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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global debt equivalent to 318% of GDP in 2017

The Institute of International Finance indicated that global debt, which includes the debt of corporates, governments and households, reached a record-high of $237.2 trillion, equivalent to about 318% of global GDP, at the end of 2017 compared to $216.4 trillion at end-2016. It noted that global debt continued to rise in the fourth quarter of 2017, while the debt-to-GDP ratio declined for the fifth consecutive quarter due to strong global GDP growth and favorable financing conditions. It pointed out that global non-financial corporate debt reached $69.8 trillion, or 91.3% of GDP, at end-2017, followed by government debt with $64 trillion (86.4% of GDP), financial sector indebtedness with $58.8 trillion (80.8% of GDP) and household debt with $44.7 trillion (59.3% of GDP). In parallel, the IIF said that emerging market (EM) debt grew from $55.7 trillion at the end of 2016 to $63.4 trillion, or about 210% of EM GDP, at end-2017. It indicated that EM nonfinancial corporate debt totaled $28.7 trillion, or 93.7% of GDP, at the end of 2017, followed by EM government borrowing at $14.3 trillion (48.3% of GDP), EM household debt at $10.7 trillion (35.5% of GDP) and financial sector indebtedness at $9.8 trillion (32.7% of GDP). Further, the IIF noted that the debt of mature markets reached $173.8 trillion at the end of 2017 relative to $160.7 trillion at end-2016.

Source: Institute of International Finance

Insurers' losses from disasters at $144bn in 2017

Reinsurer Swiss Re estimated the global economic losses from natural catastrophes and man-made disasters at $337bn in 2017, constituting a rise of 87.2% from $180bn in 2016, and well above the 10-year annual average losses of $190bn. Total economic losses include insured and uninsured catastrophe losses. Losses from natural catastrophes reached $330bn and represented 98% of overall losses in 2017, while those from man-made disasters reached $7bn and accounted for 2% of the total last year. Economic losses in North America amounted to $244bn and were equivalent to 1.17% of the region's GDP, followed by Latin America & the Caribbean (LAC) with $32bn (0.59% of GDP), Asia with $31bn (0.11% of GDP), Europe with $24bn (0.12% of GDP), Oceania & Australia with $3bn (0.22% of GDP) and Africa with $3bn (0.14% of GDP). In parallel, insurers' overall losses grew by 157.1% to a record-high of $144bn in 2017, and accounted for 42.7% of total economic losses last year. Insurers' losses from natural catastrophes and man-made disasters in North America reached $119.1bn in 2017 and accounted for 82.5% of the total, followed by Europe with $12bn (8.3%), LAC with $5.1bn and Asia with $5bn (3.5% each), Oceania & Australia with $2.1bn (1.4%) and Africa with $800m (0.5%), while insurers' losses from seas and space catastrophes amounted to $300m, or 0.2% of total. Also, insurers' losses from natural catastrophes amounted to $138.1bn, or 95.7% of total insured losses in 2017, while those from man-made disasters reached $6.2bn (4.3%).

Source: Swiss Re

MENA

Stock markets up 6% in first quarter of 2018

Arab stock markets improved by 6.3% and Gulf Cooperation Council equity markets rose by 5.9% in the first quarter 2018, relative to decreases of 0.4% and 0.9%, respectively, in the same quarter of 2017. In comparison, global equities declined by 1.3%, while emerging market equities regressed by 0.5% in the covered quarter. Activity on the Egyptian Exchange jumped by 16.2% in the first quarter of 2018, the Tunis Bourse surged by 14.3%, the Khartoum Stock Exchange increased by 9.1%, the Iraq Stock Exchange expanded by 9%, the Saudi Stock Exchange improved by 8.9%, the Beirut Stock Exchange grew by 6.6%, the Casablanca Stock Exchange increased by 5.4%, the Amman Stock Exchange grew by 5%, the Abu Dhabi Securities Exchange improved by 4.3%, the Boursa Kuwait expanded by 3.5%, the Damascus Securities Exchange increased by 2.4% and the Qatar Stock Exchange appreciated by 0.6%. In contrast, activity on the Dubai Financial Market dropped by 7.8%, the Muscat Securities Market declined by 6.4%, the Palestine Exchange decreased by 1.6% and the Bahrain Bourse regressed by 1% in the covered quarter. In parallel, activity on the Tehran Stock Exchange rose by 1.4% in the first quarter of 2018.

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

AFRICA

Tourism sector in North Africa to account for 11% of GDP in 2018

The World Travel & Tourism Council expected North Africa's tourism sector to account for 10.9% of GDP in 2018 and for 11.1% of GDP in 2028. It forecast the broad tourism & travel (T&T) economy to generate demand of $63bn in 2018 and to reach $91.4bn in constant 2017 prices by 2028. It projected the sector's real growth rate at 3.5% in 2018 and 3.8% annually during the 2018-28 period. The WTTC forecast business travel spending at $7.7bn in 2018, and expected it to grow by a real average rate of 3.1% yearly to $10.4bn in constant prices by 2028. It also forecast leisure travel expenditures at $35.6bn this year, and projected them to grow by a real average rate of 3.7% annually to $51.5bn in constant 2017 prices by 2028. It estimated capital investment in the T&T economy at $11bn in 2018 and at $17.1bn in constant prices within 10 years. Further, it forecast the export of tourism services at $19.2bn this year and at $28.3bn in constant 2017 prices by 2028, which would account for about 13.1% of the region's total exports in 2018 and for about 10.9% of exports in 2028. It said that the T&T industry will employ 5.73 million people, equivalent to 9.9% of the region's total employment in 2018, with the figure rising to 6.96 million jobs, or 10.1% of employment by 2028.

Source: World Travel & Tourism Council

POLITICAL RISK OVERVIEW - March 2018

DEM REP CONGO

The government submitted a list of 600 registered political parties and coalitions to the electoral commission (CENI), in preparation for the planned presidential elections in December 2018. Exiled opposition leader Moïse Katumbi confirmed his intention to run for president, as well as to form a new coalition, Together for Change, which consists of G7 Opposition alliance, the Alternance pour la République (AR) alliance, and other opposition parties. Politician Mr. Felix Tshisekedi was elected president of the Union for Democracy and Social Progress (UDPS), one of the major political parties in the country, with over 98% of votes. However, rival parties to the UDPS contested his election.

EGYPT

President Abdel Fattah al-Sisi was re-elected as President of Egypt with 97% of the votes during the presidential elections that were held between March 26 and March 28, 2018. The military trial of former Armed Forces Chief of Staff Sami Anan started on March 22. Mr. Anan was detained in January after having announced his intention to run for president, which violates Egypt's military code. Clashes between the Egyptian army and Islamic State (IS) militants intensified. A bombing in Alexandria that targeted the city's security chief killed two people, including a police officer. Police accused the Muslim Brotherhood-affiliated Hassm movement of carrying the attack. The Supreme Constitutional Court supported the transfer of two Red Sea islands, Tiran and Sanafir, to Saudi Arabia ahead of Saudi Crown Prince Mohammed bin Salman's visit to Cairo.

ETHIOPIA

The ruling coalition Ethiopian People's Revolutionary Democratic Front elected Mr. Abiye Ahmed as its leader, in a bid to position him as the next Prime Minister. The Parliament's approval of a state of emergency on March 2 resulted in strikes and clashes between protesters and security forces. Authorities arrested around 1,107 people following the announcement of the state of emergency. The army killed nine civilians at the border with Kenya, as it mistook them for rebels, which led to the migration of 8,500 persons to Kenya.

IRAN

The Joint Comprehensive Plan of Action's (JCPOA) joint commission met in Vienna on March 16 in order to discuss Iran's compliance with nuclear commitments under the 2015 Nuclear Agreement. The International Atomic Energy Agency, the body in charge of monitoring and verifying Iran's compliance with its nuclear-related commitments under the JCPOA, confirmed that Iran has continued to adhere to these commitments. On March 16, Britain, France and Germany proposed new European Union sanctions against Iran over its ballistic missiles program and its role in the Syrian war. U.S. President Donald Trump extended by one year the national emergency with respect to Iran, in an effort to deal with actions and policies by Iran that threaten the U.S. economy, as well as its national security and foreign policy.

IRAQ

Prime Minister Haider al-Abadi announced the lifting of the international flight ban on the Erbil and Suleimaniya airports, following negotiations between the federal government and the Kurdistan Regional Government (KRG). The Parliament passed the long-delayed 2018 budget, and reduced allocations to the KRG, which led to objections from Kurdish lawmakers, as well as from the International Monetary Fund. Government forces and the Shiite Popular Mobilization Units continued to fight Islamic State militants in the Hawija district of the Kirkuk province. The Turkish military carried out cross-border airstrikes on the Kurdistan Workers' Party's positions in the north. A total of 104 Iraqi civilians were killed and another 177 injured in acts of terrorism, violence and armed conflict in Iraq in March 2018.

LIBYA

Fighting continued in the southern city of Sabha between the military unit of Awlad Suleiman that is affiliated with the Libyan National Army (LNA) and the Tebu ethnic militias affiliated with the Tripoli-based Government of National Accord (GNA). The LNA maintained its siege of the city of Derna, in an effort to recapture the city from the coalition of Islamist militants known as the Derna Mujahideen Shura Council. A U.S. airstrike, in coordination with the GNA, targeted Islamic State militants around the southwestern city of Ubari. Gunmen took Tripoli's Mayor Mr. Abdelraouf Beitelmal from his home, but later released him. Officials indicated that the mayor was taken into custody, while others said that he was abducted.

SUDAN

Sudan and Egypt exchanged detainees in an attempt to reduce tensions that erupted between the two countries in December 2017. The detainees were arrested for illegally crossing the disputed border between the two countries. Sudan's ambassador to Egypt Abdel Mahmoud Abdel Halim returned to his post in Cairo, after he was recalled two months earlier due to tensions between the two countries. President Omar al-Bashir and Egyptian President Abdel Fattah el-Sisi met in Cairo as part of efforts to mend ties between the two countries. However, the two governments continue to disagree on certain issues, including the construction of the Grand Ethiopian Renaissance Dam.

SYRIA

Turkish forces and allied Syrian rebels entered the northern city of Afrin following the withdrawal of the Kurdish People's Protection Units (YPG). Mr. Omar Alloush, the co-head of the Raqqa Civil Council's Public Relations Committee, was killed near the Turkish border. Two soldiers from the U.S. and the United Kingdom were killed in a bomb attack in the northern city of Manbij. Negotiations between Turkey and the U.S. continued over the withdrawal of the YPG from Manbij. Regime and Russian forces launched airstrikes on the Damascus suburb of Eastern Ghouta, which forced the three rebel groups that were controlling the region to strike deals with the government and to withdraw to the North. Islamic State militants carried attacks on pro-regime fighters in two separate offensives in Damascus.

TURKEY

Military operations against the militants of the Kurdistan Workers Party (PKK) continued, mostly in the rural areas of the southern Diyarbakır province. Also, military forces carried out airstrikes targeting PKK positions in northern Iraq and captured the northern city of Afrin in Northwest Syria. President Recep Tayyip Erdoğan threatened to attack Kurdish fighters in Manbij, which also raised concerns over a possible confrontation between Turkish and U.S. troops in the region. Amid continued strained relations, U.S. and Turkish officials met to discuss bilateral relations, as well as other issues, such as their operations in Syria and Iraq.

YEMEN

Fighting between Huthis and anti-Huthi forces continued around the port of Hodeidah. Huthi rebels launched a ballistic missile on the cities of Riyadh and Najran. However, Saudi government forces intercepted and destroyed the missile. The Islamic State claimed responsibility for a car bombing in a military kitchen in Aden that led to seven deaths. Suspected al Qaeda militants attacked a military checkpoint in southeastern Yemen, killing at least nine soldiers. The United Nations Security Council urged warring parties in Yemen to allow humanitarian convoys to safely reach all conflict-affected governorates, as well as to keep Yemeni ports fully open to commercial and relief supply imports. The United Nations appointed Former UK diplomat Martin Griffiths as its new special envoy for Yemen.

Source: International Crisis Group, Newswires

NIGERIA

Improved economic activity amid structural weaknesses

The Institute of International Finance indicated that Nigeria's growth outlook continues to be subdued despite the recent economic recovery in 2017, due to an elevated inflation rate, sustained foreign currency shortages, weak investment and fragile security conditions. It projected the country's real GDP growth to improve from 0.8% in 2017 to 2.2% in 2018 amid a gradual increase in oil production and stable security conditions. It expected growth to pick up to 4.3% in 2019 due to higher oil output and increased refinery capacity, but to remain below the government's target of 7% annually under the Economic Recovery and Growth Plan. It indicated that Nigeria's limited fiscal space and the upcoming general and presidential elections scheduled for 2019 could put at risk the government's plans to increase oil production, attract $24bn in investments and generate 15 million new jobs by 2021. It considered that authorities should reduce the persistent corruption, strengthen the energy sector, and increase public and private investments in order to achieve significantly higher and more sustainable growth rates. Further, it projected the inflation rate to regress from 15.4% at the end of 2017 to 11.1% at end-2018 and 11.4% at end-2019, but to remain significantly above the Central Bank of Nigeria's target of between 6% and 9%.

In parallel, the IIF expected Nigeria's fiscal deficit to narrow from 4.3% of GDP in 2017 to 3.8% of GDP in 2018, mainly due to higher oil export receipts and increased non-oil revenues and profits from state-owned enterprises. But it expected the deficit to miss the 2018 budget's target of 1.8% of GDP. It forecast the public debt level to grow from 18.1% of GDP in 2017 to 21.9% of GDP in 2018. It noted that the government has recently resorted to foreign borrowing and raised more than $5bn in Eurobonds, which would reduce debt servicing costs but expose the government to exchange rate risks. Further, it expected the current account surplus to decrease from 2.6% of GDP in 2017 to 1.7% of GDP in 2018, as higher imports would offset the increase in exports. It forecast foreign currency reserves to increase from $41.5bn at the end of 2017 to $46.5bn at end-2018.

Source: Institute of International Finance

TURKEY

Challenging near-term growth prospects

The Institute of International Finance projected Turkey's real GDP growth to decelerate from 7.4% in 2017 to 4.2% in 2018, mainly due to a slowdown in lending activity, private consumption and investment. It noted that economic activity last year was supported by higher private consumption as a result of the government's employment incentives and stimulus from the Credit Guarantee Fund (CGF). It expected that the government's accommodative fiscal and quasi-fiscal policies, ahead of the 2019 parliamentary, presidential and local elections, would support growth in the near term, but that they would exacerbate the already sizable macroeconomic imbalances. As such, it projected real GDP growth to slightly recover to 4.4% in 2019, amid the government's significant pre-election fiscal easing. However, it anticipated economic activity to remain constrained by the country's sustained large external financing needs, widening fiscal deficit, heightened geopolitical risks, and slower-than-planned progress on structural reforms ahead of the 2019 elections. It added that tighter global liquidity conditions could weaken the country's ability to access foreign funding, which would further increase currency depreciation pressures and constrain near-term growth prospects. Further, it projected the average inflation rate to decline gradually from 11.9% in 2017 to 9.5% in 2018 and 9.1% in 2019, but to remain significantly above the 5% inflation target.

In parallel, the IIF projected the central government deficit to widen from 1.5% of GDP in 2017 to 2.6% of GDP in 2018 and 2.9% of GDP in 2019, mainly due to higher spending. It anticipated the government to miss its target deficit of 1.9% of GDP this year amid cyclical revenue weaknesses and pre-election spending. Further, it noted that the external financing outlook in 2018 remains challenging, as higher oil prices would weigh on the current account deficit, which it projects to widen from 5.5% of GDP in 2017 to 5.9% of GDP in 2018 and 2019. Also, it forecast the country's gross external financing needs to remain elevated at about 25% of GDP in 2018. It added that most of Turkey's large and rising external financing needs are funded by the foreign borrowing of domestic banks and by portfolio inflows, which leaves the economy vulnerable to global or regional shifts in market sentiment.

Source: Institute of International Finance

ARMENIA

Economic growth to slow down on reduced consumption

Barclays Capital expected Armenia's economic growth to slow down in 2018 following a significant pick up in 2017. It noted that the country's economic activity in 2017 was driven by strong consumption due to higher remittance inflows, mainly from Russia, the main source of remittances to Armenia. However, it anticipated that remittance inflows to Armenia would stabilize in 2018 in the absence of any significant acceleration in Russia's economic activity. It also expected the rising inflation rate to weigh on real income and, in turn, to reduce private consumption. As such, it projected Armenia's real GDP growth to decelerate from 7.4% in 2017 to 4.3% in 2018. But it expected that the Amulsar gold mine, which is set to start production in the third quarter of 2018, would support mining sector growth.

Further, Barclays projected Armenia's fiscal deficit to narrow from 3.5% of GDP in 2017 to 2.8% of GDP in 2018, supported by the government's ongoing fiscal consolidation efforts. In turn, it forecast the public debt level to decline from 61% of GDP last year to 59% of GDP in 2018. It pointed out that Armenian authorities introduced a new fiscal rule that became effective starting in 2018, which limits current budget expenditures when the public debt level exceeds 60% of GDP. It also noted that the new rule was endorsed by the International Monetary Fund. In addition, Barclays projected Armenia's current account deficit to widen from 2% of GDP in 2017 to 2.7% of GDP in 2018 and to 3% of GDP in 2019.

Source: Barclays Capital

BAHRAIN

Ratings downgraded on weakening external position and public finances

Capital Intelligence Ratings downgraded Bahrain's long-term local and foreign currency sovereign ratings from 'BB+' to 'BB' and affirmed its short-term local and foreign currency sovereign ratings at 'B'. Also, it revised the outlook on the long-term ratings from 'negative' to 'stable'. It attributed the downgrade to the sustained weakening of the country's net external asset position, its reduced capacity to weather further oil price shocks, as well as its relatively weak public finances and increasing reliance on capital markets to secure its financing needs. Still, it indicated that Bahrain's ratings are supported by its relatively high GDP per capita, diversified economy and the possibility of economic and financial support from other GCC countries. The agency indicated that Bahrain's external liquidity has continued to decrease amid weaker hydrocarbon exports. Further, it expected the country's refinancing risks to increase given its low and volatile foreign currency reserves. It cautioned that Bahrain could face a shift in investors' perception if external pressures persist, which would increase refinancing risks and weaken the country's capacity to raise funds. In parallel, CI expected the fiscal deficit to slightly narrow from 10.5% of GDP in 2017 to 9.9% of GDP in 2018, mainly due to higher oil export receipts. It said that the government is introducing limited fiscal consolidation measures that are insufficient to significantly reduce the fiscal imbalances. As such, it forecast the government debt level to rise from about 90% of GDP in 2017 to 107% of GDP by 2019 under current policies.

Source: Capital Intelligence Ratings

UAE

Insurance sector faces intermediate industry and country risks

S&P Global Ratings assessed as "intermediate" the industry and country risk levels for the property and casualty (P/C) insurance sector in the UAE. The risk scale ranges from "low" to "intermediate", "moderate" and "high". S&P attributed its assessment to the UAE's positive market growth prospects, relatively modest insurance product risks, and weak institutional and regulatory frameworks. It noted that the aggregate gross written premiums of P/C insurers in the UAE grew by 12% in 2017, supported by the introduction of compulsory basic medical insurance for about one million lower-income workers in Dubai, as well as by an increase of between 15% and 25% in motor premiums. It expected the P/C insurance segment's gross written premiums to increase by an average of 10% annually in 2018 and 2019, and to benefit from accelerated infrastructure spending in the run up to the Expo 2020, as well as from population growth. Further, it said that insurance product risks are limited and have short-tail development characteristics, and that the risks from unpredictable claim settlements are low and manageable. In parallel, S&P noted that the UAE's P/C insurance market generated an annual average return on equity (ROE) of 5.1% during the 2013-17 period, but that the returns were volatile due to intense competition and unstable investment returns. It expected the sector's ROE to decline from 8.2% in 2017 to 6% in 2018 due to lower volumes in several business lines, volatility in investment returns, and higher costs.

Source: S&P Global Ratings

SAUDI ARABIA

Sovereign ratings affirmed on strong external and fiscal positions

S&P Global Ratings affirmed at 'A-/A-2' Saudi Arabia's foreign and local currency sovereign ratings, with a 'stable' outlook. It noted that the ratings are supported by the country's strong fiscal and external positions, but are constrained by its limited public sector transparency and monetary policy flexibility. It forecast Saudi Arabia's real GDP to grow by 2% in 2018 compared to a contraction of 0.7% in 2017, supported by rising public investments and higher oil prices. It noted that the authorities have pushed the target date to balance the general government budget from 2020 to 2023, which reflects their decision to increase public investment. It anticipated the government to continue its fiscal consolidation until 2021, but at a slower pace than in 2017. It said that higher oil prices and other revenue-raising measures will support the government's fiscal consolidation efforts despite significant spending growth. As such, it projected the fiscal deficit to narrow from 7.8% of GDP in 2017 to 3.5% of GDP in 2018 and 0.6% of GDP by 2021. It forecast the public debt level to rise gradually from 17.1% of GDP at end-2017 to 30% of GDP by end-2021. Also, S&P expected the country's net external liabilities to average 184% of current account payments in the 2018-21 period. It also projected gross external financing needs at around 43% of current account receipts plus usable reserves in the same period. Further, it forecast foreign currency reserves to decline from $416bn at end-2017 to $407.1bn at end-2018 and $367.3bn at end-2021, mainly due to financing the fiscal deficit.

Source: S&P Global Ratings

TUNISIA

Macroeconomic vulnerabilities persist

The International Monetary Fund indicated that Tunisia's economic activity has recovered modestly in 2017 amid high macroeconomic vulnerabilities and an elevated unemployment rate. It said that the country continues to face a high and increasing public debt level, rising inflation rate and a very low level of foreign currency reserves. It noted that authorities have started to address these challenges through a deficit-reducing budget for 2018, monetary policy tightening, and a renewed commitment to a flexible exchange rate. It added that the government stepped up structural reforms that aim to improve governance, strengthen the business environment and modernize the civil service and pension systems. It said that the reforms would allow the public debt level to stabilize at below 73% of GDP by 2020, and would lead to higher investment and social spending. It added that a sustained monetary tightening and a more flexible exchange rate would help contain inflationary pressure, improve competitiveness and replenish foreign currency reserves. Also, the IMF approved the disbursement of $257.3m to Tunisia under the 48-month Extended Fund Facility arrangement of $3bn, bringing total disbursements under the arrangement to about $919m. In parallel, IHS Markit downgraded Tunisia's medium-term sovereign credit risk rating from 45 to 50, equivalent to 'BB-' on the generic scale, with a 'negative' outlook. It attributed the downgrade to the country's persistent public finance and external vulnerabilities, including declining foreign currency reserves and the wide fiscal and current account deficits.

Source: International Monetary Fund, IHS Markit

OMAN

New regulatory changes to ease banks' capital and liquidity requirements

Regional investment bank EFG Hermes indicated that the Central Bank of Oman's (CBO) implementation of four new regulatory changes starting on April 1, 2018 would ease the Omani banking sector's capital and liquidity requirements. First, it noted that the CBO reduced the minimum capital adequacy ratio from 12% to 11%, which would provide the banks with OMR2.6bn in additional room for lending. Second, it said that the CBO allowed banks to include domestic interbank borrowings in the deposit base of their lending ratio. Third, it pointed out that the CBO relaxed the banks' asset-liability duration limit that measures the gap between the duration of assets and liabilities, which would ease the banks' liquidity gap constraints. Fourth, it noted that the CBO increased the regulatory cap for non-resident lending exposure from 50% of equity to 75% of equity. EFG indicated that Omani banks are facing a challenging macroeconomic environment, tight liquidity, high funding costs and asset quality pressures. It said that banks have reduced their lending appetite, while credit demand has weakened. It noted that the liquidity squeeze in the 2015-16 period has increased funding costs amid strong competition for deposits between banks and the shortage of government deposits. Further, it pointed out that the new regulatory changes would help banks manage their liquidity and optimize their balance sheet and, in turn, boost credit growth. Also, it indicated that authorities have launched new public-private partnership projects across the country, which would enable banks to provide necessary financing for the projects once lending demand materializes.

Source: EFG Hermes

GHANA

Bank of Ghana encouraging banking sector consolidation

Moody's Investors Service indicated that Bank of Ghana (BoG) placed Unibank, the third largest bank in terms of assets in Ghana, under administration due to its negative capital and persistent liquidity challenges. It noted that BoG's action is credit positive for Ghanaian banks since it will enhance their long-term financial stability by removing weaker banks from the system. It said that BoG's intervention follows Unibank's failure to restore its capital adequacy ratio to the required 10% level, among several other regulatory breaches. In parallel, Moody's considered that the placement of Unibank under administration and the cancellation of licenses for smaller banks in 2017 reflect BoG's tightened regulatory stance, which will constrain the banks' ability to classify their NPLs and allocate their capital. It expected BoG's actions to lead to consolidation in the sector, which will result in fewer but larger banks. In turn, this would improve bank surveillance and induce other banks to mitigate excessive risk-taking, reduce unsustainable asset growth, or increase capital buffers. Further, Moody's expected depositor confidence, particularly for smaller banks and other weaker franchises, to be negatively affected over the next quarter, with further transfers of deposits to larger and stronger franchises.

Source: Moody's Investors Service

MOROCCO

Agency takes rating actions on four banks

Fitch Ratings affirmed at 'BB+' the long-term foreign- and local-currency Issuer Default Ratings (IDRs) of Attijariwafa Bank (AWB), Banque Marocaine du Commerce Extérieur (BMCE) and Credit Immobilier et Hotelier (CIH). Further, it affirmed at 'AAA(mar)' the national long-term ratings of Banque Marocaine pour le Commerce et l'Industrie (BMCI) and at 'AA-(mar)' those of AWB, BMCE and CIH. It maintained the 'stable' outlook on all the banks' ratings. The agency noted that the IDRs of BMCE and AWB are driven by a moderate probability of support from the Moroccan sovereign. It noted that BMCI's ratings reflect a higher probability of support from its major shareholder BNP Paribas, while the ratings of CIH are underpinned by potential support from its major shareholder Caisse des Dépôt et Gestion. Further, Fitch maintained the Viability Rating of AWB and CIH at 'bb-' and that of BMCE at 'b+'. It pointed out that AWB's VR is supported by its strong franchise and well-managed liquidity, but is constrained by the bank's weak asset quality and capitalization. It pointed out that BMCE's VR reflects its weak but improving capital ratios and above-average risk appetite. Further, it indicated that CIH's VR is supported by the bank's experienced management team, acceptable risk controls and moderate franchise, as well as modest loan concentrations in real estate development and mortgages. But it noted that the bank's VR is constrained by its weak asset quality and asset & liability maturity mismatches, which expose the bank to high interest rate risk and expansion plans that could erode capital adequacy ratios.

Source: Fitch Ratings

NIGERIA

Low capital levels at mid-sized banks to weigh on asset growth and revenue generation

Moody's Investors Service indicated that the Central Bank of Nigeria's (CBN) stress test results show that the banking sector's capital vulnerability is driven by weaker capital conditions at medium-sized banks. It noted that the decline in mid-sized banks' capital levels limits their loss-absorption capacity against unexpected losses and constrains their asset growth and revenue generation. It said that mid-sized banks did not have any capital cushions as at June 2017, with their capital adequacy ratio reaching -6.7% amid rising assets risks. It added that the banks' non-performing loans (NPLs) net of provisions were equivalent to 43% of capital at end-September 2017 relative to 5.9% at end-2013, which reflects their lower capacity to absorb unexpected losses. In parallel, the agency expected lower capital levels to weigh on mid-sized banks' capacity to grow their business, as well as to hurt their revenues and to delay their capital recovery through profit retention. It also considered that Nigeria's mid-sized banks could lose their business to financial technology companies that tend to provide retail banking and payment services to individuals and to small- and mid-sized enterprises. In addition, Moody's expected most banks to retain a large portion of their profits in 2018 and to increase their capital cushions following the CBN's decision to limit the banks' dividend payout ratio. In parallel, it anticipated the recovery in Nigeria's economic activity to support the banks' asset quality and to ease the formation of new NPLs in the coming 12 to 18 months.

Source: Moody's Investors Service

Oil prices surge on heightened geopolitical risks
ICE Brent crude oil front-month prices reached their highest level since December 2014 to close at $72.1 per barrel (p/b) on April 11, 2018, due to heightened geopolitical tensions worldwide. In fact, geopolitical risks escalated after the U.S. pledged to take imminent military action in Syria, and amid trade-related tensions between the U.S. and China. Also, tensions between Saudi Arabia and Yemen intensified after Saudi Arabia's air force intercepted three ballistic missiles fired at Riyadh by Huthi rebels. In addition, the economic crisis in Venezuela and renewed concerns about the re-imposition of U.S. sanctions on Iran have supported oil prices. All these factors have more than offset the unexpected increase of 3.3 million barrels in U.S. crude oil inventories, while U.S. oil output continued to hit new highs. In parallel, the spread between Brent and the U.S. WTI crude oil prices have increased beyond $5 p/b amid rising geopolitical risks. Overall, Brent oil prices are forecast to average $64 p/b in the second quarter of 2018, $63.3 p/b in the third quarter and $63 p/b in the fourth quarter of the year; while WTI oil prices are projected to average $59.9 p/b in the second quarter, $59.3 p/b in the third quarter and $58.7 p/b in the fourth quarter of 2018.
Source: Citi, Thomson Reuters, Byblos Research

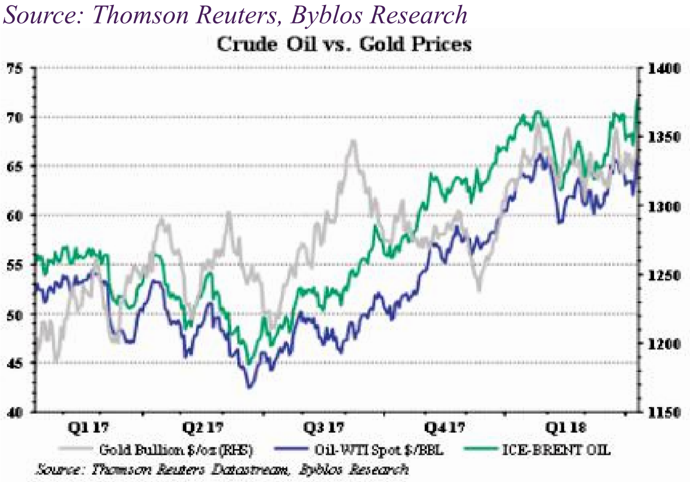
Iraq's oil exports up 12% in March 2018
Iraq's crude oil exports reached 107.1 million barrels in March 2018, constituting an increase of 11.6% from 95.9 million barrels in February. The country's oil exports reached 3.45 million barrels per day (b/d) in March 2018 relative to 3.43 million b/d in the previous month. All exports in the covered month originated from the country's central and southern fields, as there were no shipments from the northern Kirkuk fields. Iraq's oil export receipts reached $6.4bn in March, up by 11.4% from $5.8bn in the previous month, with the average sale price decreasing from $60.1 per barrel in February 2018 to $59.9 p/b in March 2018. In parallel, the Iraqi government approved a plan to expand Iraq's crude oil output to 6.5 million b/d by 2022.
Source: Iraq Ministry of Oil, Byblos Research

OPEC's oil basket price up 0.4% in March 2018
The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged $63.76 per barrel (p/b) in March 2018, constituting an increase of 0.4% from $63.48 p/b in the preceding month. Nigeria's Bonny Light was at $67.05 p/b, followed by Angola's Girassol crude oil at $66.89 p/b and Algeria's Saharan blend at $66.69 p/b. In parallel, 11 out of 14 prices included in the OPEC reference basket rose in March 2018.
Source: OPEC, Byblos Research

DRC's copper production to rise by 20% in 2018
The Democratic Republic of Congo ratified in March 2018 a new mining code that includes new taxes and royalties that will expand the country's mining output and significantly increase government revenues. The country's diamond's production is expected to increase marginally from 15.4 million carats in 2017 to about 15.5 million carats in 2018. Also, the DRC's copper supply is projected to expand by 20% from 1.1 million tons last year to 1.3 million tons in 2018, while its cobalt output is forecast to increase by 15.3% from 71,901 tons in 2017 to 82,873 tons in 2018.
Source: Moody's Investors Service

Base Metals: Copper prices to decline mainly on slowdown in Chinese demand
LME copper three-month future prices averaged $6,996 per metric ton in the first quarter of 2018, up by 19.6% from an average of $5,851 a ton in the same period of 2017. Also, prices trended higher so far in April 2018, supported by easing concerns over a global trade war between China and the U.S. However, copper prices are forecast to decline during the remainder of 2018, and to average $6,750 a ton in the second quarter, as well as $6,400 a ton in each of the third and fourth quarters of the year. The anticipated decline is mainly due to increased global mine production, as well as to a slowdown in Chinese copper demand. In this context, the Chinese real estate market has continued to slow down, with the number of completed real estate projects declining by 17% year-on-year in the first quarter of 2018, which constrains demand for the metal and, in turn, affects its prices. In parallel, upside risks to the price outlook include supply-side labor-related disruptions. In this context, labor contract negotiations are expected to take place at many of the world's leading copper producers in 2018, which could put global copper supply at risk and, in turn, would support the metal's prices.
Source: Barclays Capital, Thomson Reuters

Precious Metals: Gold prices to rise due to ongoing geopolitical tensions
Gold prices reached an 11-week high of $1,359 per troy ounce on April 11, 2018, as escalating tensions in Syria, as well as the United States' renewed sanctions on Russia, fuelled demand for the safe haven asset. Also, prices averaged $1,329 an ounce in the first quarter of 2018, constituting an increase of 9% from $1,219 an ounce in the same period last year, which coincided with a 10.7% drop in the trade-weighted US Dollar Index. In addition, gold prices are projected to increase by 5.5% to $1,327 an ounce in 2018, mainly supported by an anticipated pickup in global investment in gold this year, as well as by ongoing tensions between the U.S. and Russia, and between Saudi Arabia and Iran. The rise in prices takes into account expectations of a 4% increase in global physical demand for the metal, as well as of higher net official purchases by Turkey and Russia. However, the anticipated increase in prices in 2018 could be constrained by easing concerns of a trade war between the U.S. and China that would reduce demand for the safe haven asset. In parallel, upside risks to the gold price outlook this year include expectations of rising inflationary pressures in the United States.
Source: Thomson Reuters, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	IHS	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-2.5	17.3	2.5	-	-	-	-12.3	-
Angola	B-	B2	B	-	B-								
	Stable	Stable	Negative	-	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	-	B2	B+	-	BB-								
	-	Stable	Stable	-	Negative	-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	Stable	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	Baa3	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-								
	-	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
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	1.50-1.75	21-Mar-18	Raised 25bps	02-May-18
Eurozone	Refi Rate	0.00	08-Mar-18	No change	26-Apr-18
UK	Bank Rate	0.50	22-Mar-18	No change	08-May-18
Japan	O/N Call Rate	-0.10	09-Mar-18	No change	27-Apr-18
Australia	Cash Rate	1.50	03-Apr-18	No change	01-May-18
New Zealand	Cash Rate	1.75	21-Mar-18	No change	09-May-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
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	22-Mar-18	No change	21-Jun-18
South Korea	Base Rate	1.50	12-Apr-18	No change	24-May-18
Malaysia	O/N Policy Rate	3.25	07-Mar-18	No change	10-May-18
Thailand	1D Repo	1.50	28-Mar-18	No change	16-May-18
India	Reverse repo rate	6.00	05-Apr-18	No change	06-Jun-18
UAE	Repo rate	2.00	22-Mar-18	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	2.25	15-Mar-18	Raised 75bps	N/A
Egypt	Overnight Deposit	16.75	29-Mar-18	Cut 100bps	17-May-18
Turkey	Base Rate	8.00	07-Mar-18	No change	25-Apr-18
South Africa	Repo rate	6.50	28-Mar-18	Cut 25bps	24-May-18
Kenya	Central Bank Rate	9.50	19-Mar-18	Cut 50bps	N/A
Nigeria	Monetary Policy Rate	14.00	04-Apr-18	No change	22-May-18
Ghana	Prime Rate	18.00	26-Mar-18	Cut 200bps	21-May-18
Angola	Base rate	18.00	29-Mar-18	No change	30-Apr-18
Mexico	Target Rate	7.50	08-Feb-18	Raised 25bps	12-Apr-18
Brazil	Selic Rate	6.50	21-Mar-18	Cut 25bps	16-May-18
Armenia	Refi Rate	6.00	28-Mar-18	No change	16-May-18
Romania	Policy Rate	2.25	04-Apr-18	No change	07-May-18
Bulgaria	Base Interest	0.00	30-Mar-18	No change	30-Apr-18
Kazakhstan	Repo Rate	9.50	05-Mar-18	Cut 50bps	16-Apr-18
Ukraine	Discount Rate	17.00	12-Apr-18	No change	24-May-18
Russia	Refi Rate	7.25	23-Mar-18	Cut 25bps	27-Apr-18

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

BYBLOS BANK GROUP

LEBANON

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

IRAQ

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

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

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

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

UNITED ARAB EMIRATES

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

ARMENIA

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

CYPRUS

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

NIGERIA

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

ADIR INSURANCE

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