500 ISSUES+
Issue 582 | May 9, 2019

BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Frontier market debt at $3.2 trillion, or 118% of GDP, at end-2018

The Institute of International Finance indicated that the total debt of 26 frontier markets, which includes the debt of governments, corporates and households, reached $3.2 trillion at the end of 2018, up by $252bn from end-2017, mainly due to the growth of the debt of non-financial corporates and governments. It noted that the aggregate frontier market debt was equivalent to 117.5% of GDP at the end of 2018, up from 116.8% of GDP a year earlier. It pointed out that the debt ratio increased in 14 out of the 26 frontier markets, with Tunisia, Vietnam and Zambia registering the largest surge last year. It said that the debt of the non-financial corporate sector reached $1.26 trillion at the end of 2018, or 39.4% of total debt, and was equivalent to 45.8% of GDP compared to 45.5% of GDP at end-2017. It added that the government debt of frontier markets was equivalent to 49.7% of GDP at end-2018 relative to 48.2% of GDP a year earlier, while the financial sector's debt stood at 6.5% of GDP at the end of 2018 compared to 7.1% of GDP at end-2017. In addition, it said that household debt declined from the equivalent of 15.9% of GDP at end-2017 to 15.5% of GDP at the end of 2018. On a regional basis, the IIF indicated that debt in the Middle East was equivalent to 157.8% of the region's GDP at end-2018, followed by debt in Asia (128.5% of GDP), Africa (106% of GDP), Europe (102.8% of GDP), and Latin America (101% of GDP). It pointed out that about $225bn in frontier market bonds and loans, including about $125bn in foreign currency, will mature by the end of 2020.

Source: Institute of International Finance, Byblos Research

GCC

Fixed income issuance down 8% to $59bn in first four months of 2019

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $58.6bn in the first four months of 2019, down by 7.7% from $63.5bn in the same period of 2018. Aggregate fixed income in the first four months of the year consisted of $22.3bn in each of sovereign bonds and corporate bonds, or 38.1% of the total each, followed by sovereign sukuk at $10.5bn (17.9%), and corporate sukuk at $3.5bn (6%). Aggregate bonds and sukuk issued by GCC sovereigns reached $32.8bn, or 56% of total fixed income issuance in the region in the first four months of 2019, while bonds and sukuk issued by GCC corporates amounted to $25.8bn or 44% of the total. On a monthly basis, GCC sovereigns issued $12.8bn in bonds and sukuk in January, $1.9bn in February, $14bn in March and $4.1bn in April 2019. In parallel, corporates in the GCC issued $1.7bn in bonds and sukuk in January, $2.3bn in February, $4.3bn in March and $17.5bn in April 2019. Sovereign issuance in April 2019 consisted of $2.8bn in sovereign bonds and sukuk issued by Saudi Arabia, $1bn in sovereign sukuk issued by the UAE and $259.7m in sovereign bonds issued by Oman. In parallel, corporate issuance in the covered month included $12bn in corporate bonds issued by Saudi Arabia and $2.2bn in corporate bonds issued by the UAE.

Source: KAMCO

MENA

Digitization level varies across the region

The Arab Advisors Group's Digital Index for 2018, which ranks countries according to their level of digital awareness and adoption, indicated that the UAE has the highest level of digitization among 14 countries in the Arab region with a score of 84.2%. Qatar followed with 82.6%, then Kuwait (79.7%), Bahrain (76.9%) and Oman (72.6%) as the five countries with the highest level of digitization regionally. In contrast, Lebanon (58%), Egypt (56.4%), Iraq (52.4%), Algeria (49.4%) and Mauritania (30.3%) are the countries with the lowest level of digitization in the region. The index is a weighted average of four main pillars that are the "Smart Government" pillar with a weight of 40%, the "Digital Readiness" pillar (30%), the "Electronic & Mobile Payments" pillar (20%), and the "Economic & Education" pillar (10%). The score of each country ranges from zero percent to 100%, with 100% reflecting the highest level of digitization. The Arab region's average score stood at 64% in 2018, with an average score of 78% for Gulf Cooperation Council (GCC) countries and an average score of 53.5% for non-GCC Arab countries. The UAE came in first place on each of the "Digital Readiness" and the "Electronic & Mobile Payments" pillars, while Qatar ranked first on each of the "Smart Government" and the "Economic & Education" pillars.

Source: Arab Advisors Group, Byblos Research

Press freedoms regress in several Arab countries

International organization Reporters Without Borders ranked Tunisia in first place among 20 Arab countries and in 72nd place among 180 countries on its Press Freedom Index for 2019. Mauritania followed in 94th place, then Lebanon (101st), Kuwait (108th), Qatar (128th), Jordan (130th), Oman (132nd), the UAE (133rd), Morocco (135th), Palestine (137th), Algeria (141st), Iraq (156th), Libya (162nd), Egypt (163rd), Bahrain (167th), Yemen (168th), Saudi Arabia (172nd), Djibouti (173rd), Syria (174th) and Sudan (175th). As such, 16 out of 20 Arab countries came in the third tier of the global rankings. The index measures the level of freedom that journalists and the media have in each country, as well as government efforts to respect press freedoms. Reporters Without Borders assigns index scores from zero to 100, with a lower score reflecting a higher level of press freedom in a given country. Further, the rankings of four Arab countries improved, 13 declined and three remained the same year-on-year. Tunisia's rank rose by 25 spots, the best improvement among Arab countries; while Mauritania's rank regressed by 22 spots, the steepest decline in the region. The Arab region's average score stood at 50.2 points, and was worse than the global average score of 35.02 points, reflecting a lower level of press freedom in the region. Also, four Arab countries came in the "problematic situation" category, while eight Arab states came in the "difficult situation" category and the remaining eight sovereigns were in the "very serious situation" category.

Source: Reporters Without Borders

POLITICAL RISK OVERVIEW - April 2019

ALGERIA

President Abdelaziz Bouteflika resigned on April 2, 2019, following weeks of civilian protests and pressure from the army, while lawmakers appointed the head of the upper house of Parliament Abdelkader Bensalah as interim President for three months to prepare for the presidential elections that were postponed indefinitely in March 2019. Nationwide demonstrations continued despite Bouteflika's resignation, as citizens rejected Bensalah's appointment and demanded the departure of the ruling elite and the end of the military's control over the political transition. Security forces suppressed protests in Algiers and arrested about 108 people. Several regime figures were removed from power, while five billionaires were arrested as part of an anti-corruption investigation. Also, the ruling National Liberation Front party elected Mohamed Djemai as its new leader.

DEM REP CONGO

Progress stalled on the formation of a new government, as officials from President Felix Tshisekedi's Heading for Change alliance and former President Joseph Kabila's Common Front for Congo failed to name a prime minister and to agree on Cabinet appointments. Authorities suspended an investigation into allegations that exiled opposition leader Moise Katumbi hired mercenaries as part of a plot against former President Kabila's government. President Tshisekedi met with IMF head Christine Lagarde who pledged the resumption of DRC-IMF cooperation, which was suspended since 2012, as well as with Belgian Deputy PM Didier Reynders who agreed to normalize bilateral relations that had deteriorated since the end of the Kabila era.

EGYPT

The National Elections Authority declared that 88.8% of the Egyptians voted for the constitutional amendments that will allow President Abdel Fattah al-Sisi to stay in office until 2030. The constitutional changes would establish a Senate and would give the President the authority to appoint members of the judiciary. Opposition activists claimed that the referendum would concentrate more power in the President's hands. The government shut down several internet websites, including a newly-launched opposition campaign site. The Islamic State-related insurgency continued in North Sinai, with several bombings in and around the city of Al-Arish.

IRAN

Iran maintained its focus on strengthening regional ties, particularly with Iraq, amid increasing pressure from the U.S. The International Atomic Energy Agency reiterated that Iran is compliant with the terms of the 2015 Joint Comprehensive Plan of Action. But the U.S. designated the Islamic Revolutionary Guard Corps as a foreign terrorist organization. Iran promptly blacklisted the U.S. military command covering the Middle East and Central Asia region. The U.S. indicated that it would not extend waivers that allowed countries to import Iranian oil. Further, Iran proposed a swap of Iranians jailed in the U.S. for U.S. detainees in Iran.

IRAQ

The government increased efforts to expand its relations with Iran and Saudi Arabia. Prime Minister Adil Abdul-Mahdi visited Tehran to discuss the expansion of energy imports and the increase of trade. Saudi Arabia reopened its consulate in Baghdad, and pledged a $1bn grant to Iraq. Also, Iraq signed 13 agreements with Saudi Arabia on trade, energy and political cooperation. Basra's Provincial Council voted to hold a referendum on making Basra an autonomous region and residents of Basra protested against federal government policies and its alleged indifference towards the city. Military operations against Islamic State militants continued in Kirkuk and Diyala provinces.

LIBYA

The Libyan National Army (LNA) made advances near the capital city of Tripoli in an attempt to take the city from the UN-backed Government of National Accord (GNA). However, pro-GNA forces carried airstrikes on LNA forces and slowed down the offensive. U.S. Secretary of State Mike Pompeo announced the United States' opposition to the LNA's military offensive, and urged the immediate halt of military operations near Tripoli. But U.S. President Donald Trump reportedly had a phone conversation with General Khalifa Haftar and praised the latter's efforts in countering terrorism. The World Health Organization announced that 264 people were killed around Tripoli in the three weeks since fighting began near the city on April 3.

SUDAN

Thousands of protesters demonstrated outside the army headquarters in Khartoum and called for an end to President Omar al-Bashir's rule. The police and the army adopted a non-intervention policy. Armed forces overthrew and arrested President al-Bashir in a coup on April 11, 2019. First Vice President and Defense Minister Ahmed Awad Ibn Auf announced the dissolution of the government, the creation of a Transitional Military Council (TMC), the suspension of the constitution, a nationwide ceasefire and a three-month state of emergency. However, demonstrators took to the streets and demanded the immediate transition of power to civilian rule. Protestors engaged in talks with the TMC on the formation of a joint civilian-military body to oversee the transition of power, but were unable to agree on who would control the new council.

SYRIA

Regime forces continued to target areas in the southern Idlib province, while rebels retaliated against pro-government forces. Russia and Turkey announced the start of joint patrols around the de-escalation zone in Idlib. IS militants increased their insurgency in the east of Syria. The Kurdish People's Protection Units (YPG) tried to strengthen their control in the northeast of Syria, while the U.S. retained its presence in the region. The U.S. continued its negotiations with Turkey, the YPG and the Syrian Democratic Forces to create a safe zone along the Syrian-Turkish border, and to replace the YPG with local Arab and Kurdish forces. The Syrian government accused the U.S. of blocking the passage for Iranian oil tankers through the Suez Canal, leading to fuel shortages in Syria.

TURKEY

Military operations against the Kurdistan Worker's Party continued in the south east of Turkey and in northern Iraq. Tensions increased following the municipal elections, as the ruling Justice and Development Party (AKP) contested the Republican People's Party's victory in Istanbul. In the majority-Kurdish southeast region, AKP's overall share of votes increased especially in rural areas, while the pro-Kurdish Peoples' Democratic Party largely maintained its votes in urban areas. The U.S. pledged to suspend the transfer of F-35 fighter jets to Turkey, following warnings that the S-400 air defense systems, which Turkey plans to buy from Russia, are not compatible with NATO systems. But President Recep El Tayep Erdogan announced that the S-400 air defense systems reached the delivery stage.

YEMEN

The government and Houthi representatives from the UN-led Redeployment Coordination Committee agreed on a plan for the first phase of redeployments from the city of Hodeida. Violence continued around Hodeida and escalated along the Red Sea coast. President Abdrabbuh Mansour Hadi attended a rare parliamentary session, where he called on Houthi rebels to work towards peace. U.S. President Trump vetoed the War Powers Resolution that the U.S. Congress passed, and which aimed to end U.S. support for the Saudi-led coalition.

Source: International Crisis Group, Newswires

OUTLOOK

AFRICA

Economic outlook subject to external downside risks

The International Monetary Fund projected real GDP growth in Sub-Saharan Africa (SSA) at 3.5% in 2019, down from a forecast of 3.8% in October 2018 and relative to a growth rate of 3% in 2018. It expected the SSA region's average growth rate to increase to 3.7% in 2020 and to stabilize at slightly below 4% over the medium term under current policies. It forecast real GDP growth to pick up from 2.2% this year to 2.7% in 2020 in SSA's oil exporters, while it projected growth at 4.3% in 2019 and 2020 in the region's oil-importing economies. Also, it expected growth in the West African Economic and Monetary Union at 6.6% in 2019 and 6.5% in 2020, while it forecast growth in the Central African Economic and Monetary Community at 3.3% in 2019 and in 2020. It noted that external downside risks to the region's outlook consist of subdued global growth, including in key trading partners, escalating global trade tensions, tighter global financial conditions, and lower commodity prices.

In parallel, the IMF projected the fiscal deficit of the region's oil exporters to narrow from 3.5% of GDP in 2019 to 3.3% of GDP in 2020, and for the deficit of SSA oil importers to narrow from 4.3% of GDP in 2019 to 4.1% of GDP in 2020. Further, it forecast the public debt level of SSA oil exporters to decline from 41.6% of GDP at the end of 2019 to 40.6% of GDP at end-2020, and for the public debt level of oil importers to remain unchanged at 53.7% of GDP. In parallel, it expected the aggregate current account balance of SSA oil exporters to shift from a surplus of 1.2% of GDP in 2018 to a deficit of 1.3% of GDP in 2019, mainly due to lower oil export receipts, while it projected the current account deficit of SSA oil importers to widen from 4.8% of GDP in 2018 to 5.1% of GDP in 2019. As such, it anticipated the foreign currency reserves of SSA oil exporters to decline from 6.2 months of import coverage at end-2019 to 5.9 months of imports at end-2020, while it forecast the foreign currency reserves of SSA oil importers to regress from 4.1 months of import coverage at end-2019 to 4 months of imports at end-2020.

Source: International Monetary Fund

MENA

Economic growth of oil importers at 4.1% in 2019 and 4.6% in 2020

The International Monetary Fund projected real GDP growth in the oil-importing economies of the Middle East & North Africa (MENA) region to pick up from 3.8% in 2018 to 4.1% in 2019 and 4.6% in 2020. But it said that the region's economic activity continues to be constrained by persistent structural rigidities, elevated public debt levels, limited policy space, a less favorable external environment, ongoing security concerns and regional conflicts, as well as by high unemployment rates. It added that the region's growth prospects are limited by low private investment and delays in the implementation of reforms. It anticipated growth to vary across the MENA region's oil importers this year, with Djibouti posting the highest growth rate at 6.7% and Sudan registering a contraction of 2.3%. The IMF pointed out that the region's economic outlook is vulnerable to escalating global trade tensions, changes in global financial conditions, worsening regional security conditions or social tensions, as well as weaker-than-anticipated public investment. It forecast the average inflation rate in oil importers to decline from 14.4% in 2018 to 12.3% this year and 11% in 2020, supported by declining energy prices.

Further, the Fund forecast the aggregate fiscal deficit of oil importers to narrow from 7.2% of GDP in 2018 to 6.8% of GDP in 2019 and 5.7% of GDP in 2020, amid ongoing fiscal consolidation efforts. It expected the region's public debt level at 94.3% of GDP at end-2019 and 93.1% of GDP at end-2020, which would leave some countries with limited fiscal space to face higher borrowing costs. Further, it expected the aggregate current account deficit of oil importers to narrow from 6.7% of GDP this year to 6% of GDP in 2020, mainly due to lower oil prices, but to remain constrained by slower export growth, fluctuations in oil prices and the escalation of trade tensions. It forecast the region's foreign currency reserves at $130.4bn at end-2019 and $133.8bn at end-2020. The Fund called on authorities in oil-importing economies to intensify growth-friendly fiscal consolidation efforts and improve the efficiency of public spending in order to make room for capital and social spending.

Source: International Monetary Fund

UAE

Growth to average 3% annually during 2020-21 period

The International Monetary Fund indicated that the UAE economy continued to recover in 2018, with real GDP growing by 1.7%, mainly due to increased oil production. It noted that non-oil growth slowed down to 1.3% last year amid weaker domestic and external demand, as well as heightened geopolitical tensions. It said that corporate reforms, including at large government-related entities and at commercial banks, as well as fiscal consolidation and the increase in interest rates, weighed on aggregate demand last year. However, it indicated that the outlook is favorable, given the recent improvement in domestic credit growth, employment and tourist arrivals, and despite the persistent supply overhang in the real estate sector. It considered that the economy is currently at a turning point, supported by increased public spending and investment ahead of Expo 2020, as well as by favorable external conditions, including higher global oil prices and limited U.S. monetary tightening. As a result, it forecast growth to exceed 2% in 2019 and to average about 3% annually during the 2020-21 period.

The Fund pointed out that the UAE economy has made significant efforts toward economic diversification. But it said that government spending and some sectors continue to be affected by the fluctuations in oil prices. As such, it considered that sustaining strong real GDP growth will require the government to capitalize on new growth drivers that do not depend on oil prices. In this context, it encouraged authorities to build on their ongoing structural reforms momentum, and to focus on reducing the weight of the public sector in order to boost productivity and economic diversification, as well as on modernizing the labor market, strengthening the financial markets, and improving policy coordination and transparency. It called on authorities to strengthen the environment for small- and medium-sized enterprises and to build on recent reforms to encourage foreign direct investment.

Source: International Monetary Fund

JORDAN

Structural reforms essential for macroeconomic stability

The International Monetary Fund noted that Jordan faces a challenging environment, including low economic growth, a high unemployment rate and an elevated public debt level. It stressed the importance of the immediate implementation of policies and reforms to preserve macroeconomic stability, reduce the public debt level, boost investment and productivity, and enhance inclusive growth. It pointed out that continued donor assistance constitutes a major support for the authorities' policy and reform efforts. Also, it called on the authorities to continue implementing gradual and steady fiscal consolidation measures, while taking into consideration social protection needs. It called for the acceleration of measures to enhance tax administration and reduce tax evasion, as they are crucial to preserving macroeconomic and external stability, improving public finances and reducing risks to debt sustainability. In parallel, the Fund pointed out that Jordan's monetary policy stance is appropriate and that authorities should remain ready to adjust interest rates as needed in order to maintain an adequate reserve buffer. Also, it encouraged the enactment of growth-enhancing reforms, including the secured-transactions law, the bankruptcy law and the business-inspections law. Further, it welcomed the authorities' roadmap to restructure the National Electric Power Company.

Source: International Monetary Fund

TURKEY

Sovereign ratings affirmed, outlook 'negative'

Fitch Ratings affirmed Turkey's long- and short-term foreign-currency issuer default rating at 'BB/B', with a 'negative' outlook. It attributed the 'negative' outlook to the country's large external financing needs, low foreign currency reserves, elevated net external debt level, high inflation, a track record of economic volatility, and geopolitical risks. But it indicated that the ratings are supported by strong public finances as well as by a large and diversified economy. It pointed out that Turkey is in a deep economic recession and forecast real GDP to contract by 1.1% this year. Also, the agency expected authorities to adopt a tighter fiscal policy as they implement fiscal consolidation measures. Still, it forecast the central government deficit at 2.4% of GDP in 2019 compared to the 2019 fiscal deficit target of 1.8% of GDP. Further, it considered Turkey's moderate general government debt level to remain a key rating strength, but anticipated it to slightly rise from 30.4% of GDP at end-2018 to 31% of GDP at end-2019. In addition, Fitch projected the inflation rate to average 14.2% in 2019, which is the highest rate among sovereigns that are rated above the 'B' category. In parallel, it forecast the current account deficit at 0.7% of GDP in 2019, the narrowest deficit since 2002, due to weak domestic demand and an improvement in services exports. It also indicated that gross foreign currency reserves declined from $100.1bn at end-February to $96.3bn at end-March 2019, and added that market concerns about Turkey's reserves have contributed to the renewed depreciation of the lira. The agency estimated Turkey's total external financing needs at $173bn in 2019, reflecting the country's vulnerability to global investor sentiment as well as to domestic political and economic policy uncertainties.

Source: Fitch Ratings

SAUDI ARABIA

Fiscal balance posts first quarterly surplus since 2016

Jadwa Investment indicated that Saudi Arabia's fiscal balance posted a surplus of SAR28bn, or $7.5bn in the first quarter of 2019, relative to a deficit of SAR34.3bn, or $9.1bn in the same quarter of 2018, constituting the first quarterly surplus since at least 2016. It said that government revenues expanded by 48% year-on-year to SAR245.4bn in the covered quarter. It noted that non-hydrocarbon receipts grew by 46% annually to SAR76.3bn in the first quarter of 2019, partly due to receipts from taxes on goods & services that nearly doubled year-on-year to SAR41bn. It attributed the increase in receipts from taxes on goods & services largely to the rise in expatriate levies, and expected the latter to double to SAR56bn in 2019. It added that oil revenues grew by 48% to SAR169.1bn, and were boosted by SAR124bn in dividends received from Saudi Aramco in March 2019. In parallel, Jadwa pointed out that government expenditures increased by 8% annually to SAR217.6bn in the first quarter of 2019, mainly due to an 8% rise in current expenditures and a growth of 12% in capital expenditures in the covered quarter. Also, it forecast the public debt level at SAR622bn, or about 21.5% of GDP at the end of May 2019, up from SAR560, or 19% of GDP at end-2018. It anticipated authorities to issue an additional SAR30bn in international debt as well as SAR26bn in domestic debt. Further, it projected the fiscal balance to post a deficit of SAR131bn, or 4.2% of GDP in 2019.

Source: Jadwa Investment

IRAQ

Structural reforms required to maintain medium-term fiscal sustainability

The International Monetary Fund indicated that the end of the war in Iraq and the rebound in global oil prices provide the Iraqi government with an opportunity to rebuild the country and address its much-needed socio-economic needs. It said that near-term vulnerabilities moderated in 2018, given the fiscal surplus that the government posted and the build-up in foreign currency reserves at the Central Bank of Iraq (CBI). But it considered that the economic recovery in Iraq has been slow and that post-war reconstruction is limited. It added that the elevated current expenditures could increase the risk of placing the country's public finances and foreign currency reserves on an unsustainable path. Overall, it expected non-oil real GDP to grow by 5.4% in 2019, driven by higher investment spending. However, it projected the fiscal balance to shift to a deficit over the medium term, which would require financing that could crowd out the private sector or erode the CBI's foreign currency reserves. It considered that it would be difficult to sustain capital spending under such circumstances, and that growth would slow notably. It stressed the importance of policy changes and structural reforms to maintain medium-term sustainability. It noted that fiscal policy should aim to scale up public investment gradually while building fiscal buffers, which would require budgetary savings of about 9% of GDP over the medium term. It said that this could be achieved through the tight control of current spending, particularly public-sector wages, and phased measures to boost non-oil revenues.

Source: International Monetary Fund

EMERGING MARKETS

Easing financial conditions to support credit growth in 2019

Fitch Ratings indicated that the easing in global financial conditions since the beginning of 2019 will help stabilize growth in emerging markets (EMs). It noted that the growth in US dollar-denominated bank lending to non-bank borrowers in EMs, and in debt securities, which include outstanding dollar obligations of resident non-bank borrowers, slowed rapidly in 2018 as global central banks made progress in normalizing their monetary policy. It noted that lending to EM borrowers in US dollars grew at an annual rate of 8.5% at the beginning of 2018, but then slowed down to 4.4% by the end of September 2018. It said that several central banks in developed economies were normalizing their monetary policy through higher interest rates, an end to asset purchases and a reduction in the size of their balance sheets, which constrained GDP growth dynamics in EMs. As such, it noted that tighter U.S. monetary conditions resulted in an appreciation of the US dollar, which, in turn, put pressure on EM currencies. It added that this has led to capital outflows from EMs and to an increase in their foreign-currency debt servicing costs, given their weakened currencies. It said that the Argentinian peso and the Turkish lira were the most affected currencies by tighter global financial conditions. However, Fitch indicated that the subsequent shift to a more accommodative stance by global central banks since the beginning of this year has eased dollar liquidity, which would improve US dollar credit growth in EMs in 2019.

Source: Fitch Ratings

GCC

Banking sector supported by sound fundamentals

KAMCO indicated that banks in the Gulf Cooperation Council (GCC) posted a strong balance sheet and improving interest margins in 2018. It noted that the total assets of GCC banks grew by a compound annual growth rate of 7% during the past five years to $2.2 trillion at the end of 2018, driven by over $3 trillion in projects that are planned or underway, the governments' focus on developing their non-oil sectors, and efforts by central banks to keep interest rates at low levels and to maintain a stable economic environment. Further, it indicated that the net interest margin of the GCC banking sector grew by 10 basis points to 3.1% during the last three years, despite a decline in the loans-to-deposits ratio over the past two years to 81.8% last year. It added that the banks' net income grew by 13.2% to $37bn in 2018. However, it pointed out that the non-performing loans ratio rose from 5.4% in 2017 to 8% in 2018, mainly due to the implementation of the international accounting standard IFRS 9. It considered that optimization and efficiency are key performance requirements, given that the GCC is one of the most overbanked regions. In this context, it noted that the nominal increase in the banks' income outpaced the growth in their expenses in 2018, reflecting an improvement in the banks' efficiency. Overall, it indicated that GCC banks face downside risks that include the excessive exposure to the real estate sector and the challenging economic environment, which are forcing the banks to look to alternative revenue-generating opportunities or ways to optimize costs.

Source: KAMCO

UAE

Agency takes rating actions on three banks

Fitch Ratings affirmed the long-term Issuer Default Ratings (IDRs) of Abu Dhabi Commercial Bank (ADCB) and Al Hilal Bank (AHB) at 'A+', with a 'stable' outlook. It attributed the affirmation to the completion of the merger between ADCB and Union National Bank (UNB), as well as to the acquisition of AHB by ADCB. It noted that the affirmation of ADCB's rating reflects the bank's high systemic importance that increased as a result of the merger. It added that the bank's IDRs are driven by the UAE's strong capacity and willingness to support banks. It indicated that it changed AHB's support assessment from sovereign to institutional, as the bank is now owned by ADCB. In parallel, the agency maintained the Viability Rating (VR) of ADCB at 'bb+' and the VR of AHB at 'b+'. It said that ADCB's VR is supported by its solid domestic franchise, adequate capitalization, low level of reported impaired loans and reasonable profitability, while it is constrained by the bank's high exposure to the real estate sector and large borrower concentration. It estimated that the bank's real estate exposure decreased from about 40% of gross loans pre-merger to about 30% post-merger. Further, Fitch affirmed the IDRs of UNB at 'A+', but it downgraded the bank's VR from 'bbb-' to 'bb+'. It also withdrew the ratings following the merger as the bank ceased to exist as a separate legal entity. It said that AHB's ratings are unaffected by the merger, as the bank will continue to operate as a subsidiary of ADCB under its own brand.

Source: Fitch Ratings

JORDAN

Banks' ratings constrained by challenging operating environment

Fitch Ratings indicated that the operating environment in Jordan continues is weighing on banks due to subdued GDP growth, elevated unemployment rates, a difficult but slowly improving regional environment, and rising social tensions from fiscal consolidation measures. It said that the ratings of Jordanian banks are driven by their standalone credit profiles, which are correlated with and are constrained by the country's operating environment. It noted that the sector's impaired loans ratio is declining as banks continue to clean up their balance sheets from legacy impaired loans, but that the ratio increased at some banks in 2018 following the implementation of international accounting standard IFRS 9. The agency said that the net interest margins of some banks were under pressure in 2018, as tighter liquidity led to rising funding costs and high competition limited the ability of banks to re-price assets. However, it pointed out that the sector's pre-impairment operating profitability metrics are healthy and provide banks with solid buffers against a potential deterioration in asset quality, while preserving the banks' strong capitalization. In addition, it indicated that the sector's average capital adequacy ratio was 17.2% at end-June 2018, and considered it to be only adequate given the banks' elevated loan book concentration and zero percent risk weighting on local currency sovereign debt and on sovereign guaranteed exposures. It added that Jordanian banks have strong funding profiles and a comfortable stock of liquid assets. Further, Fitch considered that the sovereign's propensity to support the banking system is constrained by its weak financial flexibility and high reliance on grants and IMF support.

Source: Fitch Ratings

Oil prices to average $70 p/b in 2019

ICE Brent crude oil front-month prices have been gradually declining from $74.6 per barrel (p/b) on April 24, 2019, their highest level so far this year, to $70.4 p/b on May 8. The decrease in oil prices was mainly due to concerns about an increase in trade tensions between the U.S. and China; while oil supply concerns stemming from U.S. sanctions on Iran and Venezuela, as well as from the OPEC production cut agreement, prevented a steeper decline in oil prices. Further, oil prices were supported by record high Chinese oil imports in April 2019 and by escalating tensions between the U.S. and Iran, which was reflected by the U.S. decision to send warships to the Middle East region. In parallel, Bank of America Merrill Lynch (BofAML) forecast oil prices to average $70 p/b in 2019, as it expected Iranian oil exports to fall below 500,000 barrels per day in the second half of 2019. It considered that there is a lower chance of a massive increase in U.S. shale output in response to the OPEC cuts and the tightening oil market. In parallel, BofAML considered that the Kingdom requires high oil global prices to cover a fiscal breakeven oil price that it estimated at $93 p/b this year. As such, it expected Saudi Arabia to gradually increase its oil production in the near term.

Source: BofAML, Oilprice, Thomson Reuters

Middle East's jewelry demand up 2% in first quarter of 2019

Demand for jewelry in the Middle East totaled 45.6 tons in the first quarter of 2019, constituting an increase of 1.9% from 44.7 tons in the same quarter last year, and accounting for 8.6% of global jewelry demand. Consumption of gold jewelry in the UAE reached 10.7 tons, equivalent to 23.4% of the region's demand in the covered quarter. Iran followed with 9.6 tons (21.1%), then Saudi Arabia with 8.3 tons (18.1%), Egypt with 6.9 tons (15.2%) and Kuwait with 3.8 tons (8.3%).

Source: World Gold Council, Byblos Research

Iraq's oil exports down 1% in April 2019

Preliminary figures show that Iraq's crude oil exports totaled 104 million barrels in April 2019, constituting a marginal decrease of 0.7% from 104.7 million barrels in March 2019. They averaged 3.47 million barrels per day (b/d) in April 2019 compared to 3.38 million b/d in the previous month. Crude oil exports that originated from the country's central and southern fields reached 100.6 million barrels in April, followed by shipments from the Kirkuk fields with 2.6 million barrels and those from the northern Qayara oil field with 783,844 barrels. Oil export receipts stood at $7bn in April 2019, up by 4.5% from $6.7bn in March.

Source: Iraq Ministry of Oil, Byblos Research

Renewable energy to increase in the Middle East

Fitch Ratings indicated that several governments in the Middle East have set ambitious targets for the development of renewable energy in the coming years. It noted that renewable energy represents a small share of the region's total energy mix, with hydropower accounting for the largest share of about 2%. It considered that governments intend to add new power generation capacity and to diversify away from hydrocarbons, mainly through the use of solar PV and wind power. However, it noted that challenges for solar PV and wind power generation in the region include the difficult operating environment and the ability of the grids to cope with the additional intermittent capacity.

Source: Fitch Ratings

Base Metals: Nickel prices reach three-month low amid escalating trade tensions

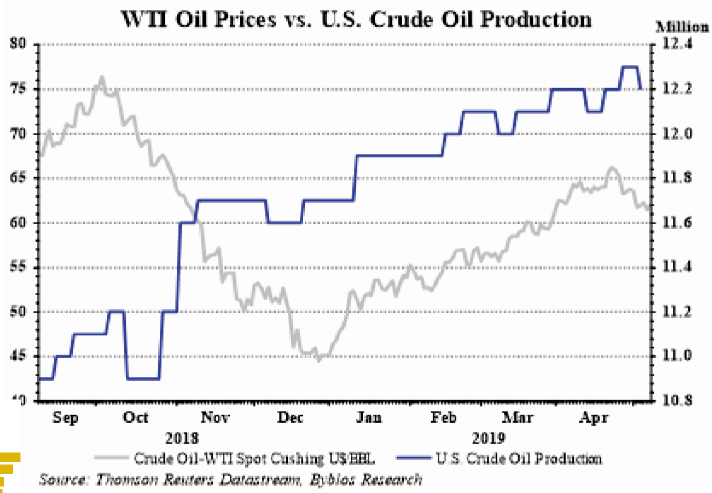
The LME cash price of nickel reached $11,994 per metric ton on May 7, 2019, up by 13.1% from $10,605 per ton at the end of 2018. The rise in nickel prices was mainly driven by concerns over supply tightness as LME-nickel inventories reached their lowest levels since 2013, as well as by expectations of a supply deficit in the nickel market this year. Further, a recovery in demand for nickel, notably for its use in electric vehicle batteries, as well as an ease in the U.S.-China trade tensions in the first quarter of the year supported prices. However, the metal's price decreased to $11,904.5 per ton on May 8, its lowest level in three months, due to renewed concerns about the global economy and about demand from top metals consumer China, following the U.S. President's threat to increase tariffs on $200bn worth of Chinese imported goods from 10% to 25%. In parallel, the International Nickel Study Group projected global demand for nickel to increase from 2.33 million tons in 2018 to 2.46 million tons in 2019. It also expected global output of nickel to rise from 2.18 million tons last year to 2.38 million tons this year.

Source: International Nickel Study Group, Thomson Reuters

Precious Metals: Gold prices to increase by 3.5% to $1,314 per ounce in 2019

Gold prices traded near their highest level in over a week and closed at $1,282.7 per troy ounce on May 8, 2019, supported by renewed concerns about the U.S.-China trade dispute and its potential impact on global growth, which fuelled demand for the safe-haven asset. The metal's price is expected to continue to strengthen in coming months, supported by lower U.S. Treasury yields and subdued global economic activity. Overall, gold prices are projected to increase by 3.5% to $1,314 an ounce in 2019. In parallel, global gold demand rose by 7% year-on-year to 1,053.3 tons in the first quarter of 2019, due to an annual increase of 3.4% in investment demand, a rise of 68% in net purchases by central banks, and a 1% growth in jewelry consumption, which more than offset the 3% decline in demand from the technology sector. Gold jewelry accounted for 50.4% of total demand in the covered period, followed by investment demand with 28.3% of the total, net purchases by central banks (13.8%) and demand from the technology sector (7.5%). In parallel, global gold supply was nearly unchanged year-on-year at 1,150 tons in the first quarter of 2019, with mine supply representing 74.1% of the total and recycled gold accounting for around 25% of global supply.

Source: World Gold Council, Thomson Reuters, Byblos Research



Source: Thomson Reuters Datastream, Byblos Research

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								
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-5.2	36.9*	2.2	-	-	-	-9.1	-
Angola	B-	B3	B	-	B-								
	Negative	Stable	Stable	-	Stable	2.4	88.1	45.7**	50.5	26.7	102.2	1.3	1
Egypt	B	B2	B+	B+	B+								
	Stable	Stable	Stable	Stable	Positive	-9.5	92.6	37.1	51.8	45	115.4	-2.4	3
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3	61.1	31.8**	27.2	3.6	146.2	-6.5	4.1
Ghana	B	B3	B	-	BB-								
	Stable	Stable	Stable	-	Stable	-7	59.6	27.9**	38.9	31.9	121.8	-3.2	6
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-4	52.2	35.9**	-	-	-	-3.4	-
Libya	-	-	B	-	B-								
	-	-	Stable	-	Stable	-7.4	-	-	-	-	-	2	-
Dem Rep	CCC+	B3	-	-	CCC								
Congo	Stable	Negative	-	-	Stable	-0.5	15.7	12.9**	4.4	3	104.1	-0.5	2.8
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Negative	Stable	Stable	-	Stable	-3.7	65.2*	33.2	30.6	7.4	93	-4.5	2.1
Nigeria	B	B2	B+	-	BB-								
	Stable	Stable	Stable	-	Stable	-4.5	28.4	8.8**	67.6	22.8	104.2	2.1	0.7
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-8.5	163.2	161.2	-	-	-	-11.5	-
Tunisia	-	B2	B+	-	BB-								
	-	Negative	Negative	-	Negative	-4.6	77	83.1	-	-	-	-11.2	-
Burkina Faso	B	-	-	-	B+								
	Stable	-	-	-	Stable	-4.7	43	23.8**	21	4.6	145.4	-7.5	2.8
Rwanda	B	B2	B+	-	B+								
	Positive	Stable	Stable	-	Stable	-2.6	40.7	40.1**	13.2	5.1	102.8	-7.8	2.9
Middle East													
Bahrain	B+	B2	BB-	BB	BB+								
	Stable	Stable	Stable	Stable	Stable	-8.4	100.2	189.9	201.7	22.3	327.6	-3.6	0.4
Iran	-	-	-	B+	BB-								
	-	-	-	Negative	Negative	-4.1	30.0	2.0	-	-	-	-0.4	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	-5.2	50.2	32.1	3.7	2.2	100.9	-6.7	1.0
Jordan	B+	B1	-	BB-	A								
	Stable	Stable	-	Negative	Stable	-4.0	94.8	72.1	63.6	9.4	151.0	-8.2	4.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Stable	Stable	Stable	Stable	9.5	17.8	45.8	32.8	0.55	87.9	7.4	-5.5
Lebanon	B-	Caa1	B-	B	B-								
	Negative	Stable	Negative	Negative	Stable	-11.7	157.8	191.3	136.8	50.1	136.2	-28.2	2.8
Oman	BB	Ba1	BB+	BBB-	BBB								
	Negative	Negative	Stable	Stable	Stable	-9.9	61.3	99.6	44.9	4.5	140.3	-8.7	1.5
Qatar	AA-	Aa3	AA-	AA-	A+								
	Stable	Stable	Stable	Stable	Stable	6.1	52.7	106.7	60.9	3.4	173.9	4.6	-1.0
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-7.9	23.7	30.4	8.0	1.2	36.9	3.5	0.3
Syria	-	-	-	-	C								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-0.8	19.2	68.7	-	-	-	5.9	-0.8
Yemen	-	-	-	-	CC								
	-	-	-	-	Negative	-5.1	54.7	18.1	-	-	-	0.7	

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	-1.8	48.5	81.7	-	-	-	-6.2	-
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-4.8	50.5	-	40.0	2.1	64.2	0.4	0.8
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.6	69.8	-	39.5	19.4	90.7	-2.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	0.5	21.9	-	25.7	4.7	87.4	0.6	1.5
Pakistan	B-	B3	B-	-	CCC								
	Stable	Negative	Stable	-	Negative	-6.5	72.1	30.4	50.1	28.3	144.3	-6.1	0.87
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Positive	Stable	Stable	-	Stable	0.1	20.5	-	26.0	2.0	100.8	3.9	1.9
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-2.9	36.6	-	25.8	4.2	95.1	-4.6	2.4
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	2.8	14.0	-	17.2	2.6	57.4	7.0	-1.3
Turkey	B+	Ba3	BB	BB-	B+								
	Stable	Negative	Negative	Negative	Negative	-3.6	29.1	-	84.3	5.9	176.4	-3.6	1.0
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-2.3	63.9	-	59.3	9.3	129.2	-3.7	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 estimates for 2018

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.25-2.50	01-May-19	No change	19-Jun-19
Eurozone	Refi Rate	0.00	10-Apr-19	No change	06-Jun-19
UK	Bank Rate	0.75	02-May-19	No change	20-Jun-19
Japan	O/N Call Rate	-0.10	25-Apr-19	No change	20-Jun-19
Australia	Cash Rate	1.50	07-May-19	No change	04-Jun-19
New Zealand	Cash Rate	1.50	08-May-19	Cut 25bps	26-Jun-19
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Mar-19	No change	13-Jun-19
Canada	Overnight rate	1.75	24-Apr-19	No change	29-May-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	18-Apr-19	No change	31-May-19
Malaysia	O/N Policy Rate	3.00	07-May-19	Cut 25bps	09-Jul-19
Thailand	1D Repo	1.75	08-May-19	No change	19-Jun-19
India	Reverse repo rate	6.00	04-Apr-19	Cut 25bps	06-Jun-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	28-Mar-19	No change	23-May-19
Turkey	Repo Rate	24.0	25-Apr-19	No change	12-Jun-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	01-Apr-19	No change	30-May-19
Mexico	Target Rate	8.25	28-Mar-19	No change	16-May-19
Brazil	Selic Rate	6.50	08-May-19	No change	19-Jun-19
Armenia	Refi Rate	5.75	30-Apr-19	No change	11-Jun-19
Romania	Policy Rate	2.50	02-Apr-19	No change	13-May-19
Bulgaria	Base Interest	0.00	01-May-19	No change	03-Jun-19
Kazakhstan	Repo Rate	9.00	15-Apr-19	Cut 25bps	03-Jun-19
Ukraine	Discount Rate	17.50	25-Apr-19	Cut 50bps	06-Jun-19
Russia	Refi Rate	7.75	26-Apr-19	No change	14-Jun-19

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (+961) 1 338 100
Fax: (+961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island – Sky Tower – Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293