

# COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

### WORLD

#### Nearly 75% of banks optimistic about growth of trade finance in next 12 months

The 2018 ICC Global Survey on Trade Finance indicated that 66% of surveyed banks increased in 2017 their issuance of traditional trade finance (TTF) instruments, such as commercial and standby letters of credits, from 2016, while 43% of respondents reported an expansion in supply chain finance (SCF) activity last year. The SCF is a set of technology-based business and financing processes that link various parties in a transaction and help increase cash flow and liquidity in international trade. In contrast, 24% of surveyed participants reported that they registered a drop in TTF-related activity in 2017, while 12% said that SCF-related activity decreased last year. In addition, 73% of surveyed banks expected global trade finance activity to grow over the next 12 months, while 5% of respondents anticipated it to decline in the same period. Also, 76% of banks expected revenues from TTF instruments to grow, while 80% of participants anticipated earnings from SCF to increase over the next 12 months. In contrast, 11% of respondents expected their revenues from TTF-related activity to contract, while only 4% of surveyed banks anticipated their earnings from SCF to decline year-on-year. The survey was conducted between December 2017 and February 2018, and was compiled from the responses of 251 banks in 91 countries.

Source: ICC Banking Commission

#### Companies extend payment timeframe as global growth improves

Credit insurance firm Euler Hermes indicated that the average Days Sales Outstanding (DSO), which measures the number of days it takes a company to collect cash from its clients after a sale, increased from an average of 64 days globally in 2016 to 66 days in 2017, its highest level since 2007, and compared to an average of 64 days during the past five years. It attributed the increase in average DSO to an acceleration in global economic activity from 2.6% in 2016 to 3.2% last year, which encouraged companies to extend their payment timeframe to their clients. Also, it expected the average DSO to increase to 67 days in 2018, given the positive economic and financial outlook. It indicated that the average DSO increased in 24 out of 36 countries included in the survey. On a country level, Euler Hermes noted that China had an average DSO of 92 days, the highest globally, followed by Greece with 89 days, Italy and Turkey (83 days each), Spain (78 days), France and Portugal (74 days each), Japan (71 days) and Saudi Arabia (69 days). In contrast, New Zealand had the lowest average DSO globally of 43 days. On a sectoral level, it indicated that the global average DSO increased in 14 out of 20 sectors, decreased in two sectors and were unchanged in four sectors in 2017. It noted that the highest average DSOs last year were in sectors that have long manufacturing processes such as electronics (91 days), and machinery & equipment (87 days). The construction sector followed with 85 days, then pharmaceuticals (78 days), technology (75 days), chemicals (73 days), and automotive and aeronautics (72 days each). In contrast, the retail sector had an average DSO of 28 days, the lowest among all sectors.

Source: Euler Hermes, Byblos Research

### EMERGING MARKETS

#### Trading in Credit Default Swaps up 21% to \$488bn in first quarter of 2018

Trading in emerging markets Credit Default Swaps (CDS) reached \$488bn in the first quarter of 2018, constituting an increase of 78% from \$275bn in the fourth quarter of 2017 and a rise of 21% from \$403bn in the same quarter last year. Trading in EM CDS represented its highest quarterly volume since 2009, and was mainly driven by a three-fold increase in CDS for Argentina and a more than two-fold rise in CDS for Asian countries, amid geopolitical volatility. The most frequently traded sovereign CDS contracts in the first quarter of 2018 were those of Brazil at \$51bn, followed by those of China at \$47bn and of Turkey at \$37bn. As such, traded sovereign CDS contracts on Brazil accounted for 10.5% of total trading in emerging market CDS in the covered quarter, followed by CDS contracts on China (9.6%) and Turkey (7.6%). The most frequently traded corporate CDS contracts in the first quarter of 2018 were those of Brazil's Petrobras at about \$2.7bn, which accounted for 0.6% of total trading in emerging markets CDS. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers, as well as from 12 major international banks and broker-dealers.

Source: EMTA

### SAUDI ARABIA

#### Profits of listed companies down 16% to \$7bn in first quarter of 2018

The cumulative net income of 152 companies listed on the Saudi Arabia Stock Exchange, or Saudi Tadawul, totaled SAR25.7bn, or \$6.9bn, in the first quarter of 2018, constituting a decrease of 16% from SAR30.6bn, or \$8.2bn in the same quarter of 2017. Listed banks generated net profits of \$3.3bn and accounted for 48.7% of total net earnings in the covered quarter. Basic materials firms followed with \$2.4bn (34.5%), then telecommunications firms with \$659.3m (9.6%), retailers with \$128.3m (1.9%), energy companies with \$118m (1.7%), real estate corporates with \$98.5m (1.4%), healthcare firms with \$82.1m, the food & beverage industry with \$81.7m and capital goods corporates with \$79.3m (1.2% each), financial services institutions with \$45.1m (0.7%), consumer services companies with \$39.5m and transportation firms with \$37.7m (0.6% each), commercial & professional services companies with \$27.1m (0.4%), and insurers with \$23.6m and food & staples retailers with \$20.2m (0.3% each). Further, the net earnings of energy companies increased by 2.8 times in the first quarter of 2018, followed by capital goods corporates (+2.1 times), real estate management & development firms (+12.8%), financial services institutions (+10.4%), banks (+7.4%), basic materials firms (+5%) and telecom companies (+4.8%). In contrast, the profits of insurers fell by 76.4% year-on-year in the first quarter of 2018, followed by consumer services companies (-35.2%), transportation firms (-29.3%), the food & beverages industry (-25%), retailers (-5.4%), food & staples retailers (-5%), and healthcare equipment & services firms (-4.9%). Also, the results of utilities companies shifted from profits of \$1.3bn in the first quarter of 2017 to losses of \$313.4m in the same quarter this year.

Source: KAMCO

# OUTLOOK

## SAUDI ARABIA

### Growth to accelerate in 2018 on non-hydrocarbon sector activity

The National Commercial Bank (NCB) projected Saudi Arabia's real GDP to grow by 1.8% in 2018 and 2.7% in 2019 relative to a contraction of 0.9% in 2017, mainly due to improved non-hydrocarbon sector activity. It forecast hydrocarbon output to grow by 0.5% this year relative to a contraction of 3% in 2017, and to accelerate to 2% in 2019 in case the OPEC production agreement expires next year. Also, it expected non-oil real GDP growth at 2.8% in 2018 and 3.2% in 2019 relative to 1% last year, mainly due to higher public spending and increased consumption in response to the government's fiscal stimulus. Also, it noted that the U.S. withdrawal from the nuclear deal with Iran would improve the oil price outlook, which would act as a main catalyst for the Saudi economy in the medium term. Further, it forecast Saudi Arabia's average inflation rate at 3% in 2018 and 2% in 2019 compared to -0.2% in 2017.

In parallel, NCB pointed out that Saudi authorities have implemented reforms to diversify their public revenues away from the oil sector. It expected total spending to reach SAR978bn in 2018 and to be in line with the spending envisaged in the government's 2018 budget, while it forecast total revenues at SAR864bn this year assuming an oil price of \$63 p/b, and to exceed the budgeted revenues of SAR783bn. As such, it projected the country's fiscal deficit to reach SAR114bn, or 4.2% of GDP, in 2018, compared to a budgeted deficit of 195bn, or about 7.2% of GDP, on the back of higher-than-budgeted oil receipts. It expected the public debt level to increase from 17% of GDP at end-2017 to 20.5% of GDP at end-2018, as the government continues to finance its fiscal deficit through external and domestic borrowing, and by tapping the country's foreign reserves. Further, it projected the current account surplus to improve from 2.2% of GDP in 2017 to 6.5% of GDP in 2018, due to higher oil export receipts. Still, it forecast the net foreign assets at the Saudi Arabian Monetary Authority to decline from \$489.5bn at end-2017 to \$463.2bn at end-2018 and \$442.1bn at end-2019.

Source: National Commercial Bank

## QATAR

### Favorable outlook on public finances

The International Monetary Fund indicated that Qatar's near-term growth outlook is broadly favorable and forecast the country's real GDP growth to accelerate from 2.1% in 2017 to 2.6% in 2018 and 2.7% in 2019. It expected real hydrocarbon GDP to expand by 1% in 2018 and 1.2% in 2019, compared to a growth rate of 0.2% in 2017, in case of a rebound in hydrocarbon production; while it projected non-hydrocarbon real GDP growth at 4.1% in each of 2018 and 2019, nearly unchanged from 4% in 2017, supported by ongoing fiscal consolidation. The Fund considered that Qatar's significant external and fiscal buffers, as well as its strong financial sector and sound macroeconomic policies, would help the country to weather downside risks, which include lower-than-expected oil prices, tighter global funding conditions and an escalation of the ongoing diplomatic rift with other Arab countries. Further, it projected the average inflation rate to rise from 0.4% in 2017 to 3.9% in 2018, in case of the introduction of the value-added tax (VAT) in the second half of 2018.

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In parallel, the IMF indicated that the country's fiscal balance continues to improve. It forecast the fiscal deficit to narrow from 6% of GDP in 2017 to 1.4% of GDP in 2018, and expected it to shift to a surplus of 3.4% of GDP in 2019, on the back of a gradual fiscal consolidation and in case of higher non-oil revenues, including from the introduction of the VAT and excise taxes. It expected the public debt level, which it estimated at 54% of GDP at the end of 2017, to remain on a sustainable path. Further, the Fund anticipated the current account surplus to widen from 1.3% of GDP in 2017 to an average of around 2.2% of GDP in the 2018-19 period. It did not expect the authorities to abandon the currency peg to the US dollar, as it continues to anchor a clear and credible monetary policy. But it emphasized the need to revise the exchange rate regime periodically amid the ongoing diversification of the export base. It projected the external debt level to decline from 88% of GDP at the end of 2017 to 82% of GDP at end-2019. Also, it expected foreign currency reserves to increase from \$14.9bn at the end of 2017 to \$19.6bn at end-2018 and \$23.2bn at end-2019. In addition, it estimated the assets of the Qatar Investment Authority at \$337bn at the end of 2017.

Source: International Monetary Fund

## ALGERIA

### Non-oil GDP growth at 3.1% in 2018-19 period

The International Monetary Fund projected Algeria's real GDP growth at 3% in 2018 and 2.7% in 2019, compared to a growth rate of 2% in 2017. In parallel, it forecast growth at 3.2% in 2018 and at 3.6% in 2019 for MENA economies, while it projected growth at 2.8% in 2018 and 3.3% in 2019 for the region's oil exporters. It projected hydrocarbon sector output to grow by 1.3% in 2018 and by 2% in 2019, relative to a contraction of 0.3% in 2017, while it anticipated non-oil GDP to grow by 3.4% in 2018 and by 2.9% in 2019 relative to 2.5% last year, supported by an increase in public capital spending. Further, it expected Algeria's average inflation rate at 7.4% in 2018 and 7.6% in 2019. It forecast broad money to grow by 11.4% in 2018 and by 5% in 2019 relative to a growth rate of 8.3% last year.

In parallel, the Fund projected the central government's fiscal deficit to widen from 7.1% of GDP in 2017 to 8.2% of GDP in 2018, but to narrow to 4.8% of GDP in 2019 in case of fiscal consolidation. It estimated government revenues, excluding grants, to decrease from 29.9% of GDP in 2017 to 28.7% of GDP in 2018 and to 26.4% of GDP in 2019, and total expenditures to regress from 37% of GDP in 2017 to 36.9% of GDP in 2018 and 31.2% of GDP in 2019. It expected the gross public debt level to rise from 25.8% of GDP at end-2017 to 33.3% of GDP at end-2018 and 38.4% of GDP at end-2019.

Further, the Fund estimated Algeria's exports of goods & services at \$43bn in 2018 and \$41.2bn in 2019 relative to \$37.5bn in 2017, and forecast the imports of goods & services at \$60.5bn in 2018 and \$61.3bn in 2019 compared to \$60bn in 2017. As such, it projected the country's current account deficit to narrow from 12.3% of GDP in 2017 to 9.3% of GDP in 2018 and 9.7% of GDP in 2019. Also, it forecast the country's gross official reserves to decrease from \$96.1bn or 19 months of import cover at the end of 2017, to \$82.6bn or 16.2 months of import cover at end-2018, and \$64bn, or 13.4 months of import cover at end-2019.

Source: International Monetary Fund

May 31, 2018

# ECONOMY & TRADE

## AFRICA

### Impact of higher oil prices to vary across Sub-Saharan African economies

Merrill Lynch assessed the impact of an increase in global oil prices on the fiscal and external balances of Sub-Saharan African (SSA) economies in coming months. It noted that Angola, Gabon and Nigeria have the highest fiscal sensitivity to higher oil prices, and anticipated a \$10 rise in prices to result in an improvement of more than 1% of GDP in their fiscal balances. Also, it expected Angola to benefit the most regionally from an increase in oil prices, in case its current pace of reforms persists. It added that Angola plans to take further measures to control spending by 2019, such as the introduction of the value-added tax and subsidy cuts. Further, it considered that Gabon has the highest current account sensitivity to an increase in oil prices, and expected the \$10 rise in prices to result in an improvement of about 3.3% of GDP in the country's current account balance. As for the region's oil-importing economies, Merrill Lynch pointed out that Zambia is constrained by the lack of fiscal consolidation, its low level of foreign currency reserves and high external financing needs. But, it said that the country's exposure to oil prices has been partly offset by higher global copper prices. Also, it noted that Kenya's fiscal and external deficits, as well as slow fiscal consolidation, would translate into vulnerabilities to rising oil prices. It considered that the current account balances of Kenya and Senegal would deteriorate the most in case of a \$10 increase in oil prices.

Source: Merrill Lynch

## JORDAN

### Sovereign ratings affirmed, outlook 'negative'

Capital Intelligence Ratings (CI) affirmed at 'BB-/BB' Jordan's long- and short-term foreign and local currency ratings, with a 'negative' outlook. It attributed the ratings and negative outlook to the heightened regional instability, elevated public debt level, and increasing reliance on external borrowing. It noted that the conflicts in Iraq and Syria have negatively affected Jordan's economic growth through lower exports and tourism receipts, while it said that the influx of refugees has weighed on the country's public finances. It projected real GDP growth to increase modestly from 2% in 2017 to 2.8% in 2018, which it considered as insufficient to reduce the elevated unemployment rate. Further, it said that the public debt level increased from 67.1% of GDP in 2010 to a high of 95.9% of GDP in 2017 as a result of the persistent fiscal deficits, and was significantly higher than the average debt level of 'BB'-rated sovereigns of 65.5% of GDP. It noted that the government's fiscal consolidation efforts were able to narrow the fiscal deficit from 10.1% of GDP in 2014 to 2.5% of GDP in 2017. However, it said that the government's efforts to implement further fiscal measures in coming years will not significantly reduce the public debt level, given the subdued economic activity. In parallel, CI pointed out that Jordan's increasing reliance on external commercial borrowing to fund the budget deficit leaves its public and external finances vulnerable to sudden shifts in foreign investor sentiment. It said that borrowing from global capital markets accounted for 21.9% of central government debt in 2017, up from 3% in 2012. Also, it projected Jordan's gross external financing needs to remain large at 13.4% of GDP in 2018 and 14.3% of GDP in 2019.

Source: Capital Intelligence Ratings

## UAE

### Large hydrocarbon reserves and significant financial assets to support credit profile

Moody's Investors Service indicated that the UAE's credit profile is supported by its large hydrocarbon reserves, superior infrastructure, very high wealth levels and potential financial support from the Emirate of Abu Dhabi. But it said that the country's credit strengths are challenged by its limited institutional transparency, the absence of public disclosure of offshore assets and the country's fiscal reliance on the hydrocarbon sector. The agency considered that the drop in global oil prices would not significantly weigh on the UAE's medium-term growth prospects. In this context, it projected real GDP growth at 2.1% in 2018 and 3.9% in 2019. It forecast non-hydrocarbon sector activity to gradually recover over the 2018-21 period. In parallel, it expected the UAE's consolidated fiscal deficit to narrow from 2.3% of GDP in 2017 to 0.8% of GDP in 2018, mainly due to Abu Dhabi's fiscal consolidation efforts and the recovery in oil prices. It indicated that the UAE's fiscal position reflects a diverging path between Abu Dhabi that has implemented broad spending cuts, and Dubai that has continued to increase spending ahead of the World Expo 2020. It anticipated the government to finance its fiscal deficits by drawing down the significant stock of financial assets from Abu Dhabi's sovereign wealth fund without resorting to sovereign debt issuance. Moody's noted that further improvements in policy transparency and data availability, as well as receding geopolitical tensions, would support the credit profile.

Source: Moody's Investors Service

## ARMENIA

### Marginal economic disruption from political transition

Fitch Ratings indicated that the Armenian economy faced marginal disruptions from the country's recent political transition. It noted that Mr. Nikol Pashinyan was elected as Prime Minister during a parliamentary vote in May 2018 following large-scale protests that led to the resignation of Mr. Serzh Sargsyan, who was appointed Prime Minister of Armenia in April 2018 and had previously served 10 years as the country's President. It considered that the peaceful resolution of the political crisis through constitutional processes, as well as the smooth functioning of the country's economic institutions, such as the Central Bank of Armenia, have reduced the impact of the political crisis on the economy. It said that the banks' liquidity was not significantly affected, while foreign currency reserves remained at prudent levels. Also, it noted that higher global commodity prices, stronger export demand and the sustained growth in remittance inflows have reduced near-term risks for the economy. Further, it expected the new Cabinet to be committed to preserving macroeconomic and financial stability, and to ensure the sustainability of public finances. It expected the country to continue to benefit from financial support from international financial institutions and bilateral partners. Still, the agency pointed out that the new administration faces significant challenges, including uncertainties about the new Prime Minister's ability to work with entrenched economic interest groups, while maintaining his commitment to tackle corruption and social injustice.

Source: Fitch Ratings

# BANKING

## MENA

### **Banks' lending conditions slightly tighten in first quarter of 2018**

The Emerging Markets Lending Conditions Index for the Middle East & North Africa (MENA) region slightly decreased from 46.7 in the fourth quarter of 2017 to 46.4 in the first quarter of 2018. The MENA region had the least favorable lending conditions among emerging markets in the covered quarter, behind Sub-Saharan Africa (51.4), Emerging Europe (51.2), and Latin America and Emerging Asia (51 each). The MENA region's Trade Finance Index rebounded to 54.8 in the first quarter of 2018 from 51.2 in the preceding quarter, while the Funding Conditions Index reached 47.6 in the covered quarter, down from 48.2 in the fourth quarter of 2017, reflecting tighter domestic and international funding conditions. Also, the Non-Performing Loans Index rose to 45.2 in the first quarter of 2018 from 42.9 in the fourth quarter of 2017, reflecting a decrease in the NPLs ratio from the previous quarter. In addition, the Credit Standards Index dropped to 44.6 in the first quarter of the year from 46.4 in the fourth quarter of 2017, as credit standards for consumer loans as well as for commercial and residential real estate loans tightened. Further, the Demand for Loans Index decreased to 43.7 in the covered quarter from 44.9 in the fourth quarter of 2017, due to lower demand for commercial, residential real estate and corporate loans.

*Source: Institute of International Finance*

## EGYPT

### **Profits of banks up 35% to \$255m in first quarter of 2018**

The aggregate earnings of seven listed Egyptian banks, which are Commercial International Bank, Crédit Agricole Egypt, Abu Dhabi Islamic Bank-Egypt, Al Baraka Bank Egypt, Housing & Development Bank (HDB), Egyptian Gulf Bank and Faisal Islamic Bank, reached EGP4.5bn, equivalent to \$255m, in the first quarter of 2018, constituting an increase of 34.7% from the same quarter of 2017. The earnings of the seven banks were mainly supported by strong growth of 76.9% in the profits of Faisal Islamic Bank due to one-off gains, as well as by a 76.7% increase in the profits of HDB due to higher net interest income from short-term investments. Also, the rise in the banks' aggregate profits was mainly due to a 21.9% growth in the banks' net interest income amid strong lending growth and despite higher-than-expected provisioning costs. In parallel, the aggregate lending of the seven banks reached EGP189.9bn, or \$10.8bn, at the end of March 2018, up by 9.3% from end-March 2017, driven by a pick-up in retail lending, an improvement in foreign currency credit growth and in new short-term corporate lending. In addition, the banks' aggregate deposits grew by 13.3% year-on-year to EGP540.2bn, or \$30.6bn, at the end of March 2018, supported by higher local currency deposits, amid a falling share of foreign currency deposits. As such, it said that the loans-to-deposits ratio was nearly unchanged year-on-year at 35% at the end of March 2018. In parallel, the banks' non-performing loans (NPLs) ratio slightly decreased to 4.7% at the end of March 2018 from 4.8% at end-March 2017, mainly due to flat nominal NPLs and strong credit growth. Further, the aggregate NPLs coverage stood at 184% at the end of March 2018 relative to 152% a year earlier.

*Source: EFG Hermes*

## TURKEY

### **Currency depreciation negatively affecting banks**

Barclays Capital indicated that the depreciation of the Turkish Lira has weighed on the capitalization of banks operating in Turkey, given that 40% of their assets are in foreign currency, while their capital is mainly in local currency. It expected the Central Bank of the Republic of Turkey (CBT) to continue to tighten monetary policy amid increased political pressure to stabilize the lira before the general elections of June 2018. But it anticipated that such CBT measures would weigh on the Turkish banks' profitability and capitalization through higher funding costs in the short term, and would lead to a slowdown in the banks' lending, as well as to a deterioration in their asset quality in the medium term. Also, it considered that risks to the Turkish banks' asset quality have recently increased, given that their large foreign currency-denominated loans to corporates, which represent 30% of total loans, expose them to foreign currency volatility. It noted that corporates have borrowed \$174bn in foreign currency from domestic banks and another \$107bn from external sources as at the end of 2017. It added that non-performing loans in foreign currency are very low, but noted that the depreciation of the lira has resulted in additional non-performing loans in foreign currency in the first quarter of 2018. Overall, it said that the asset quality of foreign currency-denominated loans remains strong, partly reflecting longer maturities of corporate loans in foreign currency and a strong rollover ratio of such loans. In addition, it said that Turkish banks have reported in the first quarter of 2018 sizeable amounts of Stage 2 loans, which are loans whose credit risk has increased significantly since their initial recognition. But it pointed out that Turkish banks have enough liquidity to absorb the \$20bn in new non-performing loans given that their capital buffers exceed the Basel III requirements.

*Source: Barclays Capital*

## OMAN

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

Fitch Ratings affirmed at 'BBB' the long-term Issuer Default Rating (IDR) of HSBC Bank Oman (HBON), at 'BBB-' that of Bank Muscat and at 'BB+' the IDRs of Ahli Bank SAOG (ABO), Bank Dhofar (BD) and Bank Sohar (BS), while it downgraded the IDR of National Bank of Oman's IDRs (NBO) from 'BBB-' to 'BB+'. It maintained the 'negative' outlook on the IDRs of all six banks, in line with the outlook on Oman's sovereign rating. It added that the IDR of HBON is underpinned by expectations of a high probability of support from its parent company, HSBC Holdings, due to the bank's strategic importance to the group, while the IDRs of the other banks reflect their intrinsic financial strength and the potential support of the Omani government in case of need, given the importance of the banking system in supporting the local economy. In parallel, Fitch affirmed the Viability Rating (VR) of Bank Muscat and HBON at 'bbb-', that of BD and ABO at 'bb+' and the VR of Bank Sohar at 'bb', while it downgraded NBO's VR from 'bbb-' to 'bb+'. It noted that the VRs of all banks are capped by the sovereign rating and reflect the challenging operating environment in Oman, as well as high concentration and interest rate risks. It said that Bank Muscat's VR is supported by the bank's leading franchise, good risk control measures, resilient loan quality, stable profitability metrics and adequate liquidity.

*Source: Fitch Ratings*



## ENERGY / COMMODITIES

### Oil prices up by 50% to \$77 p/b in May 2018

ICE Brent crude oil front-month prices averaged \$70.1 per barrel (p/b) in the first five months of 2018, constituting an increase of 30.3% from \$53.8 p/b in the same period of 2017. Also, oil prices rose by 7.3% month-on-month and by 49.9% year-on-year to an average of \$77 p/b in May 2018, and posted their highest monthly level since December 2014. The main driver for the increase in prices so far in 2018 has been the sustained OPEC and non-OPEC production cuts, while the main factor in May 2018 was the U.S. withdrawal from the nuclear deal with Iran and the consequent U.S. sanctions on the country, which are expected to decrease Iranian oil output and exports. Other cumulative factors, such as strong global oil demand, heightened geopolitical risks in the Middle East, the Venezuelan crisis and other supply disruptions, have also supported the increase in oil prices so far this year. However, expectations of increased OPEC output weighed on oil prices and resulted in a decline from a three-year high of \$79.8 p/b a week ago to \$77.5 p/b on May 30, 2018. In parallel, Goldman Sachs indicated that an increase in global oil prices tends to have a negative impact on the global economy when driven by weaker oil supply rather than by stronger demand. In this context, the bank's model showed that a 10% supply-driven rise in oil prices would reduce global real GDP by nearly 0.25% in the next year. As such, it expected the recent oil price increase to weigh on global growth in 2019.

Source: Goldman Sachs, Thomson Reuters, Byblos Research

### Middle East's demand for gold bars and coins up 63.2% in first quarter of 2018

Net demand for gold bars and coins in the Middle East totaled 15.7 tons in the first quarter of 2018, up by 63.2% from 9.6 tons in the same quarter of 2017, and represented 6.2% of global demand for bars and coins. Demand by Iran for gold bars and coins reached 9.3 tons in the first quarter of the year, representing 59.2% of the region's total demand. Saudi Arabia followed with 2.5 tons (15.7%), then the UAE with 1.7 tons (10.9%), Kuwait with 0.8 tons (5%), and Egypt with 0.5 tons (3.3%).

Source: World Gold Council, Byblos Research

### ME&A's oil demand to rise by 2% in 2018

Crude oil consumption in the Middle East & Africa (ME&A) region is forecast to average 12.58 million barrels per day (b/d) in 2018, which would constitute an increase of 1.7% from 12.37 million b/d in 2017. The region's demand for oil would represent 38.4% of demand in developing countries and 12.7% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 3.13 million b/d in 2018, which would reflect an increase of 1% from 3.1 million b/d in 2017.

Source: OPEC, Byblos Research

### Egypt to become net exporter of natural gas in medium term

The US Energy Information Administration indicated that dry natural gas production in Egypt declined by 31% from 2012 to 2016, which led the country to become a net gas importer as of 2015. It said that Egypt produced 4 billion cubic feet per day (bcf/d) of dry natural gas and imported another 1 bcf/d in 2016. It noted that recent natural gas discoveries generated significant interest among foreign investors, which would raise Egypt's natural gas output and allow it to become a net exporter in the medium term.

Source: U.S. EIA, Thomson Reuters

### Base Metals: Zinc prices recover amid higher demand and a decline in inventories

LME zinc cash price averaged \$3,357 per ton in the first four months of 2018, constituting an increase of 22.7% from \$2,737 per ton in the same period of 2017. The metal's price hit a nine-month low on May 5, 2018 to close at \$2,988.3 per ton, driven by investors' expectations of a narrowing of the deficit in the global zinc market. However, prices recovered to \$3,124.5 per ton on May 30, supported by news that growth in the manufacturing and construction sectors in China, the world's top metals consumer, hit an eight-month high and that global inventories declined to their lowest level in a month. In addition, a weaker US dollar and higher global demand supported the recent rally in zinc prices. The metal's price is projected to increase from an average of \$2,888 per ton in 2017 to an average of \$3,260 a ton in 2018, as the zinc market is expected to remain in deficit on the back of a seasonal pick-up in demand and anticipated disruptions to supply. However, the rebound in the metal's price is expected to be short lived and prices are forecast to decline to an average of \$2,935 per ton in 2019, driven by an increase in the supply of zinc in the third and fourth quarters of 2018.

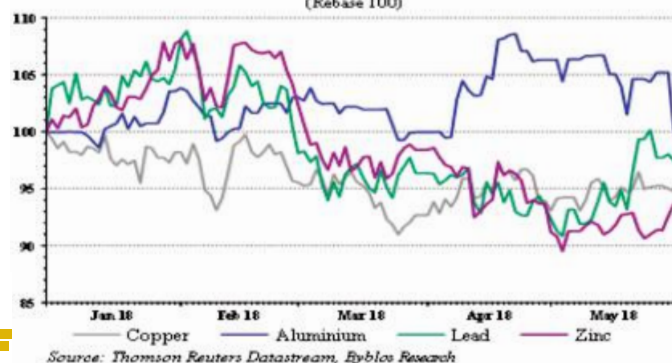
Source: ABN AMRO, Thomson Reuters, Byblos Research

### Precious Metals: Gold prices to decline in coming quarters

Gold prices averaged \$1,325.2 per troy ounce in the first five months of 2018, constituting an increase of 7.3% from an average of \$1,234.6 an ounce in the same period last year, and relative to an average of \$1,258.5 an ounce in full year 2017. Also, the metal's price traded at a low of \$1,288 per ounce and a high of \$1,359 an ounce so far this year. The rise in prices coincided with a 9.3% year-on-year decline in the trade-weighted US Dollar Index in the first five months of the year. But, the metal's price decreased by 2.3% month-on-month to \$1,303.7 an ounce in May 2018, reflecting the recovery in the US dollar, as well as higher U.S. bond yields. Also, gold prices are projected to continue to regress from an average of \$1,329 an ounce in the first quarter to \$1,275 an ounce in the second quarter of 2018, and to \$1,250 an ounce in each of the third and fourth quarters of the year, reflecting expectations of further interest rate hikes and continued growth in U.S. bond yields in the remainder of the year. As such, gold prices are forecast to increase by only 2.3% to \$1,287 an ounce in 2018. Downside risks to gold prices include easing tensions between North Korea and the U.S. and weaker jewelry demand in India, while upside risks to the price outlook include expectations of rising inflationary pressures in the U.S.

Source: ABN AMRO, Thomson Reuters, Byblos Research

Price Performance of Base Metals in First Five Months of 2018  
(Rebase 100)



# 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-	B3	B	-	B-	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
	Stable	Stable	Stable	-	Stable								
Egypt	B	B3	B	B	B+	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
	Stable	Stable	Positive	Positive	Positive								
Ethiopia	B	B1	B		B+	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
	Stable	Stable	Stable	-	Stable								
Ghana	B-	B3	B	-	BB-	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
	Positive	Stable	Stable	-	Stable								
Ivory Coast	-	Ba3	B+	-	B+	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-16.4	78.2	-	-	-	-	-10.6	-
	-	-	Stable	-	Stable								
Dem Rep Congo	CCC+	B3	-	-	CCC	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
	Stable	Negative	-	-	Stable								
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
	Stable	Positive	Stable	-	Stable								
Nigeria	B	B2	B+	-	BB-	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
	Stable	Stable	Negative	-	Stable								
Sudan	-	-	-	-	CC	-2.5	55.2	47.5	-	-	-	-4.7	-
	-	-	-	-	Negative								
Tunisia	-	B2	B+	-	BB-	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
	-	Stable	Negative	-	Negative								
Burkina Faso	B	-	-	-	B+	-3.6*	33.3	23.1**	-	-	-	-7.2	-
	Stable	-	-	-	Stable								
Rwanda	B	B2	B+	-	B+	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
	Stable	Stable	Stable	-	Stable								
Middle East													
Bahrain	B+	B1	BB-	BB	BB+	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
	Stable	Negative	Stable	Stable	Negative								
Iran	-	-	-	BB-	BB-	0.7	29.2	2.0	-	-	-	5.3	-
	-	-	-	Negative	Positive								
Iraq	B-	Caa1	B-	-	CC+	-4.2	60.0	38.8	-	-	-	-4.4	-
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B3	B-	B	B-	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
	Stable	Stable	Stable	Stable	Stable								
Oman	BB	Baa3	BBB-	BBB	BBB-	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
	Stable	Negative	Negative	Stable	Negative								
Qatar	AA-	Aa3	AA-	AA-	A+	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
	Negative	Negative	Negative	Negative	Negative								
Saudi Arabia	A-	A1	A+	A+	AA-	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-6.0	77.4	20.3	-	-	-	-4.2	
	-	-	-	-	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	Positive	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Negative	Stable	Stable	-	Stable	-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								
	Stable	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	-	Stable	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB-	Ba2	BB+	BB+	BB-								
	Stable	Stable	Stable	Negative	Stable	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	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	02-May-18	Raised 25bps	13-Jun-18
Eurozone	Refi Rate	0.00	26-Apr-18	No change	14-Jun-18
UK	Bank Rate	0.50	10-May-18	No change	21-Jun-18
Japan	O/N Call Rate	-0.10	26-Apr-18	No change	15-Jun-18
Australia	Cash Rate	1.50	01-May-18	No change	05-Jun-18
New Zealand	Cash Rate	1.75	10-May-18	No change	28-Jun-18
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Mar-18	No change	21-Jun-18
Canada	Overnight rate	1.25	30-May-18	No change	11-Jul-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	22-Mar-18	No change	21-Jun-18
South Korea	Base Rate	1.50	24-May-18	No change	12-Jul-18
Malaysia	O/N Policy Rate	3.25	10-May-18	No change	11-Jul-18
Thailand	1D Repo	1.50	16-May-18	No change	20-Jun-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	17-May-18	Cut 100bps	28-Jun-18
Turkey	Base Rate	8.00	25-Apr-18	No change	07-Jun-18
South Africa	Repo rate	6.50	24-May-18	Cut 25bps	19-Jul-18
Kenya	Central Bank Rate	9.50	28-May-18	No Change	N/A
Nigeria	Monetary Policy Rate	14.00	22-May-18	No change	24-Jul-18
Ghana	Prime Rate	17.00	21-May-18	Cut 100bps	23-Jul-18
Angola	Base rate	18.00	24-May-18	No change	20-Jul-18
Mexico	Target Rate	7.50	17-May-18	No change	21-Jun-18
Brazil	Selic Rate	6.50	17-May-18	No change	21-Jun-18
Armenia	Refi Rate	6.00	15-May-18	No change	27-Jun-18
Romania	Policy Rate	2.50	07-May-18	Raised 25bps	04-Jul-18
Bulgaria	Base Interest	0.00	30-Apr-18	No change	1-Jun-18
Kazakhstan	Repo Rate	9.25	16-Apr-18	Cut 25bps	04-Jun-18
Ukraine	Discount Rate	17.00	12-Apr-18	No change	12-Jul-18
Russia	Refi Rate	7.25	27-Apr-18	Cut 25bps	15-Jun-18



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