led to lower autocatalyst demand for the metal. In fact, demand for platinum is projected to reach 7.8 million ounces in 2018, nearly unchanged from 2017, as expectations of improved global industrial and jewelry demand would be offset by anticipated decreases in demand for the metal from the auto sector and from investment demand. Further, the global automotive sector is forecast to account for 42.2% of total platinum demand in 2018, followed by the jewelry industry (32.2%) and the industrial sector (22.5%). In parallel, global platinum supply is projected to decrease by 2% to 7.8 million ounces in 2018, mainly due to a contraction of 4% in mine production. As such, the production surplus in the platinum market is forecast to narrow from 250,000 ounces in 2017 to 25,000 ounces in 2018. In turn, the metal's price is forecast to grow from an average of \$960 an ounce in the first half of 2018 to \$1,025 an ounce in the second half of this year.

Source: World Platinum Investment Council, Standard Chartered

Price Performance of Base Metals in First Two Months of 2018



Source: Thomson Reuters Datastream, Byblos Research

# COUNTRY RISK METRICS

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



# 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      |                               |                              |                         |                                             |                        |                               |                                   |                   |
| <b>Asia</b>                         |                            |          |          |        |          |                               |                              |                         |                                             |                        |                               |                                   |                   |
| Armenia                             | -                          | B1       | B+       | -      | B-       |                               |                              |                         |                                             |                        |                               |                                   |                   |
|                                     | -                          | Positive | 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               |
| <b>Central &amp; Eastern Europe</b> |                            |          |          |        |          |                               |                              |                         |                                             |                        |                               |                                   |                   |
| 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         | 09-Mar-18    | No change    | 27-Apr-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) | 15-Mar-18    | No change    | 21-Jun-18    |
| Canada                  | Overnight rate        | 1.25          | 07-Mar-18    | No change    | 18-Apr-18    |
| <b>Emerging Markets</b> |                       |               |              |              |              |
| 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    | 23-Mar-18    |



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