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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Infrastructure funds raise $37bn in third quarter of 2018, up 113% year-on-year

Research provider Preqin indicated that 20 unlisted infrastructure funds secured $37.1bn in capital commitments in the third quarter of 2018, constituting the largest amount of capital raised in a quarter during the past five years. It noted that secured capital commitments grew by 95.6% from $19bn in the second quarter of 2018 and by 112.7% from $17.4bn in the third quarter of 2017. It added that eight infrastructure funds with a primary focus on North America raised $26.6bn in the third quarter of 2018, equivalent to 71.7% of the aggregate capital raised, while eight European-focused funds secured $9bn (24.3%) and one Asian-focused fund raised $0.4bn (1.1%). Also, the survey indicated that there were 187 infrastructure funds seeking to raise an aggregate of $147bn in capital as at the start of the fourth quarter of 2018, compared to 174 funds that targeted $128bn in capital at the beginning of the year. It indicated that 45 out of the 187 infrastructure funds, or 24.1% of the total, are seeking to raise $60.1bn to be invested in North America, while 82 infrastructure funds (43.9%) are aiming to raise $49.9bn in capital to be invested in Europe, and 15 funds (8%) are seeking to raise $10.5bn to be invested in Asia.

Source: Preqin

MENA

Ease of doing business varies among Arab countries

The World Bank Group's Ease of Doing Business survey for 2019 indicated that 16 out of 22 Arab economies implemented a total of 50 business reforms that affected the business environment in the region. Djibouti implemented six reforms, followed by Egypt and Sudan with five reforms each; Jordan, Morocco, Saudi Arabia, Tunisia and the UAE with four reforms each; Mauritania with three reforms; Algeria, Bahrain, Kuwait and Qatar with two reforms each; and Comoros, Oman and Palestine with one reform each. The survey covered the reforms that were implemented between June 2017 and May 2018. It noted that the region's most popular areas for reforms were "starting a business" with nine reforms; followed by "protecting minority investors" with eight reforms; "getting credit" with seven reforms; "registering property" and "enforcing contracts" with five reforms each; "trading across borders", "paying taxes" and "resolving insolvency" with four reforms each; "getting electricity" with three reforms; and "dealing with construction permits" with one reform. In parallel, the UAE was the top ranked Arab economy and came in 11th place worldwide in terms of ease of doing business. Morocco followed in 60th place, then Bahrain (62nd), Oman (78th) and Tunisia (80th) as the five highest ranked Arab countries. In contrast, Iraq (171st), Syria (179th), Libya (186th), Yemen (187th) and Somalia (190th) were the lowest ranked Arab economies. The rankings of 11 Arab countries improved, those of eight declined and the rankings of three were unchanged year-on-year.

Sources: World Bank Group, Byblos Research

Real estate transparency in Arab cities lags global trends

Jones Lang LaSalle's 2018 Global Real Estate Transparency Index for 158 cities around the world ranked Dubai as the most transparent Arab real estate market and the 87th most transparent worldwide. Riyadh followed in 110th place globally, then Abu Dhabi (111th), Cairo (113th), Manama (119th), Casablanca (120th), Amman (125th), Kuwait City (128th), Doha (129th), Beirut (139th), Muscat (140th), Tunis (141st), Algiers (145th), Baghdad (153rd), and Tripoli (157th). The index aims to compare and contrast transparency conditions across real estate markets worldwide. The index scores range from 1.00 to 5.00 points, with a perfect score of 1.00 reflecting full market transparency. The Arab region's average score of 3.8 points in the 2018 survey lagged the global average score of 2.7 points. In comparison, the average score of Gulf Cooperation Council (GCC) cities was 3.6 points, while it was 4.1 points for non-GCC Arab cities. In parallel, the survey assigns cities and markets to one of five transparency levels that are "Highly Transparent", "Transparent", "Semi-Transparent", "Low Transparency" and "Opaque". It classified Dubai, Riyadh, Abu Dhabi and Cairo in the "Semi-Transparent" category, and Manama, Casablanca, Amman, Kuwait city and Doha in the "Low-Transparency" category. It also classified Beirut, Muscat, Tunis, Algiers, Baghdad and Tripoli in the "Opaque" category.

Source: Jones Lang LaSalle, Byblos Research

IPOs up 22% to $350m in third quarter of 2018

Figures released by EY indicate that capital raised through initial public offerings (IPOs) in the Middle East & North Africa (MENA) region totaled $349.9m in the third quarter of 2018, up by 21.9% from $287m in the same quarter of 2017. There were four IPOs in the MENA region in the third quarter of the year relative to six IPOs in the same period of 2017. In comparison, there were six IPOs that raised $629.6m in the first quarter of 2018, and nine IPOs that raised $881.5m in the second quarter of the year. Capital raised through IPOs in the MENA region accounted for 0.7% of total capital raised through IPOs worldwide, while the number of IPO deals in the region represented 1.3% of the number of global IPOs in the third quarter of 2018. There was one IPO deal in Saudi Arabia that raised $220.6m in the covered period, which is equivalent to 63% of the MENA region's total. Also, there was one IPO in each of Egypt, Oman and Tunisia that raised $69.7m (19.9%), $52m (14.9%) and $7.6m (2.2%), respectively. Further, IPOs in the consumer services sector raised $220.6m, or 63% of the MENA region's total, followed by the real estate sector with $69.7m (19.9%), the power and utilities sector with $52m (14.9%), and the financial services sector with $7.6m (2.2%).

Source: EY

POLITICAL RISK OVERVIEW - October 2018

DEM REP CONGO

Rebel attacks escalated in the northeastern city of Beni, which triggered local protests and obstructed the authorities' response to the Ebola outbreak. Political parties continued the deliberations over fundamental electoral issues in the run-up to the general elections in December 2018. Teachers launched strikes and students protested to denounce the escalating violence in Beni, while rioters set fire to government buildings in the city. The home of the spokesperson of the ruling coalition, André-Alain Atundu, was attacked by unidentified assailants, but there were no casualties. Tensions escalated between the DRC and Angola, as Angolan security forces assaulted a neighborhood populated by Congolese in the northeast of Angola, forcing around 330,000 Congolese to flee across the border into the DRC and resulting in the death of at least 12 persons.

EGYPT

Security forces continued their operations against suspected Islamic State (IS) militants in the Sinai province. Clashes intensified between security forces and IS militants in Al-Arish city in Northern Sinai, after the army killed IS senior militant Abu Hamza al-Maqdisi, who has been in charge of planning and training the jihadist group in the Sinai area. Egypt's highest appeals court upheld in mid-October a three-year prison sentence and hefty damages on former President Mohammed Morsi and 19 other defendants on charges of insulting the judiciary in 2013. The government extended for an additional three months the nationwide state of emergency that was first imposed in April 2017.

IRAN

The International Court of Justice issued a court ruling that ordered the U.S. to remove sanctions imposed on Iran that affect humanitarian trade, food, medicine and civil aviation. In response, the U.S. withdrew from the 1955 Treaty of Amity with Iran that established economic relations and consular rights between the two countries. On October 16, the U.S. announced new sanctions on banking, industrial and other entities linked to the Iranian Basij Resistance Force. Denmark accused Iran of planning an assassination attempt against the leader of the Arab Struggle Movement for the Liberation of Ahvaz in Copenhagen. The Jaish al-Adl Iranian militant group kidnapped 14 Iranian border guards close to the Pakistani border.

IRAQ

Parliament elected Mr. Barham Salih as the country's President, who appointed Mr. Adel Abdul Mahdi as Prime Minister. Parliament approved the appointment of 14 out of 22 Cabinet ministers that were proposed by Prime Minister Mahdi. Further, Iraqi Kurdistan's Prime Minister Nechirvan Barzani met with former Prime Minister Mr. Haider al-Abadi and Prime Minister Mahdi in Baghdad to discuss Erbil-Baghdad issues. In parallel, the electoral commission issued the results of Kurdistan's parliamentary elections, which concluded that the Kurdistan Democratic Party won most of the seats in the Kurdistan Parliament.

LIBYA

The head of the Tripoli-based United Nations-backed Presidency Council, Faiez Al-Serraj, reshuffled his Cabinet on October 7 in an effort to gain nationwide support following recent clashes in Tripoli. However, Mr. Al-Serraj appointed the new ministers of interior, economy, finance and sports without the approval from the Tobruk-based House of Representatives (HOR), which drew strong opposition. As a result, consultations continued between the Tripoli-based High State Council and the Tobruk-based HOR to reform the Presidency Council. A UN-sponsored ceasefire collapsed after clashes erupted between militias in Tripoli that killed one of the leaders of the Tripoli Brigade. Islamic State militants attacked the central town of Fuqah, killing at least five people and setting fire to public buildings.

SUDAN

Sudanese authorities renewed their commitment to the unilateral ceasefire with rebel groups in Darfur and the Two Areas, and called on them to join the national dialogue, in an effort to create a conducive environment for the peace process. However, the Sudan Liberation Movement-Abdel Wahid al-Nur and the Sudan People's Liberation Movement-in-Opposition accused Sudanese forces of launching attacks on their positions in different locations across the country, despite the three-month unilateral ceasefire. The U.S. Embassy in Khartoum announced that it will launch the second phase of the dialogue between Sudan and the U.S., as part of a five-track process towards the full normalization of relations between the two countries, as well as for the removal of Sudan from the U.S. list of "State Sponsors of Terrorism".

SYRIA

Turkey partially fulfilled its obligation under the Russian-Turkish deal for Idlib by removing some of the rebels' heavy weapons from the demilitarized zone in Idlib. Also, the jihadist alliance Hei'at Tahrir al-Sham issued a statement consenting to the deal's terms, but refused to disarm. Russia delivered the S-300 air defense system to Syria. In parallel, Syria and Jordan reopened the Jaber-Naseeb border crossing, while the UN, Syria and Israel reopened the Quneitra crossing in the Golan Heights. Further, Foreign Minister Walid Al Muallem discussed with Iraqi authorities the possibility of reopening the Abu Kamal crossing.

TUNISIA

A female suicide bomber carried an attack on the center of Tunis City on October 29, which constituted the first major terrorist attack in the capital since 2015. The power struggle between President Mohamed Beji Caid Essebsi and Prime Minister Youssef Chahed continued, as the Free Patriotic Union Party (UPL) switched allegiance from Prime Minister Chahed to President Essebsi, and merged with the ruling party of Nida Tounes. Following the merger of the two parties, the leader of the UPL party, Slim Riahi, was appointed as the new secretary general of Nida Tounes. The chief of political affairs of Nida Tounes was arrested on corruption charges and was sentenced to two years in prison.

TURKEY

The Kurdistan Workers' Party's (PKK) attack in the southeastern province of Batman triggered the detention of about 400 suspected PKK sympathizers. The Turkish army carried out three major air raids against the PKK in northern Iraq. It also hit the People's Protection Units located in the east of the Euphrates river on the Turkish-Syrian border. Authorities accused the U.S. of delaying the implementation of the Manbij roadmap, despite the launch of training for joint U.S.-Turkish patrols in Manbij. However, tensions with the U.S. eased following the release of Pastor Andrew Brunson, while tensions escalated with Saudi Arabia following the murder of Saudi journalist Jamal Khashoggi.

YEMEN

The UAE-backed Yemeni forces' attack on the Huthi-held port city of Hodeida slowed, as the UN envoy pursued confidence-building measures to improve conditions ahead of possible talks in November. But the Saudi-led coalition reportedly deployed reinforcements around Hodeida. The Southern Transitional Council (STC) group called for an uprising against the government in Aden and the southern provinces. The government urged the STC to stop mobilizing non-state military units and to join the political process. U.S. Defence Secretary James Mattis called on warring parties to implement a ceasefire within 30 days. President Abdrabbuh Mansour Hadi removed Prime Minister Ahmed Bin Dagher due to his failure to contain the economic crisis and replaced him with Mr. Maeen Abdulmalik Saeed.

Source: International Crisis Group, Newswires

OUTLOOK

GCC

Cumulative sovereign financing needs at $305bn between 2018 and 2021

S&P Global Ratings projected the sovereign financing needs of the Gulf Cooperation Council (GCC) countries at $305bn, or 5.7% of their aggregate GDP between 2018 and 2021, compared to $457bn, or 12.2% of their aggregate GDP between 2015 and 2017. It noted that the GCC countries' annual financing needs continue to increase but at a slower pace due to high oil prices and fiscal reforms, which supported their fiscal positions. It projected Saudi Arabia's aggregate financing needs at $156.5bn, equivalent to 51.3% of the GCC aggregate financing requirements during the 2018-21 period, followed by Kuwait at $59.3bn (19.4%), Abu Dhabi at $35.7bn (11.7%), Oman at $21.6bn (7.1%), Qatar at $21.1bn (6.9%), and Bahrain at $10.8bn (3.6%).

In parallel, S&P forecast the average GCC fiscal deficit to widen slightly from 5.5% of GDP in 2018 to about 6% of GDP during the 2018-21 period, amid expectations of a moderation in oil prices and higher public spending, which would offset the increase in non-hydrocarbon revenues. Still, it noted that the GCC's combined fiscal deficit in nominal terms would reach about $75bn in 2019, significantly below the deficit of $190bn in 2016. Further, it anticipated Bahrain and Qatar to finance most of their deficits through debt issuance, while it expected Abu Dhabi and, to a certain extent Kuwait, to use their foreign assets to close the funding gap. It said that Oman and Saudi Arabia would cover 70% of their deficits through debt financing and 30% by drawing down their foreign assets. It considered that changes in domestic and international liquidity conditions could present challenges for sovereign issuance and may lead to a shift in financing towards using foreign assets.

Further, S&P forecast Bahrain's net debt position to triple from 26% of GDP in 2015 to 75% of GDP by 2021, while it anticipated Oman's sovereign balance sheet to shift to from a net asset position of 50% of GDP in 2015 to a net debt position of 2% of GDP in 2019. Also, it projected Saudi Arabia's net foreign assets to decline significantly from 122% of GDP in 2015 to 65% of GDP by 2021. It expected a moderate decline in the net asset positions of Kuwait, Abu Dhabi and Qatar due to their larger foreign assets.
Source: S&P Global Ratings

UAE

Non-oil growth projected at 3.5% in 2019

The Institute of International Finance projected the UAE's real GDP growth to accelerate from 0.8% in 2017 to 2.8% in 2018 and 3.2% in 2019, supported by higher oil prices and production, as well as by fiscal stimulus. It forecast hydrocarbon output to grow by 2.3% in 2018 and 2.5% in 2019, while it anticipated non-hydrocarbon sector growth at 2.9% this year and 3.5% next year. It projected Abu Dhabi's economy to grow by 2.8% in 2018 and 3.4% in 2019, following a 0.4% contraction last year, supported by the recovery in oil production and higher public spending. Further, it expected growth in Dubai to pick up slightly from 2.7% in 2017 to 2.8% in 2018 and 3% in 2019, and to remain constrained by a potential slowdown in retail and hospitality sectors and by slower global activity. The IIF said that the restructuring of government-related entities and the persistently weak real estate sector could limit a stronger economic recovery in the UAE, and that the stimulus from higher oil prices and favorable external environment would likely fade beyond 2019. It added that downside risks to the outlook include lower-than-anticipated oil prices, a faster-than-expected U.S. monetary tightening, as well as an escalation of geopolitical tensions.

In parallel, the IIF projected the UAE's fiscal balance to shift from a deficit of 1.6% of GDP in 2017 to surpluses of 1% of GDP in 2018 and 1.2% of GDP in 2019, due to higher public revenues. Also, it anticipated the public debt level to regress from 59% of GDP at end-2017 to 51% of GDP at end-2018 and 48% of GDP at end-2019. It added that the financing of the fiscal deficit continues to come from non-bank and external sources, which raises credit availability to the private sector. Further, it forecast the UAE's current account surplus at 8.6% of GDP in 2018 and 6.7% of GDP in 2019, while it projected the gross public foreign assets to remain substantial at $903bn or 197% of GDP at end-2019.
Source: Institute of International Finance

GHANA

Favorable economic prospects contingent on fiscal discipline

The Institute of International Finance projected Ghana's real GDP growth at 5.8% in 2018 and 6.2% in 2019, supported by macroeconomic stability under the IMF program, higher hydrocarbon production and global oil prices, as well as by increased spending on infrastructure projects. Further, it indicated that the government's commitment to avoiding a monetization of the fiscal deficit until the end of 2020 has strengthened the credibility of the inflation-targeting regime and contained inflationary pressures so far this year. It forecast the inflation rate to regress from 11.8% at end-2017 to 8.7% at end-2018 and 8% at end-2019. It expected the Bank of Ghana (BoG) to keep the policy rate at 17% in the remainder of 2018, amid pressure on the Ghanaian cedi. However, it anticipated the BoG to cut the policy rate to 15% in 2019, in case the inflation rate continues to regress and in the absence of significant financial volatility.

In parallel, the IIF forecast the fiscal deficit to narrow from 4.8% of GDP in 2017 to 3.6% of GDP in 2018 and 3.3% of GDP in 2019, in case of a decrease in public expenditures and an improvement in tax revenues. It expected the government debt level to decline from 57.3% of GDP at the end of 2018 to 55.8% of GDP at end-2019. Further, it projected the current account deficit to average 3% of GDP annually during the 2018-19 period compared to 3.4% of GDP in 2017, mostly on the back of strong commodity exports. It added that the government's cautious policies would support non-resident capital inflows, which would help contain depreciation pressures on the cedi. It forecast Ghana's foreign currency reserves to remain at $6.6bn by the end of 2019.

The IIF indicated that the risks to the outlook stem from a low commitment to fiscal discipline and the materialization of contingent liabilities in the weak banking sector. It noted that authorities could face challenges in adjusting public finances following the end of the IMF program in April 2019, given their weak track record in containing the public-sector wage bill, poor oversight of state-owned enterprises and low revenue mobilization.
Source: Institute of International Finance

SAUDI ARABIA

Fiscal challenges remain despite narrower deficit

Figures released by the Ministry of Finance show that the fiscal deficit narrowed from $32.4bn in the first nine months of 2017 to $13.1bn in the same period of 2018. Government revenues totaled $176.8bn in the first nine months of 2018, constituting an increase of 47.3% from $120bn in the same period last year, with oil revenues rising by 47.1% to $120.5bn and non-oil receipts growing by 47.8% to $56.3bn. Further, government expenditures reached $190bn in the first nine months of 2018, up by 24.6% from $152.4bn in the same period of 2017. The compensation of public-sector employees increased by 16% annually to $94.3bn in the covered period, and accounted for 49.6% of total spending, while social benefits more than doubled to $16.9bn in the first nine months of 2018. In parallel, Goldman Sachs indicated that the fiscal deficit narrowed to 5.7% of GDP in the 12 months ending-September 2018. However, it considered that the improvement in Saudi Arabia's fiscal performance masks a loosening in the fiscal stance that is inconsistent with long-term consolidation. It noted that the narrowing of the deficit so far this year is due to higher oil receipts, as well as to an unsustainable growth in non-oil revenues, while the rise in public spending outpaced the full-year budget target of a 10% increase. It indicated that the non-hydrocarbon fiscal deficit has been widening, reflecting continued vulnerabilities to furture negative oil price shocks, as well as to a drop in non-oil revenues and a rise in public spending.

Source: Ministry of Finance, Goldman Sachs

NIGERIA

Outlook revised to 'stable' on lower vulnerabilities

Fitch Ratings affirmed at 'B+' Nigeria's long-term foreign-currency Issuer Default Rating, and revised the outlook from 'negative' to 'stable'. It attributed the revision to the ongoing economic recovery and to decreasing external vulnerabilities amid higher global oil prices and rising oil output. It added that the improved availability of foreign currency has supported non-hydrocarbon sector activity, and expected the execution of delayed capital spending in the 2018 budget to further boost the non-oil economy. However, it noted that political uncertainty ahead of the February 2019 general elections could temporarily weaken activity. It forecast real GDP growth to accelerate from 2% in 2018 to 2.5% in 2019, and to average about 4% annually in the medium term. Further, it anticipated the Central Bank of Nigeria (CBN) to tighten monetary policy, despite lower inflation rates, in order to support the stability of the exchange rate. The agency indicated that the CBN's foreign currency reserves increased from $37.9bn at end-2017 to $44.6bn at end-September 2018, supported by higher oil export receipts and foreign capital inflows. It noted that Nigeria's external flows are exposed to changes in global risk sentiment and in investors' perception about domestic political and fiscal developments. However, it considered that the accumulation of foreign currency reserves provides a substantial external buffer. In parallel, Fitch projected the fiscal deficit to narrow from 4.3% of GDP in 2018 to 4% of GDP in 2019. But it anticipated the public debt level to rise to 292% of revenues, above the 'B'-rated sovereign's median ratio of 205%, reflecting the accumulation of new debt and difficulties in raising non-oil revenues.

Source: Fitch Ratings

IRAN

Ratings downgraded on deteriorating economic prospects

Capital Intelligence Ratings (CI) downgraded Iran's long-term local and foreign currency issuer ratings from 'BB-' to 'B+', and kept the outlook at 'negative'. It attributed its rating actions to a substantial deterioration in Iran's economic outlook following the re-imposition of U.S. sanctions, as well as to the associated weakening of the external position and to rising external political risks. It projected real GDP to contract by 2% in the fiscal year that ends in March 2019 and by an additional 6.6% in the fiscal year ending March 2020. It anticipated U.S. sanctions to reduce Iran's crude oil export volume by about 65%, which would weigh on oil production and on non-hydrocarbon sector activity, as oil export receipts constitute a major driver of domestic demand. In addition, it expected inflationary pressures to intensify, driven by a weak Iranian rial, as the exchange rate depreciated by 56% against the US dollar between April and October 2018. It forecast the inflation rate at 29.6% in 2018, and projected it to remain high over the coming years due to the weak currency and supply bottlenecks. In parallel, CI anticipated Iran's external position to weaken, despite very low external debt levels, as the Central Bank of Iran and local banks will face restrictions in accessing their assets held abroad. It added that a decrease in correspondent banking relationships would limit cross-border payments. It noted that significant risks to fiscal sustainability stem from the government's substantial contingent liabilities, especially in the large banking sector that suffers from a high stock of non-performing loans and very low capital buffers.

Source: Capital Intelligence Ratings

MOROCCO

Government to miss 2018 fiscal targets

Moody's Investors Service indicated that Morocco's recently issued 2019 budget and details about the execution of the 2018 budget show a slowdown in the pace of fiscal consolidation and higher medium-term public debt levels. It considered that the fiscal setback reduces Morocco's prospects of reducing the public debt level to below 60% of GDP, as previously agreed with the IMF, which is credit negative for the country. It said that authorities estimate the fiscal deficit at 3.8% of GDP in 2018, wider than their target deficit of 3% of GDP in the 2018 budget. It noted that weaker-than-budgeted tax receipts and slower grant disbursements from GCC countries contribute 0.5 percentage point of GDP to the fiscal slippage that is forecast at 0.8% of GDP in 2018. It added that higher-than-anticipated cooking gas prices have increased the budgeted subsidy bill by 0.3 percentage point of GDP. In parallel, Moody's pointed out that authorities target a fiscal deficit of 3.7% of GDP in 2019, as lower investment spending and higher revenues are expected to offset the planned increase in social spending. It forecast the public sector wage bill at 9.6% of GDP, in line with the 2018 budget execution, while it expected the subsidy bill to rise from 1.5% of GDP in 2018 to 1.6% of GDP in 2019. But it noted that the subsidy bill could increase if authorities re-introduce a temporary cap on oil prices to counter the excessive price fluctuations. In this context, it said that the public debt level would increase from 65% of GDP in 2017 to 66.3% of GDP in 2018 and to 67.3% of GDP in 2020.

Source: Moody's Investors Service

MENA

Tier One capital of Top 100 Arab banks up 12% to $334bn at end-2017

The Banker magazine's annual survey of the Top 100 Arab banks by Tier One capital included 21 banks from the UAE, 12 banks from Saudi Arabia, 11 from Lebanon, 10 from each of Bahrain and Qatar, nine from Kuwait, seven from each of Morocco and Oman, six from Egypt, five from Jordan, and one bank from each of Algeria and Tunisia. *The Banker* indicated that the aggregate Tier One capital of the Top 100 Arab banks reached $334bn at the end of 2017, constituting an increase of 11.6% from a year earlier. Banks in Saudi Arabia accounted for 28.5% of the aggregate Tier One capital of the Top 100 Arab banks at end-2017. Banks in the UAE followed with 25.6% of the total, then banks in Qatar (13.4%), Kuwait (8%), Bahrain (5.6%), Lebanon (5.1%), Morocco (3.9%), Egypt (3.7%), Oman (3.1%), Jordan (2.4%), Algeria (0.6%) and Tunisia (0.1%). Also, the total Arab banks' assets reached $2,809bn at end-2017, up by 4.8% year-on-year. Further, the Top 100 Arab banks' Tier One capital-to-assets ratio was 11.9% at end-2017, relative to the Top 1000 banks' aggregate ratio of 6.7%. In parallel, the banks' pre-tax profits grew by 3.2% to $46.4bn in 2017. Overall, the Arab banks' return on capital stood at 13.89% in 2017, their return on assets was 1.65% and their average capital adequacy ratio was 11.89%. First Abu Dhabi Bank had the highest Tier One capital at $20.5bn at end-2017, equivalent to 6.1% of the 100 banks' aggregate Tier One capital.

Source: The Banker magazine

UAE

Stable outlook on banking sector

Moody's Investors Service maintained its stable outlook on the UAE's banking system over the next 12 to 18 months, reflecting the gradual recovery of the economy, as well as the banks' strong capitalization metrics, resilient profitability and solid funding. It indicated that the country's improving economic activity and the resilience of large borrowers would offset the ongoing formation of problem loans among small- and medium-sized businesses as well as among individual borrowers, which would lead to the gradual stabilization of the banks' asset quality. In parallel, the agency noted that strong capitalization metrics provide a large loss-absorbing buffer for the UAE banking sector. It forecast the banks' tangible common equity at between 14% to 15% of risk-weighted assets in the coming 12 to 18 months. It also said that the banks' higher profitability would support their solid capital position. It expected the profitability of the banking sector to slightly improve, as rising interest rates would support net interest margins, amid broadly stable operating expenses and gradually stabilizing loan-loss provisions. It added that the banks' higher yields on loans would moderately outweigh the rise in interest rates on deposits. Further, Moody's expected higher global oil prices to continue to support solid funding and liquidity in the UAE banking sector. It noted that banks will remain primarily funded by deposits and considered the need to resort to confidence-sensitive capital markets to be limited. It also said that liquidity at UAE banks is sufficient to accommodate higher lending growth. It pointed out that the UAE government has high willingness and capacity to support local banks in case of financial distress over the next 12 to 18 months.

Source: Moody's Investors Service

EGYPT

CBE can maintain short-term currency stability

Citi anticipated that the Central Bank of Egypt (CBE) will be able to maintain the stability of the exchange rate until at least mid-2019. It noted that the CBE has substantial foreign currency reserves, which stood at $44.4bn at end-September 2018, and has $7.1bn in additional deposits that are not included in the official reserves. In comparison, it estimated foreign investors to hold $13bn in Egyptian sovereign debt. It said that the CBE is keen to maintain currency stability, even if other emerging market currencies come under renewed pressure, since the weakening of the Egyptian pound could lead to the re-emergence of inflationary pressures amid already high inflation rates. It considered that the main challenge facing the CBE in the coming year would be to contain the inflation rate following the anticipated reduction in food and fuel subsidies under the IMF program. In addition, it noted that liquidity on the Egyptian interbank market improved significantly so far this year, driven by rising remittance inflows and tourism receipts, which encouraged portfolio investors to use this market for the purchase of foreign currency instead of the CBE's repatriation mechanism. But it indicated that the Egyptian pound is not entirely immune, especially to a wider emerging market sell-off and a pickup in portfolio investor outflows from the domestic debt market. In this context, Citi pointed out that a drop in remittance inflows or in tourism receipts, amid portfolio outflows, would quickly reduce liquidity in the interbank market and potentially increase the pressure on the pound.

Source: Citi

TURKEY

Banks to face significant challenges in 2019

Goldman Sachs expected Turkish banks to face significant challenges in 2019 amid an anticipated contraction in economic activity next year, substantial inflationary pressures, tight monetary policy and a weak currency. It considered that the challenging operating environment would significantly slow down lending growth, weaken the banks' asset quality, put pressure on their funding costs and net interest margins, as well as weigh on their capitalization metrics. It projected lending to grow by 7% in nominal terms in 2019, which consists of negative growth in real terms, while it anticipated a slight acceleration in nominal lending growth to 9% in 2020 and 12% in 2021. Goldman Sachs expected the recent depreciation of the Turkish lira, the sharp rise in policy rates and the banks' reduced appetite for lending, to affect the loan quality of broader corporates, small- and mediums-sized enterprises, and retail portfolios. It considered that loan restructurings and regulatory changes to loan classification would contain the non-performing loans ratio at 6.5% in 2019 compared to 3% currently. In parallel, Goldman Sachs considered that the current macroeconomic and political backdrops would increase the cost of external funding for Turkish banks rather than reduce its availability. But it cautioned that a significant deterioration in current conditions and in the banks' fundamentals could pose risks to the availability of external funding. It expected the banks' capital adequacy ratios to remain above the regulatory requirements in the absence of a significant deterioration in asset quality or a substantial weakness of the lira.

Source: Goldman Sachs

ENERGY / COMMODITIES

Brent oil prices to average $67 p/b in 2019

The U.S. Administration re-imposed on November 5, 2018 sanctions on Iran's financial and energy sectors. However, the U.S. granted waivers to China, Greece, India, Italy, Japan, Taiwan, Turkey and South Korea, which would temporarily allow them to keep buying Iranian oil. Oil receipts from these countries will be deposited in an escrow account that will fund purchases of humanitarian products for Iran, such as food and pharmaceutical products. The waivers aim to limit an excessive rise in oil prices and to encourage the eight countries to cooperate on other issues. Also, the U.S. is trying to resolve disputes in the Middle East region in order to further support oil production and offset the loss in output from Iran. The ongoing territorial dispute between Saudi Arabia and Kuwait over the Neutral Zone oil fields could increase oil supply by 0.5 million barrels per day (b/d), while the resumption of exports from the Kirkuk region in Iraq would increase output by 0.3 million b/d. Further, Brent oil prices declined by 16.5% from a recent peak of $86 per barrel (p/b) in early October to $72.1 p/b on November 7, driven by the waivers and expectations of lower global oil demand. Upside risks to the oil price outlook include larger-than-expected cuts in Iranian oil exports, and infrastructure constraints that would limit U.S. oil output. In contrast, the utilization of Saudi Arabia's spare capacity and the resolution of U.S. infrastructure constraints could reduce prices to $60 p/b by mid-2019. Overall, Brent oil prices are expected to average $73.5 p/b in 2018 and $67 p/b in 2019.
Source: Institute of International Finance, Byblos Research

Iraq's oil exports up 1% in October 2018

Iraq's crude oil exports totaled 107.5 million barrels in October 2018, constituting an increase of 1% from 106.8 million barrels in September. The country's oil exports reached 3.5 million barrels per day (b/d) in October 2018 relative to 3.6 million b/d in the previous month. All exports in the covered month originated from the country's central and southern fields, as there were no shipments from the Kirkuk fields. Iraq's oil export receipts reached $8.1bn in October 2018, up by 1.7% from $7.9bn in September.
Source: Iraq Ministry of Oil, Byblos Research

Consumer demand for gold in Middle East up 21% in third quarter of 2018

The Middle East region's consumer demand for gold, which includes demand for jewelry and bars & coins, totaled 65.5 tons in the third quarter of 2018, up by 20.6% from 54.3 tons in the same quarter of 2017. It was equivalent to 7.9% of global consumer demand for the precious metal. Consumer demand for gold in Iran was 25.7 tons in the third quarter of 2018 and represented 39.3% of the region's total demand, followed by Saudi Arabia with 14.7 tons (22.5%) and Egypt with 8.2 tons (12.4%).
Source: World Gold Council, Byblos Research

Egypt signs agreement with Saudi utilities developer for construction of power plant

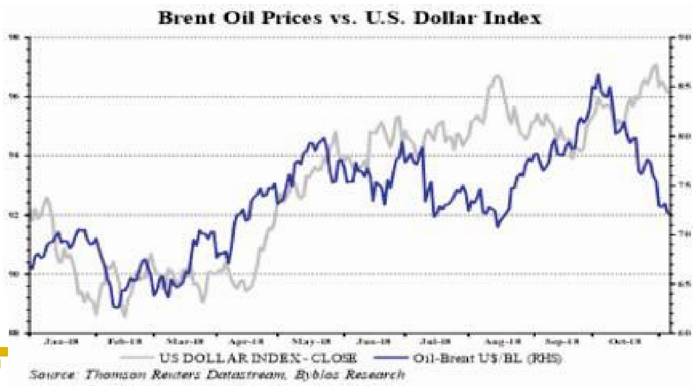
The Egyptian Electricity Transmission Company signed a power purchase agreement with a consortium led by Saudi utilities developer ACWA Power for the construction of a gas-fired combined cycle plant in the Egyptian city of Luxor. The $2.3bn project, which will have a capacity of 2,300 megawatts, aims to help Egypt meet its rising demand for electricity in coming years.
Source: ACWA Power, Byblos Research

Base Metals: Trade tensions to weigh on prices of aluminum in near term

The LME cash price of aluminum averaged $2,143 per metric ton in the first 10 months of 2018, constituting an increase of 10.3% from an average of $1,944 per ton in the same period of 2017. The rally in prices was mainly driven by the imposition of U.S. tariffs on aluminum and steel imports, as well as by cuts in Chinese production in response to more stringent environmental standards. The rise in the metal's price was capped by easing supply conditions, as concerns over supply disruptions at the world's largest alumina refinery in Brazil are resolved, as well as by a surge in aluminum exports from China, the world's largest aluminum producer. Further, prices were supported by expectations that demand for aluminum would increase in the automotive industry as the metal is a lighter, though costlier, alternative to steel. Also, efforts to introduce electric-powered vehicles to the mass market have raised the prospect of wider aluminum use. However, Fitch Ratings reduced its forecast for aluminum prices from $2,350 per ton to $2,150 per ton for 2018, and from $2,250 per ton to $2,150 per ton for 2019. It noted that global trade tensions would continue to drive price volatility. It added that U.S. sanctions on the Russian company Rusal, the world's second-largest aluminum producer, have continued to subdue prices so far this year, outweighing underlying industry fundamentals.
Source: Fitch Ratings, Thomson Reuters, Byblos Research

Precious Metals: Platinum prices to continue to decline on wide production surplus

Platinum prices averaged $891 per troy ounce in the first 10 months of 2018, which constitutes a decrease of 6.6% from $953.7 an ounce in the same period of 2017, and compared to an average of $1,000 an ounce in the first 10 months of 2016. Prices declined from an average of $976 an ounce in the first quarter of 2018 to $904 an ounce in the second quarter and to $813 an ounce in the third quarter of the year. The drop in prices reflects high North American and South African production, which together represent 78% of global output. It also takes into account lower automotive, jewelry and investment demand for platinum, which outweighed the metal's increasing usage in the industrial sector. Further, global platinum mine production is projected to continue to grow in coming years, as new mines come online, including in South Africa, Zimbabwe, the U.S. and Canada. As a result, the production surplus in the platinum market would remain wide at 295,000 ounces in 2018. In turn, prices are expected to continue to be at low levels, averaging $850 an ounce in the coming three months and $875 per ounce in the next 12 months.
Source: Citi, World Platinum Investment Council, Thomson Reuters, Byblos Research



COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	IHS	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
		LT Foreign currency rating											
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-2.5	17.3	2.5	-	-	-	-12.3	-
Angola	B-	B3	B	-	B-								
	Stable	Stable	Stable	-	Stable	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B	B3	B	B+	B+								
	Stable	Positive	Positive	Stable	Positive	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
Ghana	B	B3	B	-	BB-								
	Stable	Stable	Stable	-	Stable	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
Libya	-	-	B	-	B-								
	-	-	Stable	-	Stable	-16.4	78.2	-	-	-	-	-10.6	-
Dem Rep	CCC+	B3	-	-	CCC								
Congo	Stable	Negative	-	-	Stable	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Negative	Positive	Stable	-	Stable	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
Nigeria	B	B2	B+	-	BB-								
	Stable	Stable	Stable	-	Stable	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-2.5	55.2	47.5	-	-	-	-4.7	-
Tunisia	-	B2	B+	-	BB-								
	-	Negative	Negative	-	Negative	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
Burkina Faso	B	-	-	-	B+								
	Stable	-	-	-	Stable	-3.6*	33.3	23.1**	-	-	-	-7.2	-
Rwanda	B	B2	B+	-	B+								
	Stable	Stable	Stable	-	Stable	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
Middle East													
Bahrain	B+	B2	BB-	BB	BB+								
	Stable	Negative	Stable	Stable	Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
Iran	-	-	-	B+	BB-								
	-	-	-	Negative	Positive	0.7	29.2	2.0	-	-	-	5.3	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	-4.2	60.0	38.8	-	-	-	-4.4	-
Jordan	B+	B1	-	BB-	BB+								
	Stable	Stable	-	Negative	Stable	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Stable	Stable	Stable	Stable	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
Lebanon	B-	B3	B-	B	B-								
	Stable	Stable	Stable	Stable	Stable	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
Oman	BB	Baa3	BBB-	BBB	BBB-								
	Stable	Negative	Negative	Negative	Positive	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
Qatar	AA-	Aa3	AA-	AA-	A+								
	Negative	Stable	Stable	Negative	Negative	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
Syria	-	-	-	-	C								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
Yemen	-	-	-	-	CC								
	-	-	-	-	Negative	-6.0	77.4	20.3	-	-	-	-4.2	-

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	Positive	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	25-Oct-18	No change	13-Dec-18
UK	Bank Rate	0.75	01-Nov-18	No change	20-Dec-18
Japan	O/N Call Rate	-0.10	31-Oct-18	No change	20-Dec-18
Australia	Cash Rate	1.50	06-Nov-18	No change	04-Dec-18
New Zealand	Cash Rate	1.75	07-Nov-18	No change	13-Feb-19
Switzerland	3 month Libor target	-1.25-(-0.25)	20-Sep-18	No change	13-Dec-18
Canada	Overnight rate	1.75	24-Oct-18	Raised 25bps	05-Dec-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	18-Oct-18	No change	30-Nov-18
Malaysia	O/N Policy Rate	3.25	08-Nov-18	No change	N/A
Thailand	1D Repo	1.50	19-Sep-18	No change	14-Nov-18
India	Reverse repo rate	6.50	05-Oct-18	No change	05-Dec-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	27-Sep-18	No change	15-Nov-18
Turkey	Repo Rate	24.0	25-Oct-18	No change	13-Dec-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	04-Oct-18	No change	15-Nov-18
Brazil	Selic Rate	6.50	31-Oct-18	No change	12-Dec-18
Armenia	Refi Rate	6.00	25-Sep-18	No change	13-Nov-18
Romania	Policy Rate	2.50	06-Nov-18	No change	08-Jan-19
Bulgaria	Base Interest	0.00	01-Oct-18	No change	15-Nov-18
Kazakhstan	Repo Rate	9.25	15-Oct-18	Raised 25bps	03-Dec-18
Ukraine	Discount Rate	18.00	25-Oct-18	No change	13-Dec-18
Russia	Refi Rate	7.50	26-Oct-18	No change	14-Dec-18

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