

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Frontier market debt at \$2.8 trillion, or 120% of GDP, at end-March 2018

The Institute of International Finance indicated that total debt in 25 frontier markets, which includes the debt of governments, corporates and households, reached \$2.8 trillion at the end of March 2018, up by \$230bn from end-March 2017, supported by the growth of the debt of non-financial corporates and governments. It noted that the aggregate frontier market debt was equivalent to about 120% of GDP at the end of March 2018, nearly unchanged from a year earlier. It said that the debt of the non-financial corporate sector reached \$1.1 trillion at the end of March 2018, or 39.5% of total debt, and was equivalent to a record high of 46.9% of GDP compared to 46.1% of GDP at end-March 2017. It added that frontier market government debt was equivalent to 50.5% of GDP at end-March 2018 relative to 49.5% of GDP a year earlier, while the financial sector's debt stood at 7% of GDP at the end of March 2018 compared to 8% of GDP at end-March 2017. In addition, it said that household debt declined from the equivalent of 16.1% of GDP at end-March 2017 to 15.4% of GDP at the end of March 2018. On a regional basis, the IIF indicated that frontier market debt in the Middle East was equivalent to 163.4% of its GDP at end-March 2018, followed by debt in Asia (123.7% of GDP), Africa (110% of GDP), Europe (107.3% of GDP), and Latin America (101.4% of GDP). It pointed out that about \$170bn in frontier market bonds and loans that include about \$85bn in foreign currency will mature by the end of 2019.

Source: Institute of International Finance, Byblos Research

MENA

Public governance varies across countries

The World Bank's annual World Governance Indicators for 2017 show that the average score of 20 Arab countries regressed on three out of six governance indicators included in the survey, improved on two indicators, and was nearly unchanged on the remaining indicator. The indicators cover 214 countries and territories worldwide that are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes. Arab countries posted an average score of -0.48 points on the Government Effectiveness indicator, up from -0.49 points in 2016. The indicator evaluates the quality of public services and the degree of their independence from political pressure, as well as the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The region's government effectiveness was higher than that of the Sub-Saharan Africa (SSA) region (-0.84 points) only. The UAE had the most effective government among Arab countries with a score of +1.4 points, while Yemen (-1.92 points) came last. In parallel, Arab countries received a score of -0.46 points on the Control of Corruption indicator, nearly unchanged from 2016. The region's average score was better than the scores of South Asia (-0.47 points) and SSA (-0.68 points) only. The UAE, Qatar, and Saudi Arabia were the least corrupt Arab countries, while Yemen, Libya and Syria were the most corrupt countries in the region.

Source: World Bank, Byblos Research

GCC

Fixed income issuance at \$71bn in first eight months of 2018

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached \$70.7bn in the first eight months of 2018 compared to \$122.6bn in full year 2017. Aggregate fixed income in the first eight months of 2018 included \$33.6bn in sovereign bonds, or 47.5% of the total, followed by corporate bond issuance at \$21.8bn (30.8%), sovereign sukuk at \$9.6bn (13.6%) and corporate sukuk at \$5.7bn (8.1%). Overall, bonds and sukuk issued by GCC sovereigns totaled \$43.2bn, or 61.1% of total fixed income issuance in the region, while bonds and sukuk issued by corporates in the GCC amounted to \$27.5bn or 38.9% of the total. On a monthly basis, GCC sovereigns issued \$10.3bn in bonds and sukuk in January, \$300m in February, \$1.6bn in March, \$25.3bn in April, \$800m in May, \$3.6bn in June, \$900m in July, and \$400m in August 2018. In parallel, corporates in the GCC issued about \$2.2bn in bonds and sukuk in January, \$7.7bn in February, \$6.4bn in March, \$5.7bn in April, \$3.4bn in May, \$800m in June, \$500m in July, and \$800m in August 2018.

Source: KAMCO

SAUDI ARABIA

Profits of listed companies up 1% to \$15bn in first half of 2018

The cumulative net income of 162 companies listed on the Saudi Stock Exchange, or Tadawul, totaled SAR56.9bn, or \$15.2bn, in the first half of 2018, constituting an increase of 0.9% from SAR56.4bn, or \$15bn in the first half of 2017. Listed banks generated net profits of \$6.7bn and accounted for 44.2% of total net earnings in the covered period. Basic materials companies followed with \$5.3bn (34.7%), then telecommunications firms with \$1.3bn (8.4%), the food & beverage industry with \$331m (2.2%), energy companies with \$235.2m (1.6%), utilities firms with \$187.5m, retailers with \$181.6m and capital goods corporates with \$181.5m (1.2% each), insurers with \$148.4m (1%), real estate companies with \$134.9m, healthcare firms with \$130.3m (0.9% each), and financial services providers with \$107.6m (0.7%). Further, the net earnings of capital goods corporates increased by 81.4% year-on-year in the first half of 2018, followed by energy firms (+37.5%), basic materials companies (+35.7%), consumer durables and apparel firms (+21.5%), banks (+9.5%), financial services providers (+6%), and telecommunications firms (+4.9%). In contrast, the profits of utilities companies fell by 90.3% year-on-year in the first half of 2018, followed by transportation firms (-62.2%), consumer services companies (-42.5%), pharmacology, biotech & life science firms (-38.3%), insurers (-22.7%), retailers (-15.7%), healthcare firms (-15.3%), food & staples retailers (-14.2%), the food & beverages industry (-13.3%), real estate management & development firms (-11.2%), and commercial & professional services providers (-2.2%). Also, the results of media companies shifted from losses of \$3m in the first half of 2017 to profits of \$24.9m in the first half of 2018.

Source: KAMCO

OUTLOOK

MENA

Non-resident capital inflows to rise by 30% to \$182bn in 2018

The Institute of International Finance projected total non-resident capital inflows to the Middle East & North Africa (MENA) region at \$182.1bn in 2018, which would constitute an increase of 29.5% from \$140.6bn in 2017. It reduced its expectations for capital inflows to the MENA region in 2018 from \$224bn in March 2018, as Saudi Arabia delayed the IPO of oil company Aramco. The IIF indicated that sovereign bond issuance has been the main source of inflows to the region in 2018, but it forecast such issuance to decrease from the second half of 2018 onwards due to lower financing needs.

The IIF pointed out that the MENA region's oil importers are vulnerable to global monetary tightening, as a large share of their non-resident capital flows is composed of 'hot money', which is prone to rapid reversals. It expected non-resident capital inflows to the MENA region's oil importers to decline from \$67bn in 2017 to \$53.7bn this year. It anticipated other investment inflows, mainly banking-related flows, to the region's oil importers to decline by 53% from \$30.8bn in 2017 to \$14.4bn in 2018, and for FDI inflows to slightly grow from \$16bn in 2017 to \$16.6bn this year. It projected portfolio flows to oil importers to grow by 13.4% to \$22.8bn in 2018. In parallel, the IIF indicated that higher oil prices, sustained currency pegs to the US dollar, relatively low public debt levels and ample foreign currency reserves make the MENA region's oil exporters less prone to contagion from emerging markets. It forecast non-resident capital inflows to the region's oil exporters to rebound from \$73.7bn in 2017 to \$128bn in 2018. It projected other investment inflows at \$50.7bn in 2018. Further, it anticipated FDI inflows to the region's oil exporters to increase by 34.5% to \$27.7bn 2018, and for portfolio inflows to grow by 5% to \$50bn this year.

In parallel, the IIF forecast resident capital outflows from the MENA region to rise from \$193.4bn in 2017 to \$294.1bn in 2018, mainly due to portfolio and other investment outflows from Qatar, Saudi Arabia and the UAE's sovereign wealth funds.

Source: Institute of International Finance

QATAR

Growth of non-hydrocarbon sector to average 5.2% in 2018-19 amid infrastructure spending

Qatar National Bank (QNB) expected Qatar's real GDP growth to accelerate from 1.6% in 2017 to 2.6% in 2018 and 3.2% in 2019, supported by modest hydrocarbon sector growth of 0.2% in 2018 and 0.7% in 2019, as well as by a projected expansion of 5% in 2018 and 5.3% in 2019 in non-hydrocarbon sector activity. It noted that the lifting of OPEC production cuts would modestly boost crude oil production, while the end of maintenance work and temporary shutdowns at liquefied natural gas plants would help gas output recover. It added that growth in the non-hydrocarbon sector will be mainly driven by a 15.5% expansion in the construction sector, supported by key infrastructure projects related to Qatar's Vision 2030 and the 2022 World Cup. It considered that higher oil prices, along with the government's policies that aim to strengthen the private sector, will drive domestic demand.

Further, QNB forecast the current account surplus to increase from 3.8% of GDP in 2017 to 8.9% of GDP in 2018 and 7% of GDP in 2019, mainly supported by higher hydrocarbon prices and by the government's policies that are promoting self-sufficiency and food security, which are limiting imports. It also projected the fiscal balance to shift from a deficit of 1.6% of GDP in 2017 to a surplus of 0.4% of GDP in 2018 and 6.2% of GDP in 2019, due to ongoing spending restraints and higher hydrocarbon receipts. It added that the planned introduction of 5% value-added tax (VAT) by the second quarter of 2019 is anticipated to boost revenues by 1.25% of GDP and to diversify the tax base. The bank expected the inflation rate to average 0.5% in 2018 and to reach an average of 1.9% in 2019 in case authorities introduce the VAT. In parallel, QNB projected bank deposits to grow by 6% in 2018 and 7.5% in 2019, while it forecast lending to increase by 5% this year and 7% in 2019 due to higher credit demand from the public and private sectors.

Source: Qatar National Bank

IRAN

U.S. sanctions to weigh on economic activity

The Institute of International Finance projected Iran's real GDP to shift from a growth rate of 4.1% in the fiscal year that ended in March 2018 to a contraction of 2.8% in FY2018/19, due to the expected sharp decline in crude oil exports, and to lower private consumption and investment. It anticipated a contraction of 2.1% in private consumption in FY2018/19 relative to an expansion of 2.5% in FY2017/18. It indicated that the first wave of U.S. sanctions on Iran took effect on August 7 and targeted the automotive sector and the trade in gold and other precious metals. It said that the second wave of sanctions, which are scheduled for November 2018, will be imposed on Iran's energy and financial sectors. As such, it anticipated real hydrocarbon GDP to shrink by 8.3% in FY2018/19 relative to a growth rate of 2.5% in FY2017/18, and for non-hydrocarbon real GDP to shift from a growth of 3.6% in FY2017/18 to a contraction of 1.2% in FY2018/19. Further, it noted that the Iranian rial has lost more than 80% of its value against the US dollar since the beginning of 2018. It pointed out that the significant currency depreciation has made imports very expensive, leading to a drop in industrial production, while it noted that non-oil exports could benefit from the weaker currency. It anticipated the average inflation rate to surge from 10% in FY2017/18 to 40.5% in FY2018/19, amid the steep currency depreciation. It noted that the government's inability to implement policies to control the currency depreciation and reduce the inflation rate is causing social discontent.

In parallel, the IIF expected that the European Union (EU), China and Turkey will try to keep their economic ties with Iran. It added that Iran could rely on a barter system with its oil importers. It expected exports of goods and services to contract by 9.4% in FY2018/19 relative to an increase of 1.8% in FY2017/18, while it projected imports to shrink by 7.5% in FY2018/19 compared to a growth of 13.4% in FY2017/18. As such, it anticipated the current account surplus to narrow from 3.9% of GDP in FY2017/18 to 2.3% of GDP in FY2018/19, and to shift to a deficit of 4.1% of GDP in FY2019/20.

Source: Institute of International Finance



ECONOMY & TRADE

JORDAN

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'B+/B' Jordan's long- and short-term foreign and local currency sovereign credit ratings, with a 'stable' outlook. It indicated that the ratings are mainly constrained by an elevated public debt level, large financing needs as a result of wide current account deficits, as well as by ongoing regional conflicts that increased refugee inflows. But it noted that the ratings are supported by the authorities' increased fiscal consolidation efforts, their measures to reduce losses at state-owned enterprises, and international support from the U.S. and GCC countries. The agency forecast real GDP growth to remain subdued at 2% in 2018 and to slightly rebound to 2.8% in 2021, supported by higher exports and investment projects, especially in the transport and energy sectors. Further, it expected risks to Jordan's public finances to persist amid a challenging environment. Still, it anticipated that the authorities' gradual implementation of planned fiscal measures would slowly reduce the public debt level from 79.4% of GDP at end-2017 to 74.1% of GDP at end-2021. It also expected the government to increasingly issue international bonds in order to meet its funding needs and extend its debt maturity profile. In parallel, it projected the current account deficit to slowly narrow from 2018 onward due to higher exports, but to remain elevated at an average of 9.6% of GDP in the 2018-21 period. It anticipated the current account deficit to continue to be financed by foreign direct investments, debt inflows and grants. Also, it expected Jordan's external financing needs to be stable at about 151% of current account receipts and usable reserves over the 2018-21 period.

Source: S&P Global Ratings

TURKEY

Government to face challenges in implementing new economic program

Citi Research indicated that Turkey's new economic program (NEP) for 2019-21 contains more realistic macroeconomic targets than previous programs, as it recognizes the country's vulnerabilities and attempts to tackle them. However, it expected authorities to face difficulties in meeting some of the NEP's objectives. First, it noted that the NEP targets a real GDP growth rate of 3.8% in 2018 and 2.3% in 2019. But it considered that the 2019 growth forecast is optimistic and could prove difficult to achieve amid high interest rates and challenging external conditions. Second, it said that the NEP's inflation forecasts are realistic, but that the inflation target of 6.2% by the end of 2021 could prove challenging. Third, it indicated that the government could face difficulties in meeting its budget deficit targets of 1.9% of GDP for 2018 and 1.8% of GDP for 2019, due to lower tax receipts amid subdued growth prospects. It considered that authorities are targeting a relatively aggressive fiscal tightening, but that the adjustment on the expenditures side should have relied more on current spending cuts instead of sharp reductions in public investment. Further, Citi considered that the anticipated rise in tourism revenues is optimistic, which, along with the expected real appreciation of the lira, would raise uncertainties about narrowing the current account deficit.

Source: Citi Research

SAUDI ARABIA

Economic activity recovering amid fiscal stimulus

Samba Financial Group indicated that Saudi Arabia's fiscal deficit narrowed by 42.5% year-on-year to SAR41.8bn in the first half of 2018, despite an increase in government spending. It noted that authorities loosened their fiscal stance in order to soften the impact of structural adjustments on the economy. It said that expenditures grew by 26.5% year-on-year to SAR481.6bn in the first half of 2018, mainly due to transfers to low- and middle-income families to compensate for the removal of various subsidies and the implementation of the value added tax (VAT). Further, it pointed out that government revenues rose by 42.8% to SAR439.8bn in the covered period, supported by an increase of 40% in oil receipts to SAR298.1bn and an expansion of SAR141.7bn in non-oil revenues due to the introduction of the VAT. Overall, it expected the Kingdom's fiscal deficit to narrow from 9.3% of GDP in 2017 to 4.8% of GDP in 2018. It noted that authorities can comfortably finance the deficit from domestic and external sources. In parallel, Samba projected Saudi Arabia's real GDP to grow by 2.3% in 2018 following a contraction of 0.7% in 2017, and to expand by 2.9% in 2019 and by 3.3% in 2020. Further, it forecast the current account surplus to increase from 2.1% of GDP in 2017 to 12.5% of GDP in 2018. It considered that Saudi Arabia's net foreign assets have been volatile so far in 2018, despite a rising current account surplus, due to sustained capital outflows. It considered that capital outflows are due to foreigners withdrawing their money from the country rather than to Saudi nationals moving their money outside the country. It also noted that capital outflows reflect foreign investments made by the Public Investment Fund abroad.

Source: Samba Financial Group

GHANA

Sovereign ratings upgraded, outlook 'stable'

S&P Global Ratings upgraded Ghana's long-term foreign and local currency sovereign credit ratings from 'B-' to 'B', and revised the outlook on the ratings from 'positive' to 'stable'. It attributed the upgrade to an improvement in the effectiveness and transmission mechanism of Ghana's monetary policy, which will support the credibility of the inflation-targeting framework. It noted that the inflation rate regressed from a seven-year high of 19.2% in March 2016 to 10% in June 2018. It said that the ratings are underpinned by a diversified economy and robust economic growth prospects, while they are mainly constrained by weak public finances, sizable contingent liabilities and high external debt levels. The agency considered that the government could face challenges in implementing its fiscal consolidation plan, as it estimated the recapitalization of certain banks to be equivalent to about 3.5% of GDP, which will weigh on the fiscal balance. Still, it expected the fiscal deficit to narrow from an annual average of 8% of GDP during the 2014-17 period to an average of 5.5% of GDP annually over the 2018-21 period. Further, S&P projected the government's debt level to slightly regress from 69.2% of GDP in 2017 to 70.2% of GDP in 2018. It added that 53% of the total debt stock was denominated in foreign currency at end-2017, which increases the vulnerability of the debt to a depreciation of the Ghanaian cedi.

Source: S&P Global Ratings



BANKING

KUWAIT

Provisions adequate for IFRS 9 implementation

Fitch Ratings indicated that banks in Kuwait have more than enough provisions to meet the requirements of the new international accounting standard IFRS 9, due to the country's existing regulatory requirements. It added that Kuwaiti banks have the highest levels of loan-loss provisions among Gulf Cooperation Council (GCC) countries, with average provisions reaching about 280% of impaired loans at the end of 2017. However, it considered the banks' current provisions to be only adequate due to the banks' high exposure to single-name borrowers and individual sectors. It pointed out that regulators could ask banks that have provisions above the IFRS 9 requirements to move the excess to non-distributable reserves in their equity, instead of distributing the excess through extra payouts and, in turn, risk weakening their balance sheet. Further, the agency indicated that IFRS 9 requires banks to hold lifetime expected credit loss (ECL) provisions for facilities that are not yet impaired but had registered a significant increase in their credit risk. It expected Kuwaiti banks to implement the IFRS 9 ECL provisioning requirement in the first quarter of 2019, as the Central Bank of Kuwait decided to postpone the implementation of the accounting standard in order to make sure that all banks have the necessary systems in place and will carry out their ECL calculations consistently and prudently. It added that Kuwaiti banks already provide disclosures on their impaired facilities, which may be broadly in line with IFRS 9.

Source: Fitch Ratings

TURKEY

Banks' refinancing and liquidity risks increase

Fitch Ratings indicated that the refinancing and liquidity risks of Turkish banks have increased due to recent market volatility. It noted that the 40% depreciation of the Turkish lira so far this year, as well as increased geopolitical tensions, uncertainty about economic policy in Turkey, and tightening global financing conditions are weighing on investor sentiment. The agency pointed out that the banks' external debt reached \$183bn at end-June 2018, unchanged from the end of 2017. It noted that the banks' external debt that matures within 12 months remains large at \$102bn as at end-June 2018, which is equivalent to 56% of the banks' total external debt. However, it estimated the banks' refinancing requirements, in case of a complete loss of market access, at between \$50bn and \$55bn in the next 12 months, which is significantly lower than the reported external debt that matures within a year. It noted that the lower estimate for refinancing requirements is mainly due to the fact that about 50% of the reported short-term debt is from stable sources of funding, mainly from parent banks, and would likely be rolled-over in case of market stress. In addition, it estimated that Turkish banks have access to about \$86bn in foreign currency liquidity as at the end of June 2018, which significantly exceeds their potential short-term debt service requirements. It noted that the foreign currency liquidity includes \$52bn in liquid assets, mostly in the form of placements with the Central Bank of the Republic of Turkey under the reserve option mechanism, as well as \$34bn of net long foreign currency derivatives. In parallel, Fitch indicated that foreign currency deposits at Turkish banks decreased by 6% between July and August 2018.

Source: Fitch Ratings

NIGERIA

Tier One capital of top nine banks at \$10bn

In its 2018 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included nine banks operating in Nigeria on the list, with five banks ranked among the top 25 banks in Africa. The rankings are based on the banks' Tier One capital at end-2017, as defined by the Basel Bank of International Settlements. The aggregate Tier One capital of Nigerian banks totaled \$9.6bn at the end of 2017 relative to about \$8.9bn a year earlier, and accounted for 12.7% of the Tier One capital of banks in Africa. Also, the aggregate assets of the nine banks reached \$93.1bn at the end of 2017 and accounted for 9.9% of the aggregate assets of banks in Africa. As such, Nigerian banks' combined Tier One capital-to-assets ratio was 10.4% at end-2017, higher than the ratio of 8.05% of banks in Africa and the Top 1000 banks' aggregate ratio of 6.7%. Also, the cumulative pre-tax profits of the nine banks reached \$2.4bn in 2017. The ratio of pre-tax profits-to-Tier One capital of Nigerian banks reached 25% in 2017, higher than the Top 1000 banks' ratio of 13.5%. The Tier One capital of Zenith Bank was \$2.47bn in 2017, the highest among Nigerian banks, followed by Guarantee Trust Bank (\$1.51bn), First Bank of Nigeria (\$1.45bn), Access Bank (\$1.3bn), United Bank for Africa (\$711m), Ecobank Nigeria (\$603m), Stanbic IBTC Holdings (\$556m), Diamond Bank (\$553m) and Fidelity Bank (\$491m).

Source: *The Banker*

UAE

Agency takes rating actions on 11 banks

Capital Intelligence Ratings affirmed the long-term foreign currency rating (FCR) of First Abu Dhabi Bank (FAB) at 'AA-', that of Abu Dhabi Commercial Bank (ADCB) at 'A+', and the FCRs of Commercial Bank of Dubai (CBD), National Bank of Fujairah (NBF), Sharjah Islamic Bank (SIB), Bank of Sharjah (BOS), Commercial Bank International (CBI), and Al Masraf at 'A-'. It also maintained at 'BBB+' the FCR of National Bank of Umm Al Qaiwain (NBQ) and at 'BBB' that of United Arab Bank (UAB). The agency attributed its affirmation of the banks' ratings to the high likelihood of sovereign assistance and, in the case of CBI, potential support from QNB, which has a 40% stake in the bank. It also downgraded the FCR of Invest Bank (IB) from 'BBB' to 'BBB-', due to a significant increase in the bank's non-performing loans (NPLs) that led a substantial decline in the bank's loan-loss reserve coverage ratio and its capital base. Further, the agency affirmed the Financial Strength Rating (FSR) of FAB at 'A+' and that of ADCB at 'A'. Also, it maintained at 'BBB+' the FSRs of CBD, NBF, SIB, BOS, Al Masraf and NBQ, and the FSRs of UAB and CBI at 'BBB' and 'BBB-', respectively. It downgraded the FSR of IB from 'BBB' to 'BBB-', due to a deterioration in the bank's asset quality and capitalization. In parallel, it indicated that CBI's FCR has a 'negative' outlook in line with that of the FCR for QNB, its major shareholder, while the remaining banks' FCRs and FSRs have a 'stable' outlook. However, it said that the banks' FSRs are mainly constrained by high concentrations in loans and deposits, as well as by elevated credit risks in the economy.

Source: Capital Intelligence Ratings



ENERGY / COMMODITIES

Oil prices reach a new high on tightening market

ICE Brent crude oil front-month prices recovered from July's low of \$70.7 per barrel (p/b) and reached \$81.9 p/b on September 25, 2018, their highest level since November 2014. Oil prices averaged \$78.8 p/b so far in September 2018, constituting an increase of 6.7% from the previous month, and compared to month-on-month declines of 1.4% in June, 1.3% in July and 1.5% in August. Oil prices were supported by signs of a tightening market, supply concerns stemming from the upcoming U.S. sanctions on Iran's hydrocarbon sector, as well as by OPEC's refusal of an immediate increase in oil production. In fact, several forecasts about the potential cut in Iran's oil exports were revised upwards to 1.5 million barrels per day (b/d). In contrast, the gains in oil prices were capped by an increase of 1.9 million barrels in U.S. crude oil inventories in the week to September 21. Also, the oil price outlook is still under pressure by an anticipated weak demand, mainly due to trade tensions between the U.S. and China that could have negative implications on global economic activity. Further, the European Union's decision to continue to import Iranian crude oil would reduce the impact of U.S. sanctions on Iran's exports, which could exert downward pressure on oil prices. Overall, Goldman Sachs expected Brent oil prices to trade at between 70\$ p/b and 80\$ p/b by the end of 2018.

Source: Goldman Sachs, Oilprice, Bloomberg, Thomson Reuters

ME&A's oil demand to rise by 1.1% in 2018

Crude oil consumption in the Middle East & Africa (ME&A) region is forecast to average 12.51 million barrels per day (b/d) in 2018, which would constitute an increase of 1.1% from 12.37 million b/d in 2017. The region's demand for oil would represent 38.2% 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 2.76 million b/d in 2018, up by 0.7% from 2.74 million b/d in 2017.

Source: OPEC, Byblos Research

Algeria's energy exports down 2.8% in first quarter of 2018

Algeria's oil and gas exports reached 27.7 million tons of oil equivalent (toe) in the first quarter of 2018, constituting a decrease of 2.8% from the same quarter last year, due to lower output and higher domestic consumption. In parallel, the country's hydrocarbon output reached 44.3 million toe in the first quarter, down by 1% from the same quarter of 2017. Energy consumption rose by 7% to 16.7 million toe in the covered quarter, while natural gas consumption grew by 10% to 12.8 billion cubic meters.

Source: Thomson Reuters

New regulations to impact MENA economies

The impact of new regulations set by the International Maritime Organization will vary across the MENA region, as ship owners will have to switch away from high sulphur fuel oil (HSFO) starting in 2020, raising demand for diesel. As such, GCC countries, specifically Saudi Arabia and the UAE, will benefit from higher exports of diesel, as both countries added 1.2 million barrels per day of new refining capacity, and from lower HSFO prices in their power generation sectors. In contrast, Iran and Iraq are expected to face challenges while complying with the new regulations, as both countries might not be able to absorb excess supply of fuel oil in their power sector.

Source: APICORP Energy Research

COUNTRY RISK WEEKLY BULLETIN

Base Metals: Copper prices drop amid escalating trade tensions and growth concerns

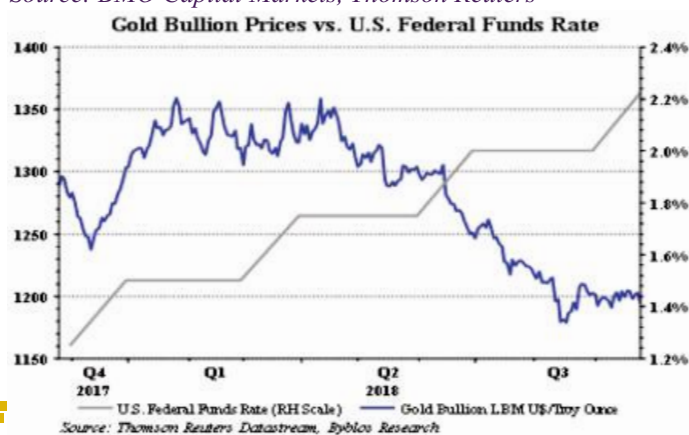
LME copper three-month future prices averaged \$6,136 per metric ton so far in the third quarter of 2018, constituting a decrease of 11.1% from an average of \$6,900 per ton in the second quarter of 2018. The drop in the metal's price was due to mounting concerns about lower global growth and weaker demand for copper as trade tensions between the U.S. and China escalate. Prices further decreased amid a stronger US dollar, worrying signs of stress in emerging markets, easing supply conditions, as well as expectations of additional U.S. interest rate hikes in December 2018. In parallel, the latest available figures show that global demand for refined copper was 11.8 million tons in the first half of 2018, up by 1% year-on-year, as Chinese demand grew by 4%, while demand in the rest of the world declined by 1.5%. On the supply side, global refined copper production was 11.7 million tons in the first half of 2018, up by 1.8% from 11.5 million tons in the same period of 2017, mainly driven by an increase of 6.5% in Chilean production, which was partly offset by a decline in output in India, the U.S. and Poland. On a regional basis, refined output grew by 11% in Africa, by 5% in Latin America and by 2% in Asia, while it declined by 5% in Oceania and by 2.5% in North America, and was nearly unchanged in Europe.

Source: International Copper Study Group, Thomson Reuters

Precious Metals: Gold prices to continue to decline in coming months

Gold prices have been on a downward trend in recent months, as they dropped from an average of \$1,304 an ounce in May to \$1,282 an ounce in June, \$1,238 an ounce in July, \$1,201 an ounce in August, and to an average of \$1,199 an ounce month-to-September 26, 2018. The drop in the metal's price reflects a stronger US dollar amid solid economic growth in the U.S. Also, the metal's price decreased to \$1,194 an ounce in intra-day trading on September 27, 2018 as a result of the U.S. Federal Reserve's decision to raise interest rates a day earlier. Prices are forecast to decline from an average of \$1,283 an ounce so far in 2018 to an average of \$1,273 an ounce in full year 2018, and to remain below \$1,300 an ounce in 2019, reflecting expectations of an additional U.S. interest rate hike in December and three more in 2019. Upside risks to the metal's price could originate from escalating trade tensions between the U.S. and China, expectations of rising inflationary pressures in the U.S., as well as a recovery in physical demand for the metal, as the metal's low current price could increase jewelry purchases.

Source: BMO Capital Markets, Thomson Reuters



September 27, 2018

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 | Positive | Positive | Stable | 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 |
| | Stable | 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+ | B2 | 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 | Negative | Positive | | | | | | | | |
| Qatar | AA- | Aa3 | AA- | AA- | A+ | -7.0 | 50.2 | 130.0 | 265.7 | 27.0 | 664.0 | -2.3 | -3.0 |
| | Negative | Stable | 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 | | | | | | | | |
| Asia | | | | | | | | | | | | | |
| 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 |
| Central & Eastern Europe | | | | | | | | | | | | | |
| 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 | B+ | Ba3 | BB | BB+ | BB- | | | | | | | | |
| | Stable | Negative | Negative | 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 | 2.00-2.25 | 26-Sep-18 | Raised 25bps | 08-Nov-18 |
| Eurozone | Refi Rate | 0.00 | 13-Sep-18 | No change | 25-Oct-18 |
| UK | Bank Rate | 0.75 | 13-Sep-18 | Raised 25bps | 25-Oct-18 |
| Japan | O/N Call Rate | -0.10 | 19-Sep-18 | No change | 31-Oct-18 |
| Australia | Cash Rate | 1.50 | 04-Sep-18 | No change | 02-Oct-18 |
| New Zealand | Cash Rate | 1.75 | 26-Sep-18 | No change | 07-Nov-18 |
| Switzerland | 3 month Libor target | -1.25-(-0.25) | 20-Sep-18 | No change | 13-Dec-18 |
| Canada | Overnight rate | 1.50 | 05-Sep-18 | No change | 24-Oct-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 | 27-Sep-18 | No change | 20-Dec-18 |
| South Korea | Base Rate | 1.50 | 31-Aug-18 | No change | 18-Oct-18 |
| Malaysia | O/N Policy Rate | 3.25 | 05-Sep-18 | No change | 08-Nov-18 |
| Thailand | 1D Repo | 1.50 | 19-Sep-18 | No change | 14-Nov-18 |
| India | Reverse repo rate | 6.50 | 01-Aug-18 | Raised 25bps | 05-Oct-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 | 16-Aug-18 | No change | 27-Sep-18 |
| Turkey | Repo Rate | 24.0 | 13-Sep-18 | Raised 625bps | 25-Oct-18 |
| South Africa | Repo rate | 6.50 | 20-Sep-18 | No change | 22-Nov-18 |
| Kenya | Central Bank Rate | 9.50 | 28-May-18 | No change | N/A |
| Nigeria | Monetary Policy Rate | 14.00 | 25-Sep-18 | No change | 20-Nov-18 |
| Ghana | Prime Rate | 17.00 | 24-Sep-18 | No change | 26-Nov-18 |
| Angola | Base rate | 16.50 | 21-Sep-18 | No change | 26-Nov-18 |
| Mexico | Target Rate | 7.75 | 02-Aug-18 | No change | 04-Oct-18 |
| Brazil | Selic Rate | 6.50 | 01-Aug-18 | No change | 19-Sep-18 |
| Armenia | Refi Rate | 6.00 | 25-Sep-18 | No change | 13-Nov-18 |
| Romania | Policy Rate | 2.50 | 06-Aug-18 | No change | 03-Oct-18 |
| Bulgaria | Base Interest | 0.00 | 03-Sep-18 | No change | 28-Sep-18 |
| Kazakhstan | Repo Rate | 9.00 | 03-Sep-18 | No change | 15-Oct-18 |
| Ukraine | Discount Rate | 18.00 | 06-Sep-18 | Raised 50bps | 25-Oct-18 |
| Russia | Refi Rate | 7.50 | 14-Sep-18 | Raised 25bps | 26-Oct-18 |



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