500 ISSUES+
Issue 578 | April 4, 2019

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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global trade to grow by 2.6% in 2019

The World Trade Organization projected the growth in global trade to decelerate from 3% in real terms in 2018 to 2.6% in 2019, amid uncertainties about ongoing trade tensions, mainly between the U.S. and China. It forecast global trade activity to pick up to 3% in 2020 and to outpace global GDP growth, driven by a faster expansion in developing economies. It noted that trade activity in 2018 was negatively affected by the imposition of new tariffs and retaliatory measures that targeted widely-traded goods, as well as by weaker global economic growth, volatility in financial markets and tighter monetary conditions in developed countries. It added that the current trade forecast reflects downgraded GDP projections for North America, Europe and Asia. In parallel, the WTO forecast imports to emerging & developing countries to expand by 3.6% in real terms, and those to developed economies to grow by 1.9% in 2019. It projected imports to Asia to grow by 4.6%, those to North America to expand by 3.6%, imports to South & Central America to increase by 2.6% and those Europe to rise by 1% in 2019. Further, the WTO expected exports from emerging & developing countries to rise by 3.4% and those from developed economies to increase by 2.1% in 2019. It forecast exports from Asia to expand by 3.7% this year, followed by North America (+2.7%), Europe (+1.8%) and South & Central America (+0.7%).

Source: World Trade Organization

Global debt equivalent to 317% of GDP at end-2018

The Institute of International Finance indicated that global debt, which includes the debt of corporates, governments and households, reached $243.2 trillion at the end of 2018, constituting an increase of 1.4% from $239.9 trillion at end-2017. It noted that the debt was equivalent to 317.4% of global GDP at end-2018. The IIF pointed out that the debt of non-financial corporates reached $72 trillion, or 91.3% of GDP, at end-2018, followed by government debt with $65.3 trillion (86% of GDP), financial sector indebtedness with $59.8 trillion (80.5% of GDP), and household debt with $46.2 trillion (59.6% of GDP). In parallel, it said that emerging market (EM) debt grew from $65.8 trillion at the end of 2017 to $66.9 trillion at end-2018. It indicated that EM non-financial corporate debt totaled $29.5 trillion, or 91.7% of GDP, at end-2018, followed by EM government borrowing at $14.9 trillion (49.7% of GDP), EM household debt at $12 trillion (37.6% of GDP) and financial sector indebtedness at $10.5 trillion (33.6% of GDP). It added that about $1.7 trillion of EM bonds and syndicated loans will mature by the end of 2019, while it expected EM refinancing needs to ease, notably for non-financial corporates. Further, the IIF noted that the debt of developed markets reached $176.3 trillion, or 380% of GDP, at the end of 2018, relative to $174.1 trillion, or 380.4% of GDP, at end-2017.

Source: Institute of International Finance

EMERGING MARKETS

Fixed income trading at $4,879bn in 2018

Trading in emerging markets (EM) debt instruments reached $4,879bn in 2018, constituting a marginal decline of 0.4% from $4,901bn in 2017. Trading in EM debt was constrained by the increase in U.S. interest rates and specific EM events such as challenging economic conditions in Argentina and Turkey in the second half of 2018. Trading in EM debt instruments reached $1,280bn in the first quarter, $1,327bn in the second quarter, $1,205bn in the third quarter and $1,067bn in the fourth quarter of 2018. Also, trading declined by 7% in the fourth quarter of 2018 from $1,147bn in the fourth quarter of 2017. Turnover in local-currency instruments reached $2,987bn in 2018, up by 8.7% from $2,747bn in 2017. Further, trading in sovereign and corporate Eurobonds stood at $1,871bn in 2018, down by 11.7% from $2,120bn in 2017. The volume of traded sovereign Eurobonds reached $1,099bn and accounted for 58.7% of total Eurobonds traded last year, while the volume of traded corporate Eurobonds reached $733bn or 39.2% of the total. In addition, turnover in warrants and options stood at $21bn in 2018, while loan assignments reached $750m. The most frequently traded instruments in 2018 were Mexican fixed-income assets with a turnover of $826bn, or 17% of the total, followed by securities from Brazil with $621bn (12.7%), instruments from India with $365bn (7.5%), fixed-income securities from South Africa with $357bn (7.3%), and instruments from China with $343bn (7%).

Source: EMTA

MENA

Stock markets up 8% in first quarter of 2019

Arab stock markets improved by 7.7% and Gulf Cooperation Council equity markets increased by 8.6% in the first quarter of 2019, relative to expansions of 6.3% and 5.9%, respectively, in the same quarter of 2018. In comparison, global stocks grew by 11.5% and emerging markets equities increased by 10.1% in the first quarter of 2019. Activity on the Egyptian Exchange jumped by 13.1% in the covered quarter, the Saudi Stock Exchange rose by 12.7%, the Bahrain Bourse expanded by 5.7%, the Dubai Financial Market increased by 4.2%, the Boursa Kuwait grew by 3.8%, the Abu Dhabi Securities Exchange improved by 3.2%, the Khartoum Stock Exchange rose by 2.1%, the Amman Stock Exchange expanded by 0.3%, and the Palestine Exchange grew by 0.2%. In contrast, activity on the Iraq Stock Exchange dropped by 11.3% in the first quarter of 2019, the Muscat Securities Market declined by 7.9%, the Beirut Stock Exchange retreated by 6.4%, the Tunis Bourse decreased by 5.6%, the Casablanca Stock Exchange regressed by 4%, the Qatar Stock Exchange contracted by 1.9%, and the Damascus Securities Exchange declined by 0.3%. In parallel, activity on the Tehran Stock Exchange improved by 14.8% in the first quarter of 2019.

Source: Local stock markets, Dow Jones Indices, Byblos Research

POLITICAL RISK OVERVIEW - March 2019

ALGERIA

President Abdelaziz Bouteflika submitted on March 3, 2019 his candidacy for the April presidential elections, as he promised early presidential elections if he wins a fifth term and pledged reforms that include a constitutional referendum. However, he withdrew his candidacy on March 11 following mass protests, postponed the elections indefinitely and promised a Cabinet reshuffle. As such, he replaced Prime Minister Ahmed Ouyahia with Interior Minister Noureddine Bedoui and asked him to form a new government. In parallel, the army and ruling party called on the constitutional council to declare President Bouteflika unfit to rule and to initiate a transition of power. But protestors demanded Bouteflika's resignation and the end of his regime.

DEM REP CONGO

President Felix Tshisekedi agreed to work with former president Joseph Kabila, whose party won a majority of seats in the parliamentary elections, to form a new coalition government. The opposition coalition Common Front for Congo (FCC) won the senatorial elections, which ignited protests and intensified violence in the center and eastern regions of the country. As a result, the presidency suspended the senate formation and postponed the elections of provincial governors indefinitely. The FCC contested the decision, which prompted President Tshisekedi to lift the suspension. The U.S. Treasury Department imposed new sanctions on three senior officials from the electoral commission, accusing them of corruption and of obstructing the presidential elections.

IRAN

The International Atomic Energy Agency indicated that Iran has continued to abide by the terms of the 2015 Joint Comprehensive Plan of Action (JCPOA). The Special Trade and Finance Institute (STFI), which will work with the Instrument for Supporting Trade Exchanges (INSTEX) created by European JCPOA members to facilitate Iran's purchases of humanitarian goods, was registered in Iran. The U.S. imposed sanctions on 31 individuals and entities linked to the Iranian nuclear program, while it imposed sanctions on additional companies and individuals in Iran, Turkey and the UAE for the alleged transfer of funds to Iran's Revolutionary Guard.

IRAQ

Iraqi President Barham Salih and Prime Minister Adil Abdul-Mahdi met Iranian President Hassan Rouhani in Iraq and signed memorandums of understanding for joint projects in the energy, trade and railway sectors. The U.S. Treasury Department blacklisted the Popular Mobilization Units faction of Harakat al-Nujaba that is close to the Iranian Islamic Revolutionary Guard Corps. The U.S. granted Iraq a new 90-day waiver to continue to import energy from Iran. The Kurdistan Democratic Party and the Patriotic Union of Kurdistan reached a deal to accelerate the formation of the Kurdistan Regional Government.

LIBYA

The United Nations renewed efforts to mediate an agreement between the head of the Presidency Council, Faiez Al-Serraj, and Field Marshal Khalifa Haftar. Serraj and Haftar met in the UAE and agreed on the need for national elections, as well as on ways to maintain stability in the country and unify its institutions. The President of the African Union, Moussa Faki, announced during a meeting of the Libya Quartet in Tunisia that a national reconciliation conference to solve the Libyan crisis would be held in Addis Ababa in July 2019. Local elections took place in nine municipalities in the first elections in the country in five years, but the turnout rate was at 38% only. The electoral commission said that local elections will take place in about 60 other municipalities in coming weeks.

NIGERIA

Elections-related violence intensified during the governorship and state legislative elections, leading to the killing of more than 27 people, while four others died during supplementary elections on March 23, 2019. President Muhammadu Buhari's ruling party won the elections in 15 states, while the main opposition, the People's Democratic Party (PDP), won in 13 states. Also, elections were suspended in the Rivers State following heightened volatility and disruptions. The PDP's presidential candidate and runner up, Atiku Abubakar, lodged a legal challenge against the February presidential results. In addition, banditry-related violence killed at least 95 people in the northwest, while Boko Haram insurgents continued their attacks in the northeast.

SUDAN

The government increased its crackdown on the continued nationwide protests calling for President Omar Al Bashir to step down. Security forces arrested dozens of activists and senior members of the opposition National Umma Party. Prime Minister Mohammed Taher Eyla announced the formation of a new Cabinet, with most of the new ministers belonging to the ruling National Congress Party (NCP). The NCP suspended indefinitely its general convention that was planned for April, where the party was to elect a new head after the President handed leadership to his deputy. Authorities signed deals that secured $230m in loans from the Arab Monetary Fund and $70m from the Arab Trade Financing Program to cope with the country's economic crisis.

SYRIA

The Syrian regime and Russia increased airstrikes on the rebel-held Idlib province, while Turkey began patrols in Idlib to help stabilize the region. The jihadist coalition Hei'at Tahrir al-Sham and other militants attacked regime forces in areas surrounding the de-escalation zone. Further, Kurdish-led forces took the Islamic State militant group's last enclave in the east of Syria. The U.S. said it will withdraw half of its 2,000 troops by early May, while the Syrian regime insisted on the full U.S. withdrawal and refused to concede any autonomy to YPG-led Syrian Democratic Forces. U.S. President Donald Trump signed a decree recognizing Israeli sovereignty over the Golan Heights, while the UN indicated that the status of the Golan will remain unchanged.

TURKEY

Military operations continued against the Kurdistan Worker's Party (PKK), the pro-Kurdish Peoples' Democratic Party (HDP) and the Kurdish movements' sympathizers in South East Turkey and in Northern Iraq. The early results of the mayoral elections suggested that the Justice and Development Party lost in Ankara and Istanbul to the opposition Republican People's Party. Tensions between the U.S. and Turkey increased following the U.S. announcement that it will maintain forces in Northern Syria to support the Kurdish People's Protection Units (YPG), while Turkey signaled its willingness to conduct military operations to expel the YPG from the region.

YEMEN

The implementation of the Stockholm Agreement stalled, raising the risks of a resumption of fighting around Hodeida city and its port. The government and Huthis failed to redeploy forces away from front-line positions in and around Hodeida, as both sides raised objections to the redeployment plan. The Huthis accused the Saudi-led coalition of planning to escalate violence in Hodeida, and threatened to strike the capitals of Saudi Arabia and the UAE if the deal is breached. The U.S. Senate adopted a resolution to end the support to the Saudi-led coalition in Yemen. Germany extended its temporary ban on arms exports to Saudi Arabia, citing concerns about the Kingdom's conduct in Yemen.

Source: International Crisis Group, Newswires

OUTLOOK

MENA

Growth at 1.5% in 2019, varies across the region

The World Bank projected real GDP growth in the Middle East & North Africa (MENA) region to slightly decelerate from 1.6% in 2018 to 1.5% in 2019, amid expectations of volatility in global financial markets and weaker global economic activity. It noted that the region's growth this year will be supported by improved economic activity in oil importers. Further, it projected growth in the MENA region to accelerate to 3.4% in 2020, amid ongoing policy reforms to diversify the economy and strengthen the business environment. But it considered that the modest recovery in the MENA region will be insufficient to address its low per capita GDP levels. Further, the Bank indicated that risks to the MENA region's outlook are mainly tilted to the downside and include tightening global financial conditions and a slowdown in activity in the region's key trading partners.

In parallel, the World Bank projected growth in the region's oil-exporting countries to slow down from 1.1% last year to 0.9% in 2019, reflecting stable growth in Gulf Cooperation Council (GCC) economies and an economic contraction of 3.8% in Iran due to U.S. sanctions. It forecast real GDP growth in GCC economies to be nearly unchanged at 2.1% in 2019, supported by the countries' planned diversification programs, infrastructure projects and medium-term reform plans. In contrast, it projected economic activity in non-GCC oil exporters to contract by 0.9% in 2019, as the expected expansion in Algeria, Iraq and Yemen will be offset by the contraction in Iran and the slowdown in Libya's growth. Further, the Bank anticipated real GDP growth in oil-importing economies to pick up from 3.8% last year to 4% in 2019, supported by improved tourism activity in Egypt and Tunisia. It noted that the economic performance of MENA oil importers remains tightly linked to developments in GCC countries, due to the positive impact on their growth from increased capital, FDI and remittance inflows from GCC economies.

Source: World Bank

NIGERIA

Economic activity to remain muted in medium term as challenges persist

The International Monetary Fund indicated that the Nigerian economy is recovering, but remains vulnerable to significant risks. It noted that higher global oil prices, a tight monetary policy, greater convergence towards a unified exchange rate, increased access to international markets, and efforts to improve the business climate, have supported the economic recovery, reduced the inflation rate and strengthened external buffers in 2018. However, it said that the country's economic performance remains constrained by persisting structural and policy challenges, including a large infrastructure gap, low revenue mobilization, governance and institutional weaknesses, sustained foreign currency market restrictions, and banking sector vulnerabilities. In this context, it said that the country's economic outlook remains muted under current policies, and projected the country's real GDP growth at 2.1% in 2019 and at about 2.5% annually in the medium term, in the absence of significant structural reforms. It forecast hydrocarbon output growth to rise from 1.1% in 2018 to 4.4% this year, while it anticipated growth in the non-oil sector to be nearly unchanged at 1.9% in 2019. Further, it forecast the average inflation rate to regress from 12.1% in 2018 to 11.7% in 2019, but to remain well above the Central Bank of Nigeria's inflation target of between 6% to 9%. It considered that the main downside risks to the outlook include further delays in reform implementation, lower oil prices and production, heightened security tensions, or tighter global financial conditions.

In parallel, the Fund projected the fiscal deficit to remain wide at 5.1% of GDP in 2019 and 4.6% of GDP in 2020, mainly due to weaker non-oil revenues. As such, it anticipated the public debt level to reach 30.1% of GDP at end-2019 and 30.1% at end-2020 compared to 28.4% of GDP at end-2018. But it anticipated interest payments to remain high and to absorb about 63% of federal revenues this year. In parallel, the Fund forecast the current account balance to shift from a surplus of 2.1% of GDP in 2018 to deficits of 0.4% of GDP in 2019 and 0.2% of GDP in 2020, mainly due to higher imports and a contraction in exports. It forecast foreign currency reserves at $38.5bn at end-2019 and at $35.6bn at end-2020 compared to $42.6bn at end-2018.

Source: International Monetary Fund

EGYPT

Growth at 5.8% in medium term, investor focus is on extension of IMF program

Barclays Capital indicated that the Egyptian government has achieved macroeconomic stability in the past few years and has shifted its focus to structural reforms. It noted that muted inflationary pressures have allowed the Central Bank of Egypt (CBE) to cut its policy rates and reduce the debt servicing burden on the budget. As such, it expected the country's growth to maintain its upward trend in coming years, with real GDP growth accelerating from 5.3% in the fiscal year that ended in June 2018 to 5.8% in each of FY2018/19 and FY2019/20. However, it said that investors' focus is gradually shifting to whether Egypt will renew its program with the IMF when the current one expires by the end of 2019. It anticipated that the government will likely renew the program amid the country's elevated external debt obligations and continuous need to access international debt markets. Further, it indicated that the CBE has eased its monetary policy following the sharp deceleration of the inflation rate in December 2018. It added that the CBE is confident that it will achieve its new inflation target of 9% (+/-3%) by the fourth quarter of 2020. Still, it expected the impact on inflation from the planned liberalization of fuel prices in the first half of 2019 to be minimal. It forecast the inflation rate to decrease from 14.4% in FY2017/18 to 12.3% in FY2018/19 and 12.5% in FY2019/20 in the absence of external shocks related to global food prices or a weaker exchange rate.

In parallel, Barclays noted that the government posted a primary surplus of 0.4% of GDP in the first half of FY2018/19, mainly due to higher revenues. However, it considered that achieving a primary surplus target of 2% of GDP by June 2019 is uncertain despite the strong fiscal performance. As such, it projected the primary surplus at 1.2% of GDP in FY2018/19 and 1.4% of GDP in FY2019/20. It added that the CBE's decision to cut the policy rate should provide significant fiscal space to the government and should support the near-term outlook for portfolio inflows. It forecast the public debt level to decline from 94.1% of GDP at end-June 2018 to 92.1% of GDP at end-June 2019 and 89.3% of GDP at end-June 2020.

Source: Barclays Capital

ECONOMY & TRADE

SAUDI ARABIA

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed at 'A-/A-2' Saudi Arabia's long- and short-term sovereign credit ratings, with a 'stable' outlook. It noted that the ratings are supported by the country's strong fiscal and external positions, but that they are constrained by its limited monetary policy flexibility and wide fiscal deficits, as well as by the restricted transparency of its government assets and institutional framework. The agency said that the Kingdom is implementing a series of reforms, including social measures aimed at increasing labor participation, improving levels of educational attainment, and raising the private sector's role in the economy. It added that authorities aim to achieve a balanced budget by 2023, but it did not expect the government to reach its target following the announcement of an expansionary fiscal budget for 2019, and in case of lower global oil prices and oil production volumes. It projected the fiscal deficit to widen from 2.2% of GDP in 2018 to 4.5% of GDP in 2019 and to 4.1% of GDP in 2022. Also, it forecast the public debt level to rise from 19.1% of GDP at end-2018 to 37.6% of GDP at end-2022. In parallel, S&P expected the current account surplus to increase from 4.2% of GDP in 2019 to 6% of GDP in 2022, relative to an average deficit of 0.3% of GDP annually in the 2015-18 period. It anticipated the Kingdom's liquid external assets, net of external debt, to average 160% of current account payments over the 2019-22 period. It forecast foreign currency reserves to increase from $407bn at end-2019 to $462bn at end-2022.

Source: S&P Global Ratings

ETHIOPIA

Ratings affirmed on strong growth prospects

S&P Global Ratings affirmed Ethiopia's long- and short-term foreign and local currency sovereign credit ratings at 'B', with a 'stable' outlook. It indicated that the ratings are supported by the government's moderate debt burden and stronger-than-peers growth prospects, while they are constrained by the country's low GDP per capita, weak foreign currency reserves and limited monetary policy flexibility. It projected real GDP growth to average 7.8% annually between the fiscal year that ends in July 2019 and FY2021/22, supported by large-scale public investment projects. Further, it forecast the current account deficit to narrow from 7.3% of GDP in FY2018/19 to 6% of GDP in FY2021/22, due to the growth in exports and the limits enforced on the public sector's non-concessional external borrowing for new projects. Also, it projected gross external financing needs to remain above 150% of current account receipts and usable reserves on average between FY2018/19 and FY2021/22, given the low foreign currency reserves and large current account payments. In parallel, it expected the fiscal deficit to average 3% annually through FY2021/22, and to be financed by domestic and external debt issuance. It noted that more than 55% of the government's debt is denominated in foreign currency, which exposes the sovereign to exchange rate risks. It forecast the government's debt level, excluding the debt of state-owned enterprises (SOEs), to increase from 32% of GDP at end-July 2018 to 34.1% of GDP at end-July 2022. It noted that the overall public debt level would almost double when incorporating the debt of SOEs, which poses additional contingent fiscal liabilities to the government.

Source: S&P Global Ratings

MOROCCO

IMF calls for more flexible exchange rate regime

The International Monetary Fund indicated that the Moroccan economy is benefiting from the prudent macroeconomic policies and structural reforms that authorities pursued in recent years. It added that improved fiscal management and economic diversification have strengthened the resilience of the economy. It said that real GDP growth reached 3% in 2018 and the inflation rate stood at 1.9%. It indicated that the current account deficit was 5.4% of GDP in 2018 despite strong export growth, mainly due to higher global oil prices and grant revenue shortfalls. In parallel, it pointed out that the fiscal deficit was line with the authorities' revised deficit target of 3.7% of GDP in 2018, and added that they plan to maintain the deficit at its current level in 2019. It said that the tax reforms, which will be discussed in national consultations in May, would make the tax system more efficient, equitable and supportive of economic growth and of the authorities' objective of reducing the public debt level to 60% of GDP over the medium term. Further, it expected growth to average 4.5% annually over the medium term, supported by the recovery of non-agricultural sector activity. However, it noted that the outlook is subject to downside risks such as slower growth in advanced and emerging economies, lower global oil prices, and volatility in global financial markets. It added that the unemployment rate remains elevated and called on the government to accelerate structural reforms in order to increase productivity, create jobs and raise the country's growth potential. Further, the IMF encouraged the authorities to gradually transition to a more flexible exchange rate regime, as it considered that this would improve the country's ability to absorb external shocks.

Source: International Monetary Fund

GHANA

Significant improvement in macroeconomic performance, challenges persist

The International Monetary Fund indicated that Ghana's macroeconomic performance significantly improved under the Extended Credit Facility-supported program with the IMF, but that challenges remain. It noted that the ongoing macroeconomic adjustment has achieved higher real GDP growth rates, a single digit inflation rate, fiscal consolidation and the recapitalization of the banking sector. It said that Ghana met its year-end fiscal targets for 2018, and that sustained fiscal discipline will reduce financing needs and stabilize public debt metrics. It called on authorities to increase fiscal space in order to support priority programs as well as to avoid off-budgetary expenditures. In parallel, the Fund encouraged the government to step up efforts to implement structural reforms, such as improving the public financial management and the supervision of state-owned enterprises, as well as maintaining the fiscal rule. In addition, it indicated that authorities have improved their debt management, despite Ghana's increased exposure to market sentiment and exchange rate risk. It cautioned that monetary policy should remain vigilant to mitigate upside risks to inflation, which could stem from exchange rate fluctuations. It considered that rebuilding foreign currency reserves, including through careful foreign exchange liquidity management, is critical to improving the country's resilience to external shocks.

Source: International Monetary Fund

AFRICA

Capital adequacy and liquidity increase at West African banks

Figures released by the International Monetary Fund indicate that the economies of the West African Economic & Monetary Union, which consist of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, implemented important reforms to the region's banking sector in 2018. They included the transition to Basel II and Basel III prudential standards, new bank accounting rules, and banking supervision based on a risk-sensitive consolidated approach to bank groups. It added that the sector's capital base increased significantly in 2018, as the capital adequacy ratio of banks stood at 10% under Basel II and Basel III at end-June 2018, which is above the region's minimum required regulatory capital of 8.625% for end-2018. However, the Fund noted that 20% of the region's banks had capital ratios below the minimum requirement at end-June 2018, with five banks still failing to meet the minimum capital requirement set in 2017. In addition, it said that liquidity in the financial system gradually improved, as liquid assets accounted for 27.8% of total assets at end-June 2018 relative to 26.7% a year earlier, mainly driven by sizeable Eurobond issuances. It added that lending growth remained strong at 8% in 2018 amid the adjustments to new prudential rules. In parallel, it noted that the banking sector is vulnerable to concentration, credit and liquidity risks. It said that non-performing loans (NPLs) declined from 13.9% of total loans at end-2017 to 12.9% of total loans at end-June 2018.

Source: International Monetary Fund

KUWAIT

Banks' concentration risks are manageable

The International Monetary Fund considered that risks to the Kuwaiti banking sector originate from the banks' high single borrower and sectoral concentrations, as well as from their exposure to large depositors. But it pointed out that vulnerabilities associated with the banks' sectoral and individual concentrations are manageable. It said that, under a sensitivity analysis, which assumes a default of the five largest borrowers and a 50% recovery rate, only five banks will not be able to meet the regulatory capital requirements. Also, it noted that a default on 20% of the banking sector's loans to households and to the real estate sector, along with a zero percent recovery rate, would result in the undercapitalization of four banks. It added that the capital deficiencies of these banks would be equivalent to 0.3% of GDP. Further, the Fund pointed out that Kuwaiti banks are vulnerable to external shocks, including to oil price shocks, geopolitical tensions and global financial developments, which weigh on their credit quality, deposit growth and their financial conditions, as well as on investor confidence and asset valuations. However, it indicated that the banking sector has ample capital buffers to mitigate these risks. It noted that, under an adverse scenario, or under a scenario of gradually declining global oil prices, the capital adequacy ratio of all banks would remain above the regulatory requirement. It added that, under a severely adverse scenario, such as a sudden and persistent drop in global oil prices, three banks will not be able to fulfill their regulatory capital requirements. But it said the sector's capital adequacy would remain above the regulatory floor under such a scenario.

Source: International Monetary Fund

GCC

Banks' asset quality to stabilize in coming months

S&P Global Ratings indicated that the impact on banks in the Gulf Cooperation Council (GCC) region from the adoption of International Financial Reporting Standards IFRS 9 in 2018 was manageable. It noted that the less-supportive economic environment in 2018 led to a slight deterioration in the banks' asset quality, as the ratio of Stage 3 loans, or the non-performing loans ratio (NPLs), increased from 2.6% of total loans on average at the end of 2017 to 3.1% at end-2018. It expected the asset quality of rated GCC banks to stabilize in the next 12 to 24 months, with the ratio of problematic loans, which include Stage 2 loans, or underperforming loans, and Stage 3 loans, remaining at 15% of total loans. However, it anticipated that some Stage 2 loans will migrate to Stage 3 loans, which will lead banks to pursue more-aggressive write-off practices. It said that most of the deterioration would occur at smaller banks, given that the larger banks have conservative risk management practices and are selective in their lending. It added that the banks' asset quality could come under pressure in case of lower global oil prices or increased geopolitical risks. In parallel, it expected the banks to continue with their loan write-off practices and to be more aggressive than in previous years, in order to maintain a stable Stage 3 loan stock. Further, it indicated that the impact of IFRS 9 on the banks' equity was manageable and did not cause a significant drop in their capitalization, given that banks have used their existing general provisions to cover the additional provisions.

Source: S&P Global Ratings

TURKEY

Lira volatility reflects reduced confidence in currency rather than external vulnerabilities

Goldman Sachs indicated that the volatility of the Turkish lira increased significantly in the second half of March 2019. It noted that the 6.7% depreciation of the lira against the dollar on March 22 was triggered by a decline in the Central Bank's foreign currency reserves, as well as by weak European growth data, given the large share of Turkish exports to Europe. But it said that the lira recovered some of its losses to trade at around TRY5.48 against the dollar on April 1, 2019. It considered that the reasons for the currency's volatility differ significantly from the factors that led to the depreciation of the lira in August and September 2018. It said that an overheating Turkish economy in early 2018, a wide current account deficit and the large external funding needs of the banking system exposed the economy to significant external risks last year. In comparison, it noted that the Turkish economy is currently operating below its potential, while the current account is balanced. As such, it considered that the renewed lira volatility towards the end of March 2019 was caused by a loss of confidence in the currency and by uncertainties about the authorities' ability or willingness to preserve its value, rather than by concerns about Turkey's external financing needs. Further, Goldman Sachs projected Turkey's real GDP to contract by 2.5% in 2019 and for the current account to post a surplus of 1.5% of GDP this year. It also expected the annual inflation rate to decline faster than anticipated to 12% by the end of 2019, in case of a gradual depreciation of the lira.

Source: Goldman Sachs

Oil price forecasts revised to $70 p/b in 2019

ICE Brent crude oil front-month averaged $63.7 per barrel (p/b) in the first quarter of 2019, down by 6.8% from the previous quarter. In comparison, oil prices have been on the rise on a monthly basis since the beginning of 2019, growing by 4.6% in January, by 7.5% in February and by 4% in March 2019. Further, oil prices reached $69.4 per barrel (p/b) on April 2, 2019, their highest level since November 2018, driven by the OPEC and non-OPEC production cuts and by prospects of increased U.S. sanctions on Iran and Venezuela. In this context, three out of the eight countries that received waivers from the U.S. to import oil from Iran halted their imports of Iranian oil. In parallel, Citi Research indicated that Saudi Arabia has signaled deeper production cut than its quota requirement, which, along with greater uncertainties about Venezuela's oil supply and a potential contraction in Iran's oil exports, may lead to a tighter global oil market. It added that oil prices could further increase in case of possible additional output losses in Algeria, Iran, Nigeria and Venezuela. Citi forecast oil prices to average $69 p/b in the second quarter of 2019, $74 p/b in the third quarter, and $72 p/b in the fourth quarter of 2019. It expected oil prices to ease by the fourth quarter of 2019 and to reach $65 p/b in the first quarter of 2020, in case oil supply from OPEC and non-OPEC countries picks up and oil exports from the U.S. increase. Overall, it revised its oil price forecast for full year 2019 to $70 p/b from $64 p/b previously.
Source: Citi Research, Thomson Reuters, Byblos Research

Global demand for gas to grow by a CAGR of 2% in 2017-40 period

The global consumption of gas is projected to increase by a compound annual growth rate of 1.7% from 3.2 billion tons of oil equivalent (toe) in 2017 to 4.6 billion toe in 2040. Demand in the Asia-Pacific region is expected to reach 1.26 billion toe, which would account for 27.4% of global demand for gas in 2040, followed by North America with 1.07 billion toe (23.3%), the Middle East with 715 million toe (15.5%), the Commonwealth of Independent States with 513 million toe (11.1%), Europe with 503 million toe (10.9%), Africa with 289 million toe (6.3%), and South and Central America with 258 million toe (5.6%).
Source: BP, Byblos Research

Aramco's profits at $111bn in 2018

Saudi Aramco, Saudi Arabia's national oil & gas company, announced total profits of $111.1bn in 2018, making it the world's most profitable company. The company issued its financial results as it prepares to borrow up to $15bn through a bond sale. The funds will help finance Aramco's $69bn purchase of a 70% stake in the state-owned petrochemicals company Saudi Basic Industries Corporation (SABIC). Aramco's total hydrocarbon output averaged 13.6 million barrels of oil equivalent per day in 2018.
Source: Fitch Ratings, Thomson Reuters

Steel output up 4% in first two months of 2019

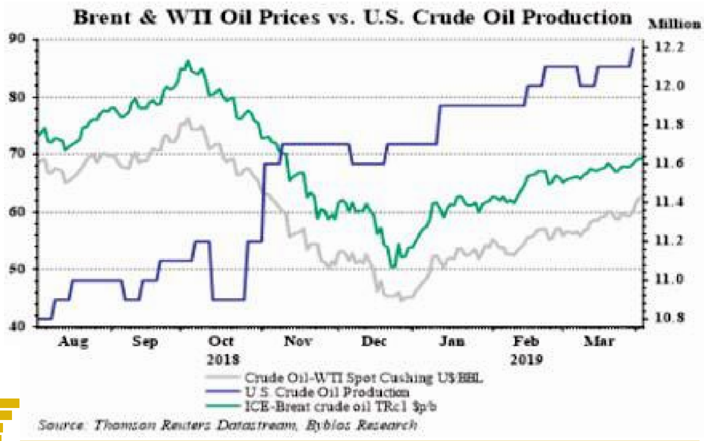
Global steel production reached 287.6 million tons in the first two months of 2019, constituting an increase of 3.8% from 277.2 million tons in the same period of 2018. China's steel production totaled 149.6 million tons in the first two months of 2019 and accounted for 52% of global output. India followed with 17.9 million tons (6.2%), then Japan with 15.9 million tons (5.5%) and the U.S. with 14.4 million tons (5%).
Source: World Steel Association, Byblos Research

Base Metals: Copper prices increase amid supply concerns

LME copper cash prices reached $6,484 per metric ton on April 3, 2019, constituting an increase of 9% from $5,949 per ton at the end of 2018. Concerns about supply disruptions at the Las Bambas copper mine in Peru, which produces about 2% of global copper output, drove the pickup in prices. In addition, copper prices were supported by expectations that the U.S. and China will reach a trade agreement soon after a senior U.S. official expressed optimism about progress in the scheduled trade talks this week. Also, prices increased as economic data from China, the world's largest consumer of copper, showed that activity in the country's services sector improved to a 14-month high in March and that demand for the metal increased following the government's stimulus policies. However, the rise in copper prices was partially capped by a stronger US dollar. In parallel, Fitch Ratings expected the deficit in the copper market to be eliminated in the medium term by brownfield investments that would raise copper output from existing mines, as well as by Greenfield investment into the exploration of new mines and into pipeline projects. It added that China will remain a key driver of demand for the metal amid a transition towards a greener economy. However, it indicated that a deficit could re-emerge in the long term in the absence of additional investments.
Source: Fitch Ratings, Thomson Reuters, Byblos Research

Precious Metals: Palladium prices to moderate to $1,297 per troy ounce in second half of 2019

Palladium prices have been on an upward trend in recent months on higher automotive demand for the metal, especially in Europe and China. Prices averaged $1,430.6 per troy ounce in the first quarter of 2019, constituting an increase of 24% from the fourth quarter of 2018 and a rise of 38% from the first quarter of 2018. Palladium prices also reached an all-time high of $1,604 per troy ounce on March 22, 2019, but prices regressed by 11% in the last week of March to $1,390 an ounce at the end of the month. The recent drop in prices is due to expectations of a slowdown in automotive demand in key markets amid subdued global economic growth prospects. Further, ABN AMRO Bank projected palladium prices to moderate in the second half of 2019, and to decline from an average of $1,448 per ounce in the second quarter of 2019 to $1,347 an ounce in the third quarter and to $1,246 per ounce in the fourth quarter, due to a weaker outlook on the global car sector. It expected the substitution of palladium with cheaper platinum in catalytic converters to weigh on the metal's price.
Source: ABN AMRO Bank, Byblos Research



COUNTRY RISK METRICS

Countries	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-								
	Negative	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	Stable	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-	A								
	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-	Caa1	B-	B	B-								
	Negative	Stable	Negative	Negative	Stable	-9.7	150.0	183.3	136.8	50.1	136.2	-25.6	2.8
Oman	BB	Ba1	BB+	BBB-	BBB								
	Stable	Negative	Stable	Stable	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	Stable	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	

Note: S&P, Moody's, Fitch, CI and IHS are grouped under "LT Foreign currency rating".

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 (%)
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
Pakistan	B-	B3	B-	-	CCC								
	Stable	Negative	Stable	-	Negative	-6.5	72.5	31.5	50.1	28.3	144.3	-5.9	0.87
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	20-Mar-19	No change	01-May-19
Eurozone	Refi Rate	0.00	07-Mar-19	No change	10-Apr-19
UK	Bank Rate	0.75	21-Mar-19	No change	02-May-19
Japan	O/N Call Rate	-0.10	15-Mar-19	No change	25-Apr-19
Australia	Cash Rate	1.50	02-Apr-19	No change	07-May-19
New Zealand	Cash Rate	1.75	27-Mar-19	No change	08-May-19
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Mar-19	No change	13-Jun-19
Canada	Overnight rate	1.75	06-Mar-19	No change	24-Apr-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	21-Mar-19	No change	20-Jun-19
South Korea	Base Rate	1.75	28-Feb-19	No change	18-Apr-19
Malaysia	O/N Policy Rate	3.25	05-Mar-19	No change	07-May-19
Thailand	1D Repo	1.75	20-Mar-19	No change	08-May-19
India	Reverse repo rate	6.25	07-Feb-19	Cut 25bps	04-Apr-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	15.75	14-Feb-19	Cut 100bps	28-Mar-19
Turkey	Repo Rate	24.0	06-Mar-19	No change	25-Apr-19
South Africa	Repo rate	6.75	28-Mar-19	No change	23-May-19
Kenya	Central Bank Rate	9.00	27-Mar-19	No change	N/A
Nigeria	Monetary Policy Rate	13.50	26-Mar-19	Cut 50bps	21-May-19
Ghana	Prime Rate	16.00	01-Apr-19	No change	27-May-19
Angola	Base rate	15.75	28-Jan-19	Cut 75bps	29-Mar-19
Mexico	Target Rate	8.25	07-Feb-19	No change	28-Mar-19
Brazil	Selic Rate	6.50	20-Mar-19	No change	08-May-19
Armenia	Refi Rate	5.75	12-Mar-19	No change	30-Apr-19
Romania	Policy Rate	2.50	02-Apr-19	No change	13-May-19
Bulgaria	Base Interest	0.00	01-Apr-19	No change	01-May-19
Kazakhstan	Repo Rate	9.25	04-Mar-19	No change	16-Apr-19
Ukraine	Discount Rate	18.00	14-Mar-19	No change	25-Apr-19
Russia	Refi Rate	7.75	22-Mar-19	No change	26-Apr-19

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