

# COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

### WORLD

#### Corporate debt at \$19 trillion at end-2017

S&P Global Ratings indicated that the size of the global rated corporate debt market totaled \$19 trillion at the end of 2017. Corporate debt issued by non-financial institutions amounted to \$12.1 trillion or 63.9% of the total at end-2017, while financial firms accounted for the remaining \$6.9 trillion (36.1%). Also, investment-grade corporate issuers had \$14.8 trillion in debt, or 78% of the total, while speculative-grade companies had \$4.2 trillion (22%) in debt. In addition, 34.6% of rated debt instruments were in the 'BBB' rating category, 28.7% in the 'A' rating segment and 11.5% in the 'BB' rating category, while the remaining 25.2% of rated debt instruments were in the 'AAA', 'AA', 'B', 'CCC', 'CC' and 'C' categories. On a regional level, corporate debt in the U.S. reached \$9 trillion and represented 47.4% of global corporate debt at end-2017, followed by Europe with \$7 trillion (36.8%), other developed economies with \$1.8 trillion (9.2%) and emerging markets with \$1.2 trillion (6.5%). Further, non-financial issuers in the U.S. had \$6.9 trillion in corporate debt, equivalent to 36.2% of the total, followed by non-financial firms in Europe with \$3.5 trillion (18.6%), those in other developed economies with \$877.8bn (4.6%) and issuers in emerging markets with \$843.4bn (4.4%). In parallel, financial institutions in Europe had \$3.5 trillion in debt, which represented 18.2% of the total at end-2017, followed by those in the U.S. with \$2.1 trillion (11.2%), financial firms in other developed economies with \$880.9bn (4.6%) and those in emerging markets with \$399.3bn (2.1%).

Source: S&P Global Ratings

### EMERGING MARKETS

#### Fixed income trading down 3% to \$1,280bn in first quarter of 2018

Trading in emerging markets debt instruments reached \$1,280bn in the first quarter of 2018, constituting an increase of 12% from \$1,147bn in the preceding quarter and a decline of 3% from \$1,323bn in the first quarter of 2017. Turnover in local-currency instruments reached \$684bn in the first quarter of the year, up by 5% from \$648bn in the previous quarter but down by 5% from \$722bn in the first quarter of 2017. In parallel, trading in Eurobonds stood at \$590bn in the first quarter of 2018, up by 21% from \$488bn in the preceding quarter, while it was unchanged year-on-year. The volume of traded sovereign Eurobonds reached \$351bn and accounted for 59% of total Eurobonds traded in the covered quarter, while the volume of traded corporate Eurobonds reached \$220bn, or 37% of the total. In addition, turnover in warrants and options stood at \$6bn, while loan assignments reached \$46m in the first quarter of 2018. The most frequently-traded instruments in the first quarter of 2018 were Brazilian fixed income assets with a turnover of \$158bn, or 12% of the total, followed by securities from Mexico with \$143bn (11%) and instruments from South Africa with \$109bn (8.5%). Other frequently-traded instruments consisted of fixed income securities from China at \$108bn (8.4%) and Argentina at \$89bn (7%).

Source: EMTA

### MENA

#### Greenfield FDI inflows to Arab countries down 25% to \$71bn in 2017

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that the Arab region attracted \$70.7bn in Greenfield foreign direct investment (FDI) in 2017, down by 24.6% from \$93.7bn in 2016. Greenfield FDI inflows to Arab countries accounted for 19.3% of such flows to developing economies and for 9.8% of global Greenfield FDI in 2017. Egypt attracted \$37.6bn in Greenfield FDI in 2017, equivalent to 53.2% of such investments in the Arab world. The UAE followed with \$9.2bn (13%), then Saudi Arabia with \$7.1bn (10%), Oman with \$4.5bn (6.4%), Morocco with \$4bn (5.6%), Iraq with \$2.8bn (4%), Algeria with \$1.4bn (2%), Bahrain with \$1.3bn (1.8%), Jordan with \$1.1bn (1.5%) and Tunisia with \$831.3m (1.2%). Also, the remaining Arab countries received \$875.2m in Greenfield FDI last year, or 1.2% of such inflows to the region. In parallel, Arab countries attracted 817 Greenfield FDI projects in 2017, up from 768 projects in 2016, and equivalent to 13.6% of the aggregate number of Greenfield FDI projects in developing economies and to 5.1% of such projects worldwide. The UAE attracted 329 Greenfield FDI projects last year and accounted for 40.3% of the number of such projects in the Arab world. Egypt followed with 92 projects (11.3%), then Morocco with 91 projects (11.1%), Saudi Arabia with 89 projects (10.9%) and Bahrain with 42 projects (5.1%), while the remaining Arab countries attracted 174 Greenfield FDI projects, or 21.3% of the total in 2017.

Source: UNCTAD, Byblos Research

### OMAN

#### Profits of listed companies up 28% to \$446m in first quarter of 2018

The cumulative net profits of 89 companies listed on the Muscat Securities Market totaled OMR171.9m, or \$446.4m, in the first quarter of 2018, constituting an increase of 28.3% from OMR133.9m, or \$347.9m in the same quarter of 2017. Listed banks and companies in the financial sector generated net profits of \$301.2m and accounted for 67.5% of aggregate net earnings in the covered period. Services companies followed with \$116.5m (26.1%), then industrial companies with \$28.6m (6.4%). Further, the net earnings of services firms rose by 3.2 times year-on-year in the first quarter of 2018, while net profits of banks and financial institutions increased by 11.6% annually. In contrast, profits of industrial companies regressed by 31.3% year-on-year in the first quarter of 2018.

Source: KAMCO

# OUTLOOK

## SAUDI ARABIA

### Real GDP growth to average 2.5% in 2018-19

The Institute of International Finance projected Saudi Arabia's real GDP to grow by 2.2% in 2018 and 2.7% in 2019, following a contraction of 0.9% in 2017, supported by higher public spending and increased oil production. It forecast hydrocarbon output to grow by 1.3% this year and by 3.3% next year relative to a contraction of 3.1% in 2017, while it expected non-oil real GDP growth at 2.9% in 2018 and at 2.2% in 2019 relative to 0.9% last year, mainly due to higher public consumption and investment in response to the government's fiscal stimulus. However, it estimated non-oil real GDP growth to have remained below 1% in the first half of 2018, due to weak private investment. Further, it expected the average inflation rate at 3.3% annually during the 2018-19 period, compared to -0.8% in 2017.

In addition, the IIF forecast the Kingdom's fiscal deficit to narrow from 8.9% of GDP in 2017 to 5.8% of GDP in 2018 and 6.5% of GDP in 2019, as higher oil revenues will more than offset the anticipated increase in public spending. It considered that, given the high volatility of oil prices and sustained wide fiscal deficit, a rapid increase in public spending could become unsustainable in case oil prices fell. It projected the public debt level to gradually increase from 17.5% of GDP at end-2017 to 21% of GDP at the end of 2018 and 25.8% of GDP at end-2019, and expected it to remain below 30% by 2020. In parallel, the IIF forecast the current account surplus to widen substantially from 2.2% of GDP in 2017 to 10.6% of GDP in 2018 and 7.6% of GDP in 2019, supported by higher oil export receipts. Also, it projected foreign currency reserves to increase modestly from \$496bn at end-2017 to \$532bn at end-2018, as net capital outflows will remain large. The IIF noted that the recent tighter monetary policy and rise in borrowing costs, following the U.S. interest rate hike, will partially offset gains from the expansionary fiscal policy.

*Source: Institute of International Finance*

## BAHRAIN

### Reforms essential to stabilize public finances

Bank of America Merrill Lynch (BofAML) indicated that Saudi Arabia, the UAE and Kuwait have recently announced that they are negotiating an integrated program to support Bahrain's fiscal stability and economic reforms. It noted that the program would allow Bahrain to regain market access, following increased pressure on the latter's financial markets. It said that the spreads on Bahrain's five-year credit default swaps reached 609 basis points in recent days, their highest level on record since the global financial crisis, which reflects investors' skepticism about the country's ability to stabilize its finances over the long term without repeated injections of aid. It pointed out that the program's details would depend on the sustainability of Bahrain's debt dynamics and reform conditionality. It considered that the GCC support would become explicit and conditional going forward, compared to unconditional and implicit support previously. It said that the program would rely on the credibility, execution and progress of fiscal reforms in Bahrain. Further, it pointed out that restoring market access for Bahrain would allow the country to refinance its November 2018 sukuk without relying on GCC funds. Also, it did not expect GCC countries to force a debt re-

structuring, as it would be more costly for them than supporting the refinancing of Bahrain's debt.

In parallel, BofAML estimated that Bahrain's foreign currency reserves would be fully depleted by September at the current pace of capital outflows, and will be depleted by November if authorities fully utilize the \$1.4bn in savings at the Future Generations Reserve Fund and the foreign-currency public-sector deposits in the banking sector. Also, it estimated Bahrain's gross external financing needs at between \$2bn and \$3.3bn annually over the 2018-20 period, but it anticipated the country's financing gap to reach \$5bn in the absence of market access. Further, it expected Bahrain to conclude its negotiations with GCC countries prior to the end of the third quarter of 2018 in order to ensure market access. But it indicated that the finalization of the support program could be pushed into 2019, due to the summer recess and the late 2018 parliamentary elections in Bahrain that would delay the legislation and adoption of fiscal reforms. In parallel, it noted that a severe pickup in capital outflows could increase default and devaluation risks if negotiations fail.

*Source: Bank of America Merrill Lynch*

## UAE

### Non-oil GDP growth to accelerate to 3.5% in 2019 on structural reforms and fiscal stimulus

Bank of America Merrill Lynch (BofAML) projected the UAE's real GDP growth to accelerate from 0.5% in 2017 to 1.9% in 2018, supported by increased public spending, fiscal stimulus and structural reforms in the country. It expected the UAE's non-oil real GDP growth to accelerate from 1.9% in 2017 to 2.8% in 2018 and to about 3.5% in the medium term, on the back of increased spending ahead of Expo 2020, the fiscal stimulus in Dubai and Abu Dhabi, as well as plans to expand the Abu Dhabi National Oil Company. It noted that the new insurance scheme would provide a one-time boost to corporate profits. In addition, it anticipated the new expatriate visa and foreign ownership laws to support foreign direct investment, population growth, private consumption and real estate demand, as well as to reduce remittance outflows.

Further, BofAML noted that Dubai's 2018 budget targets a deficit of \$1.7bn, or 1.55% of the Emirate's GDP, compared to fiscal surpluses over the 2014-17 period. It said that budgeted spending is set to increase by 19.6% in Dubai this year due to higher capital spending related to the Expo 2020, while budgeted revenues are targeted to grow by 12.5% as a result of the value-added tax, excise dues and increased fee revenues. In parallel, it said that Abu Dhabi's 2018 budget targets the narrowing of the fiscal deficit from \$6bn, or 2.6% of the Emirate's GDP, in 2017, to \$4.6bn, or 2.2% of GDP, this year due to higher oil export receipts. It expected the fiscal costs of Dubai's stimulus plan to be modest, while it anticipated Abu Dhabi's fiscal cost to be covered through higher oil prices. In parallel, it indicated that Dubai and Abu Dhabi are unlikely to seek external debt issuance in 2018, as it expected Dubai to secure most of its financing through a syndicated loan. It added that Abu Dhabi would cover any fiscal deficit in 2018 through last year's \$7bn external bond issuance and would unlikely resort to external bond issuance this year.

*Source: Bank of America Merrill Lynch*



## ECONOMY & TRADE

### GCC

#### **Fiscal consolidation has smaller impact than expected on non-oil economy**

The International Monetary Fund considered that the ongoing fiscal adjustment in the Gulf Cooperation Council (GCC) countries would be less costly on the non-oil economy than previously expected. It noted that the drop in oil prices between 2014 and 2016 weighed on the fiscal positions of GCC countries, as their aggregate fiscal account shifted from a surplus of 12.7% of non-oil GDP in 2014 to a deficit of 14.5% of non-oil GDP in 2016. It said that GCC countries responded by reducing government spending to contain the deterioration of their fiscal position, which weighed on non-oil growth, as government spending growth and non-oil GDP growth are positively correlated. However, the Fund considered that the relationship between government spending and non-oil GDP has recently weakened in the region, which means that the significant decrease in public spending has had a limited impact on non-oil growth. In fact, it said that an increase of one percentage point in expenditures was associated with a growth of 1.4 percentage points in non-oil GDP in the 1990-2007 period, while it coincided with an expansion of 0.6 percentage points in non-hydrocarbon GDP in the 2008-16 period. It attributed the weakening of the relationship between government spending and non-oil growth to factors that relate to the economy, which include higher imports, low efficiency of public investments and supply-side challenges. In addition, the IMF said that fiscal consolidation in terms of reduced current spending has a limited impact on economic activity, while investment expenditures have a larger impact on non-oil GDP growth.

*Source: International Monetary Fund*

### AFRICA

#### **Devaluation risks diminish amid higher oil prices**

Citi Research considered that the recent recovery in oil prices has reduced the immediate economic pressure on oil exporting members of the Central African Economic & Monetary Community (CEMAC). Still, it projected growth in the CEMAC region to remain subdued, amid efforts by the region's member states to use higher oil receipts to rebuild their balance sheets, as well as to reduce their fiscal deficit through fiscal consolidation and the clearance of arrears. Also, it expected the foreign currency reserves of CEMAC oil exporters to increase during the remainder of 2018, which would reduce the need for the devaluation of the Central African Franc (XAF). It added that the key challenge for CEMAC governments is the implementation of structural and economic reforms that aim to boost non-oil revenues, in order to alleviate the impact of a possible future downturn in oil prices. In parallel, Citi considered that a drop in oil prices would highlight the structural and economic differences between the CEMAC region and the West African Economic and Monetary Union (WAEMU), given the wide growth differential between the two regions. It indicated that authorities would have to devalue the XAF, while leaving the peg of the West African Franc (XOF) unchanged in case of a significant drop in oil prices, which would reflect the real difference in the economic structures of the two regions. It added that a potential devaluation of the XAF would have a minimal impact on WAEMU states, given the limited trade and investment links between the two regions.

*Source: Citi Research*

### JORDAN

#### **GCC financial support offsets IMF-mandated taxes**

Standard Chartered Bank indicated that Saudi Arabia, the UAE and Kuwait stepped in to provide financial support to Jordan, after the International Monetary Fund's mandated reforms triggered anti-austerity protests and led to the resignation of Prime Minister Hani Al-Mulki. It noted that the three countries pledged \$2.5bn in deposits at the Central Bank of Jordan. It added that Qatar followed with a \$500m investment pledge that aims to create jobs and address the high unemployment rate. It said that the pledges came amid the country's large fiscal and external financing requirements, high unemployment rate of about 18%, and anti-austerity protests in opposition to IMF-mandated taxes. In parallel, it noted that the IMF welcomed the pledges as a positive step for Jordan and plans to work with the new government. However, it considered that the completion of the IMF's second review will still require Jordan's commitment to fiscal reforms. Further, it considered that the pledges would create space for policy-makers to pursue more politically-acceptable austerity measures. But it considered that the aid would not address Jordan's structural macroeconomic challenges, including its elevated public debt level of 94% of GDP. However, it indicated that it is still unclear if the GCC pledges would replace the IMF support. It said that Jordan's growth prospects depend on the impact of the GCC pledges, the new government's handling of reforms and future negotiations with the IMF.

*Source: Standard Chartered Bank*

### NIGERIA

#### **Expansionary fiscal stance for 2018 budget**

Barclays Capital indicated that Nigeria's 2018 budget aims to narrow the fiscal deficit from 2.1% of GDP in the 2017 budget to 1.7% of GDP this year, mainly due to a surge in oil receipts, which would partly be offset by an increase in government spending and a drop in non-oil revenues. It noted that non-oil receipts would decline from 27% of total revenues in the 2017 budget to 17% of total revenues in the 2018 budget, while oil receipts would be unchanged at 42% of total revenues. It added that recurrent spending would account for 38% of total budgeted expenditure and increase by 17.5% from the 2017 budget, capital expenditure would represent 32% of total spending and grow by 21.7% year-on-year, and debt servicing costs would account for 22% of government spending and rise by 21% from the 2017 budget. In parallel, Barclays estimated the non-oil primary deficit to widen from 6.2% of GDP in the 2017 budget to 7.6% of GDP in the 2018 budget, which reflects an expansionary fiscal stance. Further, it noted that authorities plan to finance around 84% of the budget deficit through new borrowing, while they seek to finance the balance of 16% through proceeds from privatization as well as the sale of some non-oil assets. Also, it pointed out that borrowing requirements, which include principal as well as interest payments but exclude amortization needs, would total \$5.4bn, nearly 33% lower than budgeted needs in 2017. It added that the government aims to cover 52% of its financing needs through new external debt issuance, while it will finance the remaining 48% through domestic debt issuance.

*Source: Barclays Capital*



# BANKING

## QATAR

### Slower loan growth and narrower interest margins to weigh on banks' profitability in 2018

The aggregate lending of Qatari banks reached QAR905.3bn, or \$248.6bn, at the end of May 2018, which constitutes an increase of 2.7% from end-May 2017, compared to a 9.2% year-on-year growth at the end of May 2017. The significant slowdown in the banks' annual credit growth at the end of May 2018 reflects a sharp deceleration in public sector borrowing. Regional investment bank EFG Hermes projected the banks' aggregate lending to increase by 8% in 2018, but considered that downside risks to lending growth persist. Also, Qatari banks' aggregate deposits rose by 3% year-on-year to QAR785.4bn, or \$215.7bn, at the end of May 2018, compared to an annual rise of 11.7% at end-May 2017, which reflects a decline in public sector deposits. As such, the banking sector's loans-to-deposits ratio was nearly unchanged year-on-year at 115% at the end of May 2018. EFG Hermes expected the public sector to remain supportive of the banking system, in case of need, but noted that the government has been encouraging banks to diversify their funding sources. It added that Qatari banks are expecting a narrowing in their interest margins in 2018, due to higher funding costs and lower public sector deposits, given that the strong injection of public sector deposits following the political rift with GCC countries was a one-off transaction. Further, it considered that the banks' credit quality has been resilient so far this year, but anticipated that slower lending growth, as well as narrower interest margins, would lead to low single-digit earnings growth for banks in 2018.

Source: EFG Hermes, Qatar Central Bank, Byblos Research

## BAHRAIN

### Ratings affirmed on four banks

Capital Intelligence Ratings (CI) affirmed the long-term foreign currency rating (FCR) of Gulf International Bank (GIB) at 'A+', of the Arab Banking Corporation (ABC) at 'BBB+', the FCR of United Gulf Bank (UGB) at 'BBB', and of the National Bank of Bahrain (NBB) at 'BB'. It maintained the 'stable' outlook on the FCR of ABC and NBB, and the 'negative' outlook on GIB, while it revised the outlook on UGB's FCR from 'negative' to 'stable'. In addition, the agency affirmed at 'BBB+' the financial strength rating (FSR) of GIB, ABC and NBB, and the FSR of UGB at 'BBB'. Also, it maintained the 'stable' outlook on the ratings of GIB, ABC and NBB, while it revised the outlook on those of UGB from 'negative' to 'stable'. CI indicated that ABC's FSR is supported by the bank's solid capital adequacy ratio, improved loan asset quality, comfortable liquidity, geographically diversified asset base, ease of access to capital markets and sound debt service record. However, it noted that ABC's FSR is constrained by the bank's reduced but ongoing dependence on wholesale funding, large loan and deposit concentrations, low profitability and high credit risk. Further, the agency indicated that GIB's FSR is supported by its geographically diversified balance sheet, strong liquidity levels, expanding customer deposit base, good access to capital markets and solid capital adequacy. But it added that GIB's FSR are constrained by the increase in non-performing loans amid high credit and liquidity risks across the GCC, as well as by its weak profitability and concentrated loans and deposits.

Source: Capital Intelligence Ratings

## CÔTE D'IVOIRE

### New prudential regulations help improve capitalization of banks

The International Monetary Fund considered that the introduction by Côte d'Ivoire's authorities of new prudential regulations in accordance with the Basel II & III principles is supporting Côte d'Ivoire's banking sector. It said that the risk-weighted capital adequacy ratio of banks operating in the country increased from 8% at the end of 2016 to 9.8% at end-2017, which reflects the implementation of the new regulations, and of the new minimum capital requirements starting in mid-2017. It added that two out of seven banks in Côte d'Ivoire, which did not previously meet the minimum capital requirement, managed to comply with the regulations by end-2017, while the five remaining banks have until end-June 2018 to meet the requirements to avoid having their licenses withdrawn. Also, it noted that the banking sector's non-performing loans (NPLs) ratio increased from 9% at end-2016 to 9.9% at end-2017, and added that 65.3% of NPLs were covered through provisions at end-2017 relative to 71.1% a year earlier. Further, the IMF noted that the stress tests conducted by the Central Bank of West African States show that strong shocks on the banks' credit quality would adversely affect the banks' capital, especially for undercapitalized public banks. As such, it called on authorities to oversee the stringent application of prudential rules and take actions to address the small number of non-compliant banks. The IMF also encouraged Côte d'Ivoire to promote financial inclusion by modernizing the regulatory framework and improving digital financial services.

Source: International Monetary Fund

## PAKISTAN

### Outlook on five banks revised to 'negative'

Moody's Investors Service affirmed at 'B3' the long-term local-currency deposit ratings of Allied Bank (ABL), Habib Bank (HBL), MCB Bank (MCB), National Bank of Pakistan (NBP) and United Bank (UBL). It also revised the outlook on the banks' ratings from 'stable' to 'negative'. It said that the outlook revision follows its similar action on Pakistan's sovereign rating. It attributed its decision to the government's weakening creditworthiness, which weighs on the standalone credit profile of the banks, given their high exposure to government securities. In addition, it noted that the outlook revision reflects the risk of a further weakening in the government's capacity to support banks, in case of need. Moody's indicated that the banks' ratings are supported by their stable deposit-based funding structures, high liquidity buffers, good earnings generating capacity, as well as Pakistan's robust growth potential. But it noted that the ratings are constrained by the banks' relatively modest capital buffers and high asset risks. In parallel, the agency indicated that the State Bank of Pakistan designated HBL, NBP and UBL as domestic systemically important banks (D-SIBs). It said that D-SIBs are required to set aside additional Common Equity Tier One capital relative to risk-weighted assets by March 2019, and will be subject to enhanced supervisory requirements. It considered the increased requirements as credit positive for the Pakistani banking sector, as they would support the banks' financial stability through strengthening their capital buffers and loss-absorption capacity.

Source: Moody's Investors Service



## ENERGY / COMMODITIES

### Oil prices to average \$73 p/b in second half of 2018

OPEC and non-OPEC oil producers, led by Saudi Arabia and Russia, agreed on June 22 to raise output starting in July 2018, in order to compensate for potential future shortages in the oil market. Also, the agreement aims to stabilize oil prices, which now range between \$70 per barrel (p/b) and \$75 p/b. The Institute of International Finance indicated that the agreement did not specify concrete output targets and country level allocations, reflecting disagreements between Saudi Arabia and Iran. OPEC and non-OPEC members concluded the meeting, with proposed increases ranging between 0.5 million b/d and one million b/d. The IIF considered that Saudi Arabia and Russia would benefit the most from the OPEC and non-OPEC deal. It said that the Kingdom will raise its oil output to reduce oil prices to less than \$70/bbl. In this case, Saudi Arabia's increase in oil production would facilitate the country's ongoing fiscal adjustment by reducing the fiscal breakeven oil price. In addition, the IIF considered that higher oil production would support Russia's economy. In fact, Russian oil companies have raised their production capacity in recent months and would benefit more from additional production than from higher oil prices. Further, the IIF expected lower oil prices to help address Russian concerns about the expansion of the U.S. share in the global market, as higher oil prices would lead to a further increase in U.S. shale production. In contrast, it expected lower oil prices to reduce Iran's foreign currency earnings following the imposition of U.S. sanctions. Overall, it projected Brent crude oil prices to average \$73 p/b in the second half of 2018.

Source: Institute of International Finance, Merrill Lynch

### Middle East produced 18% of world's natural gas in 2017

BP estimated the Middle East region's aggregate production of natural gas at 659.9 billion cubic meters (bcm) in 2017, up by 4.9% from the previous year, and equivalent to 18% of the world's natural gas supply. Iran's production reached 223.9 bcm, or 34% of the region's total output last year, followed by Qatar with 175.7 bcm (26.6%) and Saudi Arabia with 111.4 bcm (17%).

Source: BP, Byblos Research

### Demand for renewable energy up 17% in 2017

BP estimated the consumption of global renewable energy at 486.8 million tons of oil equivalent (toe) in 2017, up by 17% from 2016. Consumption in the Asia-Pacific region reached 175.1 million toe, or 36% of global demand for renewable energy last year, followed by Europe with 161.8 million toe (33.2%), North America with 109.5 million toe (22.5%), South and Central America with 32.6 million toe (6.7%), Africa with 5.5 million toe (1.1%), the Middle East with 1.4 million toe (0.3%) and the Commonwealth of Independent States with 0.9 million toe (0.2%).

Source: BP, 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 12.56 million barrels per day (b/d) in 2018, which would constitute an increase of 1.5% 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 3.12 million b/d in 2018, which would reflect an increase of 1% from 3.1 million b/d in 2017.

Source: OPEC, Byblos Research

### Base Metals: Nickel prices hit their highest level since November 2014

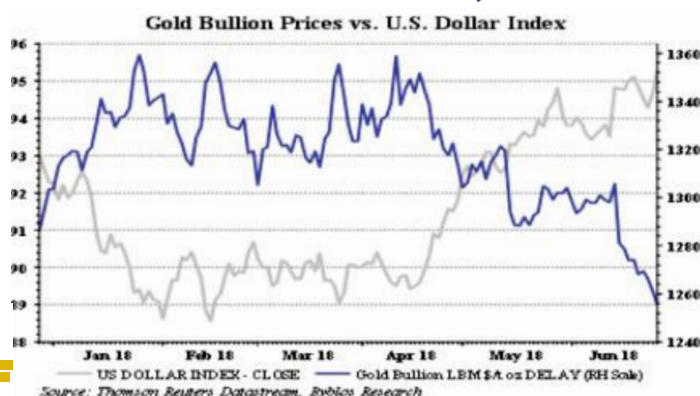
LME nickel three-month future prices averaged \$13,899 per metric ton so far in 2018, constituting a rise of 32.8% from an average of \$10,469 per ton in 2017. The rally in nickel prices was mainly driven by a 24% decline in the metal's global inventories as a result of the announcement of sanctions imposed by the United States on Russia, which would significantly reduce the supply of nickel in the market. Also, the metals' price was supported by news that new production facilities for lithium-ion battery materials are being built, mainly in China, to meet the potential strong growth in demand for electric car batteries. However, expectations of higher supply from new output coming online from Indonesia and the Philippines, as well as a stronger U.S. dollar, signs of an economic slowdown in China, and rising concerns over an escalation in the American-Chinese trade row, have put downward pressure on the metal's price. As such, nickel prices dropped from \$15,750 per ton on June 5, 2018, their highest level since November 2014, to \$14,880 per ton on June 27, 2018. Still, nickel prices are projected to average \$14,320 per ton in 2018 and to increase to an average of \$14,500 per ton in 2019, supported by expectations of higher demand for electric cars and an anticipated deficit of 3% in the nickel market during the 2018-19 period.

Source: ABN Amro, Citi Research, Thomson Reuters

### Precious Metals: Gold prices to continue to decrease on further U.S. interest rate hikes

Gold prices averaged \$1,319 per troy ounce so far in 2018, constituting an increase of 6.5% from an average of \$1,239 an ounce in the first half of 2017. The rise in prices coincided with a 8.3% year-on-year decline in the trade-weighted US Dollar Index over the same period. However, the metal's price decreased from an average of \$1,335 an ounce in April 2018 to an average of \$1,304 an ounce in May and to \$1,285 an ounce so far in June 2018, reflecting the recent recovery in the US dollar amid a stronger U.S. economy, as well as easing tensions between North Korea and the United States. Further, gold prices reached a six-month low of \$1,255 an ounce on June 27, 2018, despite the increased trade tensions between the U.S. and China, which shows that investors are seeking other safe haven assets, such as U.S. Treasury bonds. Further, gold prices are projected to regress from an average of \$1,330 an ounce in the first quarter of 2018 to an average of \$1,315 an ounce during the remainder of the year, reflecting expectations of further U.S. interest rate hikes and continued growth in U.S. bond yields in coming months.

Source: Citi Research, Thomson Reuters, 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-	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	Stable	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	1.75-2.00	13-Jun-18	Raised 25bps	05-Jul-18
Eurozone	Refi Rate	0.00	14-Jun-18	No change	26-Jul-18
UK	Bank Rate	0.50	21-Jun-18	No change	02-Aug-18
Japan	O/N Call Rate	-0.10	15-Jun-18	No change	31-Jul-18
Australia	Cash Rate	1.50	05-Jun-18	No change	03-Jul-18
New Zealand	Cash Rate	1.75	28-Jun-18	No change	08-Aug-18
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Jun-18	No change	20-Sep-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	21-Jun-18	No change	27-Sep-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	20-Jun-18	No change	08-Aug-18
India	Reverse repo rate	6.25	06-Jun-18	Raised 25bps	01-Aug-18
UAE	Repo rate	2.25	14-Jun-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	2.50	14-Jun-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	17-May-18	Cut 100bps	28-Jun-18
Turkey	Repo Rate	17.75	07-Jun-18	Raised 125bps	24-Jul-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	7.75	21-Jun-18	Raised 25bps	02-Aug-18
Brazil	Selic Rate	6.50	21-Jun-18	No change	01-Aug-18
Armenia	Refi Rate	6.00	26-Jun-18	No change	14-Aug-18
Romania	Policy Rate	2.50	07-May-18	Raised 25bps	04-Jul-18
Bulgaria	Base Interest	0.00	01-Jun-18	No change	29-Jun-18
Kazakhstan	Repo Rate	9.00	04-Jun-18	Cut 25bps	09-Jul-18
Ukraine	Discount Rate	17.00	12-Apr-18	No change	12-Jul-18
Russia	Refi Rate	7.25	15-Jun-18	Cut 25bps	27-Jul-18





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