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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Migrant workers reach 164 million in 2017

Figures released by the International Labor Organization (ILO) show that there were 164 million migrant workers worldwide in 2017, constituting an increase of 9% from 150 million migrant workers in 2013, when the ILO last published these figures. The ILO defined migrant workers as international migrant individuals who are 15 years or older, and who are either employed or looking for employment in their current country of residence. Migrant workers represented 70.1% of all migrants who are 15 years of age or older in 2017, compared to a 72.5% share in 2013. On a gender basis, there were 95.7 million male migrant workers in 2017, accounting for 58.4% of total migrant workers, while the number of female migrant workers stood at 68.1 million, or 41.6% of the total. Further, there were 141.7 million migrant workers in the 25 to 64 year-old bracket, representing 86.5% of total migrant workers in 2017, 13.6 million (8.3%) who are between 15 and 24 years old, and 8.5 million (5.2%) migrant workers who are 65 years of age or older. On a regional basis, Northern, Southern & Western Europe hosted 39.2 million migrant workers, or 24% of the total in 2017, followed by North America with 37.7 million workers (23%), the Arab States with 22.7 million workers (13.9%), Eastern Europe with 13.2 million workers (8.1%), Sub-Saharan Africa with 11.9 million workers (7.2%), and South-Eastern Asia & the Pacific with 11.6 million workers (7.1%).

Source: International Labor Organization

GCC

IPOs down 18% to $2.7bn in 2018

Figures released by KAMCO indicate that capital raised through initial public offerings (IPOs) in the economies of the Gulf Cooperation Council (GCC), which include corporate IPOs and Real Estate Investment Trust (REIT) IPOs, totaled $2.7bn in 2018, constituting a decline of 18.2% from $3.3bn in 2017. There were 18 IPOs in the GCC in 2018, down from 28 IPOs in 2017, relative to four IPOs in 2016 and six IPOs in 2015. Further, capital raised through IPOs in the GCC region accounted for 1.3% of total capital raised through IPOs worldwide, while the number of IPO deals in the region also represented 1.3% of the number of global IPOs in 2018. There were 11 IPO deals in Saudi Arabia that raised $1.3bn in 2018, followed by two IPOs in each of the UAE ($251.1m) and Oman ($119.1m), and one IPO deal in each of Qatar ($754.5m), Kuwait ($213.2m), and Bahrain ($31.5m). Further, there were 10 corporate IPOs, which raised $1.7bn in capital, or the equivalent of 62% of total capital raised in 2018, and eight REIT IPOs that raised $1bn, or 38% of total capital last year. The iron & steel industry raised about $754.5m in 2018, followed by the oil & gas sector ($226.1m), the leisure time industry ($217.9m), and the distribution & wholesale sector ($213.2m). In parallel, the aggregate number of IPOs in GCC countries totaled 81 deals during the 2013-18 period, while the aggregate amount of capital raised through IPOs in the region reached $12.9bn in the covered period.

Source: KAMCO, Byblos Research

MENA

Arab region has second most expensive mobile-cellular service globally

Figures released by the International Telecommunication Union (ITU) show that the cost of the mobile-cellular basket in 20 Arab economies averaged about 4% of GNI per capita in 2017, the second costliest in the world behind Africa (15% of GNI per capita). The mobile-cellular basket covers the cost of a standard 30 outgoing calls per month at pre-determined rates, plus 100 SMS messages. The UAE has the cheapest mobile-cellular service among Arab countries at 0.19% of GNI per capita, followed by Qatar (0.36% of GNI), Kuwait (0.54% of GNI) and Bahrain (0.59% of GNI), while Djibouti (11.32% of GNI), the Comoros (16.46% of GNI) and Mauritania (19.11% of GNI) have the most expensive service in the region. In parallel, Qatar has the least expensive prepaid handset-based mobile broadband service among Arab countries at 0.32% of GNI per capita, while Mauritania has the most expensive service at 33.2% of GNI per capita. The cost covers an entry-level mobile-broadband subscription with a validity of 30 days and a minimum of 500 Megabytes of data volume allowance that is used through handheld devices such as a mobile phones or tablets. Further, Qatar has the cheapest postpaid computer-based mobile-broadband service among Arab countries at 0.49% of GNI per capita per month, while Mauritania has the most expensive service at 33.2% GNI per capita. The cost covers an entry-level computer-based mobile-broadband subscription with a validity of 30 days and a minimum of one Gigabyte of data volume allowance.

Source: International Telecommunication Union

Planned projects at $3.5 trillion through 2022

Figures released by MEED show that there are $3.5 trillion of projects planned across the Middle East & North Africa (MENA) region through 2022. The aggregate value of planned projects in Saudi Arabia is estimated at $1.2 trillion, equivalent to 34.2% of the region's total. The UAE follows with $640bn (18.2%), then Egypt with $328bn (9.3%), Iraq with $311bn (8.9%), Kuwait with $206bn (5.9%), Iran with $204bn (5.8%), Algeria with $154bn (4.4%), Oman with $134bn (3.8%), Qatar with $128bn (3.6%), Bahrain with $70bn (2%), Jordan with $51bn (1.5%), Morocco with $40bn (1.1%), Tunisia $23bn (0.7%), Lebanon with $18bn (0.5%), Libya with $1.3bn, and Yemen with $200m. MEED indicated that 51% of planned projects have been proposed as of August 2018, while 28% of the projects are in the study phase, 10% are in the design phase, and 4% of planned projects are in the prequalification and the bid evaluation phases. Further, the value of planned and ongoing projects in the construction sector, which covers private real estate and public buildings, stood at $2.1 trillion, followed by the transportation sector at $931.2bn, and oil & gas projects at $662bn. In parallel, the aggregate value of contracts awarded across the MENA region reached about $2.3 trillion since 2008, with an average of $216bn worth of projects awarded per year. The average annual value of awarded contracts fell from $226bn in the 2008-15 period to $180bn in the 2016-17 period, and is expected to continue to decline in the 2018-19 period.

Source: MEED, Byblos Research

POLITICAL RISK OVERVIEW - December 2018

DEM REP CONGO

On December 10, 2018, the European Union renewed until December 2019 sanctions against the ruling coalition's presidential candidate, Mr. Emmanuel Ramazani Shadary, and 13 other senior officials. The electoral commission announced that the presidential elections that were due to take place on December 23 were postponed until December 30, 2018. Following intensified violence between opposition supporters and security forces or the ruling coalition's supporters, the elections took place peacefully, but were delayed until March 2019 in four constituencies due to security conditions and the Ebola outbreak. The main opposition candidates claimed that irregularities took place that favored the ruling party's candidate.

IRAN

The United Nations Secretary General António Guterres issued the sixth report on the implementation of UN Security Council Resolution 2231 that endorsed the 2015 Joint Comprehensive Plan of Action. He noted that Iran continues to adhere to the deal's commitments despite considerable challenges, and warned of possible Iranian weapon transfers to other countries. Tensions between the U.S. and Iran continued, with U.S. Secretary of State Mike Pompeo condemning Iran's ballistic missile activity. Insecurities persisted near the Iranian-Pakistani border, as jihadist group Ansar al-Furqan led a suicide attack in the city of Chabahar. The Iranian and Pakistani authorities signed an agreement to enhance border security.

IRAQ

Rival political parties continued to contest the remaining empty Cabinet positions. Shiite cleric Moqtada al-Sadr denounced Iran's support to former National Security Adviser Faleh al-Fayyad for the Interior Minister's position.The Kurdish Democratic Party (KDP) nominated Mr. Nechirvan Barzani for President and Mr. Masrour Barzani for Prime Minister of the Kurdistan Regional Government. The KDP announced its willingness to reopen the road connecting the cities of Dohuk and Sinjar in order to help displaced Yazidis return home. In parallel, IS-related insecurity continued with bombings in the Diyala, Anbar and Nineveh provinces. The U.S. extended by 90 days Iraq's exemption from U.S. sanctions on Iran-related trade.

LIBYA

The IS militant group carried in late December an attack on Libya's Ministry of Foreign Affairs that killed at least six people, including a senior civil servant. Also, fighting between Tripoli-based militias continued in December, killing several militia leaders. The Fezzan Rage Movement carried protests in the country's southern Fezzan region and forced the closure of the Sharara oil field. Prime Minister Fayez Serraj negotiated and reached an agreement with the protesters, but the National Oil Corporation announced that the oil field would remain closed until new security arrangements are in place.

NIGERIA

Political campaigning accelerated ahead of the upcoming general elections in February 2019, as political parties, including President Muhammadu Buhari's All Progressives Congress party and main challenger Atiku Abubakar's People's Democratic Party, committed peacefully to the campaign. However, Boko Haram insurgents continued their attacks in the Borno and Yobe states in the northeast of the country. A new militant group named War Against Niger Delta Exploitation threatened to disrupt the 2019 elections if its demands about the development of the Niger Delta region were not met by the federal government. A coalition of four militant groups announced on December 30 the termination of a two-year ceasefire, citing the government's failure to meet the demands of the November 2016 Pan-Niger Delta Forum.

SUDAN

Nationwide protests, which initially broke out against tripling bread prices and the country's economic crisis, rapidly evolved into anti-government rallies that set fire to the ruling party's headquarters in several cities and called on President Omar Al Bashir to step down. In parallel, Parliament backed the constitutional amendment that aims to extend presidential term limits, which would allow President Bashir to run again in the presidential elections planned for 2020. The African Union High-Level Implementation Panel convened in Ethiopia to start consultation with Sudanese parties on the upcoming 2020 elections and on the roadmap on how to adopt a new constitution. But the exclusion of the opposition groups led to the suspension of the talks.

SYRIA

U.S. President Donald Trump announced that all 2,000 U.S. troops would withdraw from Syria following the defeat of the IS militant group. But he indicated that the withdrawal would be slow and highly-coordinated. President Trump's decision coincided with Turkish President Recep El Tayyip Erdoğan's postponement of an offensive against the Kurdish People's Protection Units in the east of the Euphrates River. The decision came after the anti-IS coalition captured the last remaining IS urban stronghold around Hajin in the south, which resulted in the withdrawal of many IS militants into the desert towards the Iraqi border.

TUNISIA

President Mohamed Beji Caid Essebsi asked the National Security Council to investigate the An-Nahda's alleged involvement in the killings of two leftist politicians in 2013, in a bid to destabilize the party. Also, the Secretary General the Nida Tounes party lodged a complaint against PM Chahed, accusing the latter of preparing a coup against the President. Prime Minister Youssef Chahed visited Saudi Arabia and indicated that the Kingdom pledged $830m in financial aid, including $500m in budget support to Tunisia. Social unrest continued to escalate, as leftist activists launched on December 14 a movement called "gilets rouges", inspired by the "gilets jaunes" protests in France. Security forces arrested members of the terrorist group Jihad and Tawhid Battalion that had been planning attacks.

TURKEY

President Recep El Tayyip Erdoğan postponed the planned military offensive against the Kurdish-led Syrian Democratic Forces (SDF) in northeastern Syria following an unexpected announcement by the U.S. that it will withdraw its troops from Syria. However, the Syrian Observatory for Human Rights reported that Turkish military activity increased at the frontline of the SDF-controlled town of Manbij. As a result, Syrian government forces entered Manbij upon the request of the Kurdish People's Protection Units for help against a potential Turkish offensive. Clashes between the military and the Kurdistan Workers' Party (PKK) eased in Turkey's southeast due to adverse weather conditions, while Turkish air raids against PKK in northern Iraq intensified.

YEMEN

President Abdrabbuh Mansur Hadi's government and the Huthi rebels held consultations led by UN Special Envoy Martin Griffiths, which culminated in the Stockholm Agreement. The agreement entails a ceasefire in the city of Hodeidah, a mutual redeployment of armed forces out of the city, a prisoners' exchange agreement, and a statement of understanding for Taïz that calls for the formation of a joint committee to determine the mechanisms for upcoming consultations. The UN Security Council passed a U.K.-drafted resolution that calls for all parties to uphold the Stockholm Agreement, for the UN to oversee its implementation, and for all parties to continue to work with UN Special envoy Griffiths.

Source: International Crisis Group, Newswires

OUTLOOK

WORLD

Global economic activity at 3% in 2019, subject to significant uncertainties

Credit Suisse projected global economic growth to decelerate from 3.2% in 2018 to 3% in 2019, due to a slowdown in industrial production growth. It attributed the slow growth in manufacturing activity to tighter global financial conditions, a stronger US dollar, the recent drop in oil and commodity prices, uncertainties about Chinese growth, and sector-specific shocks. It anticipated growth to remain volatile during the first half of 2019, which would prompt the U.S. Federal Reserve and other central banks to pause their interest rate hiking cycles. However, it said that the slowdown in global economic activity would recede by the end of 2019 or in early 2020, and expected the U.S. Federal Reserve to increase interest rates once or twice in the second half of 2019. As such, it forecast global real GDP growth at 2.9% in 2020 amid tight labor markets and higher interest rates. Overall, it considered that short-term risks to global growth prospects include the slowdown in manufacturing activity, the adverse impact of lower oil prices on investment and output, uncertainties about U.S-Chinese trade tensions, tighter global and domestic monetary and financial conditions, as well as ongoing geopolitical tensions.

Further, Credit Suisse projected real GDP growth in developed markets (DMs) at 2% in 2019 and 1.8% in 2020 compared to 2.2% in 2018. It considered that recession risks in DMs are not elevated in the near term, and expected the region's unemployment, inflation and corporate default rates to remain largely unaffected by the decline in industrial activity. In parallel, it forecast growth in emerging markets (EMs) to reach 4.5% in 2019 and 4.6% in 2020 relative to 4.7% last year, as a combination of factors would drive a wide range of outcomes in the region. It noted that currencies have generally weakened in the region, which led to the significant monetary tightening in some EM economies and to the drop in EM asset price valuations. But it anticipated conditions for EMs to be more favorable this year following challenging conditions in 2018. As such, it anticipated the pause in U.S. interest hikes in the first half of the year to contribute to EM economic stabilization, to ease the pressure on EM currencies and to encourage the return of capital inflows to the region.
Source: Credit Suisse

MENA

Growth to average 2.4% in 2019-21 period

The World Bank projected real GDP growth in the Middle East & North Africa (MENA) region to accelerate from 1.7% in 2018 to 1.9% in 2019 and 2.7% by 2021 due to improved activity in oil-exporting and oil-importing countries, and despite slower global trade growth and tighter external financing conditions. It forecast growth in the region's oil-exporting countries to increase from 1.2% last year to 1.4% in 2019 and 2.3% by 2021, supported by improved activity in Gulf Cooperation Council (GCC) economies amid higher investment and an improved regulatory environment in these countries. It expected real GDP growth in GCC economies to expand from 2% in 2018 to 2.6% in 2019 and to 2.7% in 2021, due to the countries' planned diversification programs, infrastructure projects and medium-term reform plans. In contrast, it projected economic activity in non-GCC oil exporters to be weak, as it expected Iran's real GDP to contract due to the U.S. sanctions, and for Algeria's growth to moderate due to reduced government spending in 2019.

In parallel, the World Bank anticipated real GDP growth in oil-importing economies to pick up from 4.1% last year to 4.2% in 2019 and 4.7% by 2021, mainly supported by tourism activity in Egypt, Morocco and Tunisia. However, it considered that smaller oil-importing countries continue to struggle with elevated public debt levels and, for some, with challenges associated with an ongoing refugee crisis. Further, it indicated that risks to the MENA region's outlook are mainly tilted to the downside and include escalating global trade tensions, given that the region is interconnected to the European Union and China. In addition, it said that an abrupt tightening of monetary policy in advanced economies, such as in the U.S., could also weigh on capital flows into the MENA region and adversely affect foreign investor confidence in large GCC economies. In contrast, it pointed out that rising reconstruction spending in countries affected by conflict, such as Iraq, could support investment in physical and soft infrastructure.
Source: World Bank

OMAN

Fiscal and external balances face challenges in 2019

Bank of America Merrill Lynch (BofAML) indicated that Oman's disappointing budget for 2019, the downgrade of the sovereign to non-investment grade, lower global oil prices and the government's shift to a net external debtor position are likely to weigh on the country's market access and terms of borrowing in 2019. It added that less favorable financing conditions could lead to the erosion of external assets and threaten the Omani riyal's peg to the US dollar. It anticipated the fiscal deficit at \$7.8bn, or 9% of GDP in 2019, in case oil prices average \$70 per barrel (p/b). As such, it forecast fiscal funding needs at \$9.1bn, or 10.5% of GDP this year. In contrast, it said that the fiscal deficit would reach \$11.3bn, or 13.1% of GDP, based on the government's budgeted oil prices of \$58 p/b, and would result in fiscal funding needs of \$12.6bn, or 14.6% of GDP. It expected public spending to rise by more than the budgeted 3.2% increase in expenditures. It added that authorities are planning to fund the fiscal deficit through withdrawals from the State General Reserve Fund, as well as from domestic and external borrowing.

In parallel, BofAML projected the current account deficit to widen from \$4bn in 2018 to \$5bn this year in case oil prices average \$70 p/b, and to \$9bn in 2019 in case oil prices average \$58 p/b. As such, it forecast external funding needs, including repayment of the Iranian deposit at the Central Bank of Oman and medium-term external debt rollover requirements, at between \$6.7bn, or 7.7% of GDP, and \$10.7bn, or 10.4% of GDP in 2019. Further, it estimated the government's net foreign asset position to have declined to 5% of GDP at the end of June 2018, and anticipated it to shift to a net debtor position in 2019. In addition, BofAML expected that a devaluation of the riyal could narrow the country's twin deficits, but that it would lead to a sharp contraction in private sector imports and weigh on social stability. Further, it said that the size of a potential bailout by GCC countries to support Oman's balance-of-payments would depend on oil prices, the country's ability to borrow externally and the authorities' future course of policy-making. It added that GCC support is unlikely to be forthcoming in the absence of fiscal reforms.
Source: Bank of America Merrill Lynch

ECONOMY & TRADE

AFRICA

Growth to recover in 2019 but to remain below historical levels

Fitch Ratings indicated that it has a 'stable' outlook on 14 out of the 18 sovereigns that it rates in the Sub-Saharan Africa (SSA) region, while it has a 'negative' outlook on Lesotho and Zambia. It noted that the ratings of SSA countries mostly fall within the 'B' category, partly due to the region's weak performance on development and governance indicators. It added that the ratings of two former investment-grade sovereigns, South Africa and Namibia, were downgraded to 'BB+' in 2017. It said that Mozambique remains in default on its external debt, while the Republic of Congo is rated 'CC' after the country defaulted on its Eurobonds in 2016 and 2017. It expected growth in SSA to continue to recover in 2019 from its 2016 level, but to remain below the region's growth rate registered in the years prior to 2015. It noted that rising global oil prices have eased external vulnerabilities and will drive growth in SSA's oil-exporting economies, while it anticipated that SSA energy importers will continue to register high growth rates supported by elevated levels of public investment. Further, it said that increasing oil export receipts are contributing to higher foreign currency liquidity among SSA oil exporters, which will support the recovery in their non-oil sectors. However, it considered that several SSA oil exporters face downside risks from stagnating oil production levels. Further, Fitch considered that external factors, such as the normalization of monetary policy in developed markets, rising global trade tensions and lower-than-expected commodity prices, could pose significant risks to SSA economies.

Source: Fitch Ratings

TURKEY

Insurance sector faces high overall risks

S&P Global Ratings assessed as "high" the overall risk level of the property and casualty (P/C) insurance sector in Turkey. It indicated that its assessment is derived from a "high" country risk and a "moderate" industry risk level for the domestic P/C insurance sector. The risk scale ranges from "low" to "intermediate", "moderate" and "high". S&P noted that the main risks that Turkish insurers face relate to exchange rate volatility and to asset quality of banks. It said that the "high" country risk reflects the challenging economic and institutional environment, as it expected the economy to contract by about 0.5% in 2019 amid lower consumption and investment. It added that the insurance sector is exposed to local banks. As such, it noted that insurance entities could face heightened counterparty credit risk due to rising uncertainty from geopolitical risks and negative government intervention in the banking sector. It added that the introduction of a price cap on the motor third-party liability in April 2017 has adversely affected the insurance sector's profitability. In parallel, it noted that the industry risk assessment for Turkey's P/C insurance sector is supported by the regulatory framework, opportunities for business growth and a relatively high operational barrier to entry, but is constrained by expectations of a negative trajectory for the non-life market's profitability. It added that natural catastrophes and unpredictable claims settlements could affect underwriting for property insurance, increasing return on equity volatility, as Turkey is a highly earthquake-prone country.

Source: S&P Global Ratings

ANGOLA

Sovereign rating affirmed, outlook 'stable'

Fitch Ratings affirmed at 'B' Angola's long-term foreign-currency Issuer Default Rating, with a 'stable' outlook. It noted that the rating is mainly constrained by the country's diminished foreign currency reserves and an elevated public debt level, but is supported by Angola's significant foreign currency revenues resulting from oil production, the authorities' fiscal adjustment and the newly-negotiated IMF program. The agency estimated the country's real GDP to have contracted by 1.1% in 2018 due to reduced government spending and oil production, but expected real GDP to grow by 2.5% in 2019, supported by a slight recovery in oil & gas production. It also estimated the public debt level to have increased from 65% of GDP at the end of 2017 to 81% of GDP at end-2018. In this context, it expected authorities to implement additional fiscal consolidation measures in 2019 and 2020, including the introduction of the value-added tax in June 2019. Further, it estimated Angola's current account balance to have shifted from a deficit of 10% of GDP in 2015 to a surplus 1.8% of GDP in 2018, but expected the surplus to narrow due to lower global oil prices, as well as to rising imports amid higher growth. It added that the National Bank of Angola deployed its foreign currency reserves to manage an orderly depreciation of the Angolan kwanza and to raise foreign currency liquidity in 2018. As such, it noted that the foreign currency reserves declined from $27bn at end-October 2014 to $16.2bn at end-October 2018 but expected reserves growth to resume in 2019.

Source: Fitch Ratings

QATAR

Fiscal surplus to increase to 6.5% of GDP in 2019

J.P. Morgan Chase indicated that it revised its estimate for Qatar's central government balance from a fiscal deficit of 0.1% of GDP previously to a surplus of 3.3% of GDP in 2018, and that it revised upwards its projection for the fiscal surplus from 0.4% of GDP to 6.5% of GDP in 2019, due to higher global oil prices, which would have a lagged effect on government revenues. It forecast revenues to increase by 12.7% from QAR226bn, or about 33% of GDP in 2018 to QAR255bn, or about 35% of GDP this year. In addition, it expected the introduction of a 100% tax on tobacco and a 50% tax on some soft drinks to raise revenues moderately by 0.3% of GDP this year. In parallel, it projected public expenditures to expand by 2% from QAR203bn, or about 29% of GDP last year to QAR206.9bn, or about 28% of GDP in 2019, as it expected current expenditures to increase from QAR106bn in 2018 to QAR113bn in 2019. It anticipated capital expenditures to decrease by 3.1% from QAR97bn in 2018 to QAR94bn, due to the completion of some projects. However, it noted that the quality of expenditures in Qatar is significantly better than in peer countries, as 45% of the budget is allocated to capital expenditures, mainly on infrastructure projects ahead of the 2022 FIFA World Cup. Further, it forecast the central government debt level at 50.2% of GDP in 2019, relative 52.5% of GDP in 2018, as it expected the Qatari authorities to continue taking advantage of favorable financing conditions and to tap external markets again this year to rollover the $1bn Eurobond that is maturing in April 2019.

Source: J.P. Morgan Chase

ARMENIA

Stable outlook on banking sector in 2019

Fitch Ratings indicated that it has a stable outlook on the Armenian banking sector for 2019, given that the banks' operating environment is supportive of their performance and asset quality. However, it pointed out that the banks' credit metrics are vulnerable to exchange rate fluctuations, as a result of the sector's high dollarization rate. It projected lending growth at 10% in 2019, driven by stronger economic activity and lower interest rates. It added that foreign currency lending represented 58% of the banks' total loans at the end of September 2018, which constitutes a structural weakness for the Armenian banking sector. It also considered the banks' asset quality metrics to be moderate, as reflected by a non-performing loans ratio of 6% at end-September 2018. Further, it noted that the operating profitability is adequate despite recent lending growth. In this context, it noted that the banks' aggregate net interest margin declined to a new low of 4% in the first nine months of 2018 due partly to higher competition. It also attributed the decrease in the net interest margin to an elevated level of non-earning assets as a result of the Central Bank of Armenia's high mandatory reserve rates for foreign currency liabilities. It added that the banks' performance is constrained by high loan impairment charges, which represented 50% of pre-impairment profits in the first nine months of 2018. It noted that the sector's aggregate return on average equity stood at 8% on an annualized basis in the first nine months of 2018, and did not expect a significant improvement of this metric in 2019. It considered the banks' external debt to be high at 26% of their liabilities, but that external liquidity is sufficient to service maturing obligations.

Source: Fitch Ratings

JORDAN

Ratings on six banks affirmed

Capital Intelligence Ratings (CI) affirmed at 'BB-' the long-term foreign currency rating (FCR) of Arab Bank, Jordan Ahli Bank (JAB), Jordan Islamic Bank (JIB), Housing Bank for Trade & Finance (HBTF), Cairo Amman Bank (CAB) and Arab Banking Corporation Jordan (Bank ABC), with a 'negative' outlook on the ratings. It noted that the six banks' long-term FCRs are increasingly under pressure from heightened sovereign risk factors and the challenging operating environment, given the banks' high exposure to the sovereign and to the Jordanian market. In parallel, the agency affirmed the Financial Strength Rating (FSR) of Arab Bank and of HBTF at 'BBB+', that of Bank ABC at 'BBB', the FSR of CAB and of JIB at 'BBB-', and that of JAB at 'BB', with a 'negative' outlook on the banks' FSRs. It noted that JAB's FSR is supported by its abundant liquidity levels, established franchise, sound loan-loss reserve coverage of non-performing loans, and improved capital adequacy ratio. Also, it said that HBTF's FSR reflects its solid capital adequacy ratio, very sound liquidity metrics and strong net interest margin. Further, it indicated that CAB's FSR is supported by its ample liquidity, satisfactory loan asset quality and comfortable capital adequacy ratio. In parallel, it said that JIB's FSR is driven by the bank's satisfactory financing asset quality, high liquidity levels, diversified customer deposit base and sound profitability. CI pointed out that all the banks' FSRs are constrained by a difficult operating environment amid high geopolitical risks in the MENA region.

Source: Capital Intelligence Ratings

SAUDI ARABIA

Labor reforms to weigh on private sector lending

Jadwa Investment indicated that aggregate claims in the Saudi Arabian banking sector rose by 6% in the first 11 months of 2018, supported by a 16% rise in claims on the public sector, and a 4% increase in clains on the private sector in the same period. It pointed out that the annual growth in credit to the private sector has shifted to positive since April 2018, following a slowdown in 2017 and in the first quarter of 2018. It added that the acceleration in lending growth has resulted in a higher loans-to-deposits ratio, which stood at 79.2% at the end of November 2018. Further, Jadwa anticipated structural reforms taking place in the wholesale & retail sector, which accounts for 20% of total lending to the private sector, to weigh on credit to the private sector. It expected the decline by about 1.1 million expatriates from the beginning of 2017 till the end of June 2018 to subdue consumer spending. It added that the new "Saudization" wave in several retail sub-sectors will likely exacerbate the decline in the number of expatriates. Also, it anticipated that the lowering of the threshold of the value-added tax (VAT) for enterprises from a turnover of SAR1 million in 2018 down to a turnover of SAR375,000 starting in January 2019 would also weigh on the wholesale & retail sector. In fact, it said that this adjustment would result in the VAT affecting an additional 300,000 small and medium enterprises. However, it projected lending to pick up in other sectors, such as the non-oil manufacturing & non-oil mining industry. It also expected the record government spending of SAR1.1 trillion stipulated in the 2019 budget to boost lending to the private sector and bank deposits.

Source: Jadwa Investment

EGYPT

New tax law to weaken capital and profitability metrics

Fitch Ratings indicated that a new tax law affecting Egyptian banks' sovereign debt holdings could weigh on the banks' profits and capital metrics. It added that banks with a larger share of sovereign debt holdings would be the most affected by the law. Fitch noted that sovereign debt represents a significant share of banks' assets, that profit margins are highly dependent on sovereign yields and that interest from sovereign debt accounts for about 40% of the banks' total interest income. It indicated that the new tax law would require banks to separate interest income and expenses on their sovereign securities from income and expenses related to their core banking activities. It added that banks would have to pay a 20% tax on interest income from sovereign securities and a 22.5% corporate tax on income from core banking activities. As such, it noted that the separation of expenses related to sovereign holdings from those related to core banking activities will result in higher core banking income and a higher effective tax rate. Overall, it expected banks to reduce their sovereign debt holdings and increase lending to the private sector under the proposed tax law in order to protect their profit margins, but anticipated the banks' capital ratios to consequently weaken. It added that the banks' profitability metrics could substantially weaken unless banks divert significant amounts of liquidity away from sovereign securities and into private portfolios.

Source: Fitch Ratings

ENERGY / COMMODITIES

Brent oil prices revised downward to $55 p/b in 2019

ICE Brent crude oil front-month prices reached $61.4 per barrel (p/b) on January 9, 2019, up from their lowest level in 2018 of $50.5 p/b on December 25. Oil prices closed at higher levels in each of the past nine days, constituting their longest streak of gains in the previous 18 months. The rise in oil prices has been driven by OPEC's decision to reduce its production by 1.2 million barrels per day (b/d) in the first six months of 2019. On the demand side, trade talks between the U.S. and China sent positive signals to investors about a possible easing of tensions between the two economies, which supported oil prices given that China is a major oil importer. However, oil prices were constrained by a lower-than-expected decline of 1.7 million barrels in U.S. oil inventories in the week to January 4, 2019. In parallel, S&P Global Ratings expected that the OPEC and non-OPEC production cuts would offset the projected growth in U.S. shale oil production in 2019. However, it expected the U.S. output capacity to further grow as pipeline constraints will be solved throughout 2019 and early 2020. Further, it anticipated global oil demand to continue to grow in the coming years, but at a slower rate. Overall, the agency revised downward its forecast for Brent oil prices to an average of $55 p/b in 2019 from $65 p/b previously, and lowered its projection for WTI oil prices to $50 p/b from an earlier forecast of $60 p/b.

Source: S&P Global Ratings, Thomson Reuters, Byblos Research

Côte d'Ivoire's cocoa exports to rise by 7% in 2019

The International Monetary Fund projected Côte d'Ivoire's cocoa export receipts to increase by 7.4% to CFAF3,726bn in 2019, which would represent 42.2% of the country's total export revenues, and would be equivalent to 14.4% of its GDP. It also forecast exports of crude oil and refined oil products to rise by 17.6% to CFAF1,329bn, which would constitute 15.1% of Côte d'Ivoire's total export receipts, and would be equivalent to 5.1% of its GDP.

Source: International Monetary Fund, Byblos Research

Libya's oil & gas receipts at five-year high of $24.4bn in 2018

Libya's oil & gas revenues reached $24.4bn in 2018, up by 78% from about $14bn in 2017 and constituting their highest level since 2013. Oil & gas receipts were mainly supported by higher hydrocarbon prices in 2018, despite the security problems that have affected output from Libyan oilfields throughout the year. Libya's average production reached 1.107 million barrels per day (b/d) in 2018, compared to about 0.9 million b/d in 2017.

Source: National Oil Corporation, International Monetary Fund

Iraq's oil exports up 14% in December 2018

Preliminary figures showed that Iraq's crude oil exports totaled 115.5 million barrels in December 2018, constituting an increase of 14% from 101.3 million barrels in November. Oil exports amounted to 3.7 million barrels per day (b/d) in December 2018 relative to 3.4 million b/d in the previous month. Crude oil exports that originated from the country's central and southern fields reached 112.5 million barrels, or 97.3% of the total, in December, while shipments from the Kirkuk fields totaled 3.1 million barrels, or 2.7% of the total. Iraq's oil export receipts were $6.1bn in December 2018, down by 1.5% from $6.2bn in November.

Source: Iraq Ministry of Oil, Byblos Research

Base Metals: Nickel prices up 26% in 2018

The LME cash price of nickel reached $11,184 per metric ton on January 9, 2019, constituting an increase of 5.5% from $10,605 per ton at the end of 2018. The rise in the metal's price was driven by a weakening of the U.S. dollar, as well as by easing U.S.-China trade tensions amid signs of progress in the talks between the two countries. In addition, nickel prices edged higher as Chinese authorities took measures to boost lending, as well as to support spending on autos and home appliances this year. In fact, the People's Bank of China's announced on January 4, 2019 that it will cut the banks' reserve requirement ratios for the fifth time in a year, with the aim to free $116bn in new lending as it attempts to avoid a sharp economic slowdown. In parallel, nickel prices averaged $13,110 per ton in 2018, up by 25.9% from an average of $10,414 per ton in 2017, supported by concerns about supply disruptions and a decline in global inventories following the announcement of U.S. sanctions on Russia. Still, the International Nickel Study Group projected global nickel output to increase from an estimated 2.204 million tons in 2018 to 2.389 million tons in 2019. It forecast the metal's demand to rise from an estimate of 2.350 million ton in 2018 to 2.422 million tons in 2019.

Source: International Nickel Study Group, Thomson Reuters

Precious Metals: Gold prices to average $1,314 an ounce in 2019

Gold prices declined from an average of $1,329 an ounce in the first quarter of 2018 to $1,307 per ounce in the second quarter and to $1,213 an ounce in the third quarter of last year, due to a stronger US dollar against both emerging and developed market currencies, especially against the euro, the Chinese yuan and the Turkish lira. However, prices recovered by 1.4% quarter-on-quarter to $1,229 an ounce in the fourth quarter of 2018 and traded near $1,300 an ounce in the first week of 2019, supported by renewed investor demand for the safe-haven asset amid recent declines in global equity markets. Prices are expected to average $1,314 an ounce in 2019, and to exceed $1,400 an ounce starting in 2020, mainly reflecting reduced prospects of U.S. interest hikes. Gold prices tend to rise when expectations of U.S. interest rate hike ease, as lower interest rates reduce the opportunity cost of holding the non-yielding metal. Still, the sustained strength of the US dollar remains a key downside risk to the metal's price, while an increase in Chinese investor demand for gold constitutes an upside risk to prices.

Source: Julius Bär, HSBC, Thomson Reuters

COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	IHS	General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-6.1	32.9*	2.1	-	-	-	-9	-
Angola	B-	B3	B	-	B-								
	Stable	Stable	Stable	-	Stable	-0.8	80.5	42.1**	50.5	26.7	102.2	-2.1	1
Egypt	B	B3	B	B+	B+								
	Stable	Positive	Positive	Stable	Positive	-9.3	92.5	35.8	51.8	45	115.4	-2.6	3
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3.7	59.5	30.5**	27.2	3.6	146.2	-6.2	4.1
Ghana	B	B3	B	-	BB-								
	Stable	Stable	Stable	-	Stable	-6	71.2	34.5**	38.9	31.9	121.8	-4.1	6
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-3.8	48.8	33.5**	-	-	-	-4.6	-
Libya	-	-	B	-	B-								
	-	-	Stable	-	Stable	-25.1	112.1	-	-	-	-	-1.5	-
Dem Rep	CCC+	B3	-	-	CCC								
Congo	Stable	Negative	-	-	Stable	-0.6	16.2	12.9**	4.4	3	104.1	0	2.8
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Negative	Stable	Stable	-	Stable	-3.2	64.4*	34.6	30.6	7.4	93	-4.3	2.1
Nigeria	B	B2	B+	-	BB-								
	Stable	Stable	Stable	-	Stable	-5.1	24.8	8.2**	67.6	22.8	104.2	2	0.7
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-4.1	167.5	166.6	-	-	-	-14.2	-
Tunisia	-	B2	B+	-	BB-								
	-	Negative	Negative	-	Negative	-5.2	70.5	82.6	-	-	-	-9.6	-
Burkina Faso	B	-	-	-	B+								
	Stable	-	-	-	Stable	-5.1	41.2	23.7**	21	4.6	145.4	-8.6	2.8
Rwanda	B	B2	B+	-	B+								
	Positive	Stable	Stable	-	Stable	-2	42.6	38.4**	13.2	5.1	102.8	-8.9	2.9
Middle East													
Bahrain	B+	B2	BB-	BB	BB+								
	Stable	Stable	Stable	Stable	Stable	-8.9	88.4	169.4	201.7	22.3	327.6	-2.5	0.4
Iran	-	-	-	B+	BB-								
	-	-	-	Negative	Negative	-3.2	44.2	2.1	-	-	-	1.3	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	5.6	51.8	32.5	3.7	2.2	100.9	6.9	1.0
Jordan	B+	B1	-	BB-	BB+								
	Stable	Stable	-	Negative	Stable	-2.9	96.0	70.1	63.6	9.4	151.0	-9.6	4.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Stable	Stable	Stable	Stable	11.6	18.8	41.3	32.8	0.55	87.9	11.3	-5.5
Lebanon	B-	B3	B-	B	B-								
	Stable	Negative	Negative	Negative	Stable	-9.7	150.0	183.3	136.8	50.1	136.2	-25.6	2.8
Oman	BB	Baa3	BB+	BBB	BBB								
	Stable	Negative	Stable	Negative	Stable	-2.0	48.7	80.7	44.9	4.5	140.3	-3.3	1.5
Qatar	AA-	Aa3	AA-	AA-	A+								
	Stable	Stable	Stable	Negative	Stable	3.6	53.4	84.6	60.9	3.4	173.9	4.8	-1.0
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-4.6	19.4	27.6	8.0	1.2	36.9	8.4	0.3
Syria	-	-	-	-	C								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	0.6	17.8	54.9	-	-	-	7.2	-0.8
Yemen	-	-	-	-	CC								
	-	-	-	-	Negative	-10.7	62.5	19.4	-	-	-	-9.3	-

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	Positive	Positive	-	Stable	-2.7	52.5	82.8	-	-	-	-3.8	-
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-4.1	50.1	-	40.0	2.1	64.2	0.7	0.8
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.6	69.6	-	39.5	19.4	90.7	-3.0	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	1.4	17.8	-	25.7	4.7	87.4	-0.2	1.5
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Positive	Stable	Stable	-	Stable	-0.9	23.3	-	26.0	2.0	100.8	2.4	1.9
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-3.6	37.2	-	25.8	4.2	95.1	-3.5	2.4
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	1.6	15.3	-	17.2	2.6	57.4	6.2	-1.3
Turkey	B+	Ba3	BB	BB-	B+								
	Stable	Negative	Negative	Negative	Negative	-4.0	32.3	-	84.3	5.9	176.4	-5.7	1.0
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-2.5	70.5	-	59.3	9.3	129.2	-3.1	1.0

** Central Government*

*** External debt, official debt, debtor based*

Source: International Monetary Fund; IHS Markit; S&P Global Ratings; Byblos Research - The above figures are projections for 2018

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.25-2.50	19-Dec-18	Raised 25bps	30-Jan-19
Eurozone	Refi Rate	0.00	13-Dec-18	No change	24-Jan-19
UK	Bank Rate	0.75	20-Dec-18	No change	07-Feb-19
Japan	O/N Call Rate	-0.10	20-Dec-18	No change	23-Jan-19
Australia	Cash Rate	1.50	04-Dec-18	No change	05-Feb-19
New Zealand	Cash Rate	1.75	07-Nov-18	No change	13-Feb-19
Switzerland	3 month Libor target	-1.25-(-0.25)	13-Dec-18	No change	21-Mar-19
Canada	Overnight rate	1.75	09-Jan-19	No change	06-Mar-19
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	2.75	20-Dec-18	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	20-Dec-18	No change	21-Mar-19
South Korea	Base Rate	1.75	30-Nov-18	Raised 25bps	18-Jan-19
Malaysia	O/N Policy Rate	3.25	08-Nov-18	No change	N/A
Thailand	1D Repo	1.75	19-Dec-18	Raised 25bps	06-Feb-19
India	Reverse repo rate	6.50	05-Dec-18	No change	07-Feb-19
UAE	Repo rate	2.75	19-Dec-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	3.00	19-Dec-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	27-Dec-18	No change	14-Feb-19
Turkey	Repo Rate	24.0	13-Dec-18	No change	11-Jan-19
South Africa	Repo rate	6.75	22-Nov-18	Raised 25bps	15-Jan-19
Kenya	Central Bank Rate	9.50	28-May-18	No change	N/A
Nigeria	Monetary Policy Rate	14.00	22-Nov-18	No change	N/A
Ghana	Prime Rate	17.00	26-Nov-18	No change	28-Jan-19
Angola	Base rate	16.50	30-Nov-18	No change	25-Jan-19
Mexico	Target Rate	8.25	20-Dec-18	Raised 25bps	07-Feb-19
Brazil	Selic Rate	6.50	12-Dec-18	No change	06-Feb-19
Armenia	Refi Rate	6.00	26-Dec-18	No change	29-Jan-19
Romania	Policy Rate	2.50	08-Jan-19	No change	07-Feb-19
Bulgaria	Base Interest	0.00	03-Dec-18	No change	N/A
Kazakhstan	Repo Rate	9.25	04-Dec-18	No change	14-Jan-19
Ukraine	Discount Rate	18.00	13-Dec-18	No change	31-Jan-19
Russia	Refi Rate	7.75	14-Dec-18	Raised 25bps	08-Feb-19

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