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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Import-restrictive measures cover $747bn of trade merchandise

The World Trade Organization indicated that WTO members have put in place 102 new trade-restrictive measures between mid-October 2018 and mid-October 2019, down by 25.5% from 137 new restrictive measures applied between mid-October 2017 and mid-October 2018. Countries imposed on average of 8.5 trade-restrictive measures per month during the covered period, down from 11.4 measures per month between mid-October 2017 and mid-October 2018. The distribution of new trade-restrictive measures shows that import-related restrictions accounted for 79.4% of total measures, while export-related restrictions represented 18.6% of the total during the 12-month period. In parallel, the WTO said that its members imposed 120 new trade-liberalizing or facilitating measures during the covered period, relative to 162 new trade-facilitating measures between mid-October 2017 and mid-October 2018. As such, WTO members introduced on average 10 new trade-facilitating measures per month during the covered period, down from 13.5 monthly measures between mid-October 2017 and mid-October 2018. Import-related measures accounted for 86.7% of trade-facilitating procedures, while export-related measures represented the remaining 13.3%. Import-restrictive measures covered an estimated $747bn of trade merchandise, which is the highest amount recorded since October 2012 and is the equivalent of 3.84% of the value of world merchandise imports, while import-facilitating measures covered $544.7bn of global trade, or 2.8% of world merchandise imports.
Source: World Trade Organization

EMERGING MARKETS

Fixed income trading up 18% to $1.4 trillion in third quarter of 2019

Trading in emerging markets debt instruments reached $1,416bn in the third quarter of 2019, constituting a rise of 18% from $1,205bn in the third quarter of 2018 and an increase of 17% from $1,211bn in the second quarter of 2019. Turnover in local-currency instruments reached $803bn in the third quarter of 2019, up by 2% from $791bn in the third quarter of 2018 and by 21% from $663bn in the second quarter of 2019. In parallel, trading in Eurobonds stood at $610bn in the third quarter of 2019, up by 49% from the same quarter of 2018, and by 12% from $547bn in the preceding quarter. The volume of traded sovereign Eurobonds reached $326bn and accounted for 53% of total Eurobonds traded in the covered quarter, while the volume of traded corporate Eurobonds reached $263bn, or 43% of the total. In addition, turnover in warrants and options amounted to $2.9bn, while loan assignments stood at just under $100m in the third quarter of 2019. The most frequently-traded instruments in the covered quarter were Mexican fixed income assets with a turnover of $301bn, or 21% of the total, followed by securities from Brazil with $216bn (15%), and instruments from India with $149bn (10%). Other frequently-traded instruments consisted of fixed income securities from China at $86bn (6%), and from Argentina at $66bn (5%).
Source: EMTA

MENA

Stock markets up 9% in 2019

Arab stock markets improved by 8.7% and Gulf Cooperation Council equity markets grew by 6.7% in 2019, relative to expansions of 6.2% and 7.3%, respectively, in 2018. In comparison, global stocks increased by 23.7% and emerging markets equities grew by 16.6% in 2019. Activity on the Bahrain Bourse jumped by 20.4% in 2019, the Khartoum Stock Exchange surged by 20%, the Dubai Financial Market grew by 9.3%, the Saudi Stock Exchange increased by 7.2%, the Casablanca Stock Exchange and the Egyptian Exchange expanded by 7.1% each, the Boursa Kuwait improved by 3.6%, the Abu Dhabi Securities Exchange rose by 3.3%, and the Qatar Stock Exchange grew by 1.2%. In contrast, activity on the Beirut Stock Exchange regressed by 18.2% in 2019, the Muscat Securities Market decreased by 8%, the Damascus Securities Exchange declined by 5.7%, the Amman Stock Exchange contracted by 5%, the Iraq Stock Exchange retreated by 3.2%, the Tunis Bourse decreased by 2.1%, and the Palestine Exchange regressed by 0.6% in 2019.
Source: Local stock markets, Dow Jones Indices, Byblos Research

Economic freedom varies across Arab world in 2019

The Fraser Institute's 2019 Index of Economic Freedom in the Arab World shows that Jordan is the most economically-free country among 22 Arab states included in the survey with a score of 7.6 points. Bahrain and the UAE followed with 7.4 points each, then Lebanon (7.3 points), Oman and Qatar (7.2 points each), Palestine (7 points), Kuwait (6.8 points), and Morocco and Saudi Arabia (6.7 points each) as the 10 countries with the highest level of economic freedom in the Arab world. In contrast, Sudan (4.8 points), and Libya and Syria (4.3 points each) are the countries with the lowest level of economic freedom in the Arab region. The index evaluates individual economies on the basis of 52 variables that are divided into five broad factors of economic freedom that measure the Size of Government, Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. The rankings of eight Arab countries improved, six regressed and eight were unchanged from the 2018 survey. In parallel, the scores of 11 Arab countries improved, six regressed, and five were unchanged from the previous survey. Sudan ranked first on the Size of Government category, while Bahrain, Djibouti, Iraq and Qatar each had the highest score on the Access to Sound Money category. Also, the UAE came in first place on the Freedom to Trade Internationally, Oman ranked first on the Legal System & Property Rights categories, and Bahrain came in first place on the Regulation of Credit, Labor & Business category.
Source: Fraser Institute, Byblos Research

POLITICAL RISK OVERVIEW - December 2019

ALGERIA

The presidential elections took place on December 12 despite nationwide protests against the polls. Former Prime Minister Abdelmadjid Tebboune was elected president after receiving 58% of the votes. The Electoral Commission indicated that the turnout was 40%, but independent observers estimated it at 15%. Following his election, Mr. Tebboune offered a dialogue with protestors and vowed to push for a new constitution. Mr. Tebboune was sworn in on December 19, and he appointed former diplomat Abdelaziz Djerad as new Prime Minister. However, demonstrations continued, mainly in Algiers, against the new president, rejecting his offer of dialogue. In parallel, the army's Chief of Staff and the country's de facto ruler General Ahmed Gaid Salah died of a heart attack on December 23.

EGYPT

The Foreign Ministers of Egypt, Ethiopia and Sudan reported progress in talks to resolve the dispute over Ethiopia's construction of the Grand Ethiopian Renaissance dam on the Nile River. They intend to end the ongoing dispute by January 15, 2020, as the three countries have come closer to agreeing on how to operate the dam and fill the reservoir. President Abdel Fatah al-Sisi expressed growing concerns over Turkey's expanding ties with Libya's UN-backed Government of National Accord (GNA). Egypt protested to the UN Security Council about the agreements signed between Turkey and the GNA on military cooperation and maritime rights in the Mediterranean Sea. Jihadist insurgency and military counter-terrorism operations continued in Sinai, resulting in the deaths of at least seven persons.

ETHIOPIA

Ethnic violence continued, especially at universities in the Oromia and Gondar regions. In addition, a United Nations expert on freedom of speech advised authorities to revise the draft legislation against the use of hate speech and disinformation. He warned that the draft law could threaten freedom of expression and exacerbate ethnic tensions. Also, the Somali opposition coalition, the Forum for National Parties, accused Ethiopia of violating Somalia's territorial sovereignty and demanded the immediate withdrawal of all Ethiopian troops that are outside the framework of the African Union Mission to Somalia.

IRAN

Tensions between Iran and the U.S. escalated, as the U.S. responded to a series of attacks on its assets in Iraq with strikes on militants related to the paramilitary Popular Mobilization Units. Iran and the U.S. exchanged prisoners in Switzerland in early December. The U.S. announced new sanctions against key Iranian shipping and aviation entities. The Iranian government reported that it foiled two cyberattacks on its banking sector and on Iran's e-government infrastructure. The chair of the joint commission of the Joint Comprehensive Plan of Action expressed serious concerns about Iran's incremental violations of the nuclear deal.

IRAQ

Parliament accepted Prime Minister Adebl Abdul Mahdi's resignation following nationwide protests, which exacerbated the political paralysis in the country. The Iran-backed parliamentary bloc, Al-Binaa Alliance, proposed the governor of the Basra province Mr. Asaad al-Eidani for Prime Minister. But President Barham Salih refused to appoint Mr. al-Eidani and warned that he would consider resigning in case Parliament continues to nominate candidates who are not accepted by protesters. Protesters stormed the Iranian consulate in Najaf earlier in December. The U.S. sanctioned the leaders of the Iran-backed Popular Mobilization Units (PMU) for their roles in repressing the protests. Attacks on U.S. assets intensified, while the U.S. hit PMU-related bases in Iraq and Syria. Supporters and members of the PMU broke into the compound of the U.S. embassy in Baghdad.

LIBYA

The Libyan National Army (LNA) continued to make advances in its offensive to capture the capital city Tripoli from the UN-backed Government of National Accord (GNA), as UN-led efforts to promote a ceasefire between the two parties stalled. The head of the LNA, General Khalifa Haftar, urged his forces to advance towards the center of Tripoli in what he said would be the "final battle" to take the capital. The LNA gave GNA-affiliated forces 72 hours to leave Tripoli and the neighboring city of Sirte. The GNA Cabinet unanimously approved the implementation of the memorandum of understanding on security and military cooperation with Turkey that was signed in November.

SUDAN

The Sovereign Council established the committee that would oversee the removal from power of persons associated with former president Omar Al-Bashir, the recovery of embezzled money and the fight against corruption. The government and the rebel coalition Sudanese Revolutionary Front (SRF) initiated the third round of peace talks in South Sudan but failed to reach a deal, and extended talks until mid-February 2020. Separately, the government and the SRF groups of Darfur agreed on a roadmap to end the Darfur conflict, while authorities and rebels from central Sudan reached a peace agreement. Sudan and the United States agreed to upgrade their diplomatic relations by appointing ambassadors for the first time in 23 years. On December 20, the U.S. removed Sudan from its religious freedom blacklist.

SYRIA

The regime and Russian forces intensified their airstrikes and ground offensive in the northwest of Syria, taking more ground from rebels. The regime reported that its forces had retaken around 20 villages in the Maarat al-Numan city south of Idlib. The United Nations said that the regime's offensive had displaced over 235,000 civilians in December. Insurgencies persisted in areas under the control of Turkish-backed forces. Unidentified air strikes killed 10 pro-Iranian fighters in Deir al-Zour province. The U.S. President signed the Caesar Syria Civilian Protection Act, which enables the U.S. to sanction any person or entity that engages in economic activity with the Syrian regime.

TURKEY

Turkey continued to cooperate with Russia in the northeast of Syria. However, the country's relation with Russia was strained by intensified military operations from Russia and the Syrian regime in northwestern Syria, which displaced thousands and renewed the influx of refugees to Turkey. Relations with the U.S deteriorated as the latter formally banned the transfer of F-35 fighter jets to Turkey. Also, the U.S. Senate passed a resolution that recognizes as genocide the mass killings of Armenians in the Ottoman Empire. In parallel, President Recep Tayyip Erdoğan threatened to shut down the İncirlik Air Base and the Kürecik Radar Station that are used by U.S. and NATO forces. Parliament debated a bill that would authorize Turkey to send troops to Libya in support of the Government of National Accord.

YEMEN

The Hadi government and the UAE-backed Southern Transitional Council (STC) maintained a ceasefire following the signing of the Riyadh agreement in November, while de-escalation talks between the Saudi-led coalition and Huthi rebels continued. The Saudi government accused Huthi rebels of carrying an attack on a medical facility in the southern Saudi city of Jizan, the first cross-border attack since September. Also, the Hadi government and Huthi rebels exchanged prisoners in the Taiz Governorate, with the government releasing 60 Huthi rebels in exchange for 75 government-affiliated detainees. The U.S. navy announced that it seized in the Arabian Sea a shipment of Iranian missile parts that was bound for Yemen.

Source: International Crisis Group, Newswires

OUTLOOK

MENA

Growth to pick up to 2.8% in medium term

The World Bank estimated real GDP growth in the Middle East & North Africa (MENA) region to have decelerated from 0.8% in 2018 to 0.1% in 2019. It attributed the slowdown to a sharp contraction in Iran's economy following the imposition of U.S. sanctions, as well as to geopolitical and diplomatic tensions, and to weaker global economic activity that weighed on the demand for oil and other exports from the region. It estimated real GDP in MENA oil exporters to have contracted by 0.8% last year following a growth rate of 0.1% in 2018, reflecting lower hydrocarbon output under the extended OPEC agreement, weaker external demand and the contraction in Iran, which have offset the economic impact of robust public spending in some oil exporters. It added that growth in Gulf Cooperation Council (GCC) countries decelerated from 2% in 2018 to 0.8% in 2019. Further, it estimated real GDP growth in oil-importing economies at 4% in 2019, nearly unchanged from 2018, driven by improved conditions in Egypt and better tourism activity in Morocco and Tunisia.

In parallel, the World Bank anticipated growth in the MENA region to accelerate to 2.4% in 2020, supported by increased infrastructure investment in GCC economies and the expected stabilization of Iran's economy. It expected growth to average 2.8% annually in the 2021-22 period, amid sustained reform efforts and strengthening domestic demand in key economies. It projected economic activity in oil-exporting countries to accelerate by 2% in 2020 and 2.3% in 2021. It anticipated Iran's real GDP to stagnate in the fiscal year that ends in March 2020 and to grow by 1% in FY2020/21, following a contraction of 8.7% in FY2018/19, if the impact of U.S. sanctions fades. It projected growth in GCC countries at 2.2% in 2020 and 2.6% in 2021, driven by planned diversification programs, longer-term infrastructure programs, and measures to ease restrictions on foreign investments. Further, it forecast real GDP growth in oil-importing economies at 4.4% in 2020 and 4.6% in 2021, mainly due to sustained strong growth in Egypt and Djibouti. It considered that risks to the MENA region's outlook include heightened geopolitical tensions and political uncertainty, volatility in oil prices, renewed escalation of global trade tensions, and volatile external financing conditions.

Source: World Bank

SAUDI ARABIA

Budget for 2020 aims to restore fiscal prudence

Bank of America Merrill Lynch (BofAML) indicated that Saudi Arabia's 2020 budget puts public spending on a downward trend over the medium term, which restores fiscal prudence following two years of expansionary budgets. It noted that the budget targets a deficit of 6.4% of GDP in 2020, relative to a deficit of 4.6% of GDP in 2019, due to lower public revenues despite spending cuts. However, it expected the deficit to reach 7.8% of GDP in 2020, as it projected oil prices at $60 per barrel (p/b) this year relative to $64 p/b in the 2020 budget. It stressed the need to contain spending even if oil prices exceed the budgeted levels. It pointed out that the change in the fiscal stance, along with supportive global oil prices and the implementation of reforms, would help narrow the fiscal deficit to mid-single digits over the medium term.

Further, it projected the government debt level to increase from 23.9% of GDP in 2019 to 27.7% of GDP in 2020. It expected gross external issuance at $14bn in 2020, in line with external issuance last year, in case oil prices average $60 p/b and external borrowing covers 45% of the government's financing needs. It added that the wider budgeted deficit and the large amortizations of domestic debt could push both net domestic borrowing and drawdown from government balances at SAMA to multi-year highs. It noted that the government will face increased external debt maturities from 2021 onwards.

BofAML anticipated that large domestic investments in mega-projects under the Public Investment Fund would offset the planned cuts in capital expenditures. It projected mega-projects to add up to two percentage points to real non-hydrocarbon growth in the medium term. It expected non-hydrocarbon growth to stabilize at about 2.7% in 2020 before accelerating to 3% annually over the 2021-23 period. Overall, it anticipated the Kingdom's real GDP growth to increase from 0.4% in 2019 to 1.5% in 2020 and to 2.4% by 2023.

Source: Bank of America Merrill Lynch

ANGOLA

External and domestic factors to constrain economic recovery

The International Monetary Fund indicated that persistent fluctuations in oil prices, global trade tensions, continued fiscal consolidation, delays in the implementation of structural reforms and lower-than-expected domestic oil production are weighing on the recovery of Angola's economic activity. As such, it estimated that the economy contracted by 1.1% in 2019, with hydrocarbon output shrinking by 5% and non-hydrocarbon sector activity growing by 0.6%. It also reduced its growth forecast for 2020 to 1.2% from 2.8% previously, with hydrocarbon output expanding by 1.3% and non-hydrocarbon sector activity increasing by 1.1%. It forecast growth to accelerate to 2.8% in 2021 and 3.2% in 2022 due to the positive effects of exchange rate liberalization on non-hydrocarbon GDP, as well as to a slowly rising hydrocarbon production. Further, it anticipated the inflation rate to average 24% in 2020 compared to an average of 17.2% in 2019, following adjustments in regulated prices and rapid kwanza depreciation.

In parallel, the Fund indicated that fiscal consolidation is on track, while it considered that the 2020 draft budget addresses the challenging external environment and will help reverse the rise in the public debt level. It forecast a fiscal surplus of 0.8% of GDP in 2020, nearly unchanged from 2019. It expected the surplus to reach 1.9% of GDP by 2022, due to inflated hydrocarbon revenues from the liberalization of the currency, and in case non-hydrocarbon revenues grow amid tax reforms and higher excises. It noted that the public debt level increased from 89% of GDP at the end of 2018 to 111% of GDP at end-2019 as the depreciation of the currency negatively affected the external debt that accounts for a large portion of the debt stock. It projected the public debt level to regress to 102% of GDP at end-2020.

Further, the IMF indicated that the outlook for Angola's external position has improved following the liberalization of the exchange rate. It projected the current account to remain in surplus, but to narrow from 3.3% of GDP in 2019 to 0.5% of GDP in 2020 due to lower oil prices and production.

Source: International Monetary Fund

SUDAN

Economic stability requires critical reforms

The International Monetary Fund indicated that Sudan's economic conditions are challenging amid a contracting economy, large fiscal and external imbalances, elevated inflation rates, an overvalued currency and low access to external financing. It estimated economic activity to have retreated by 2.5% in 2019 following a contraction of 2.3% in 2018. It added that the inflation rate reached 60% in November 2019, while the parallel exchange rate continues to depreciate rapidly. Also, it said that the fiscal deficit widened from 7.9% of GDP in 2018 to 9.3% of GDP in 2019 due to substantial fuel subsidies and low public revenues. It pointed out that the elevated external debt level and large arrears block financing from international donors, while the prospects for securing external financing from bilateral donors are uncertain. The Fund considered that Sudan's economic outlook is unfavorable in the absence of policy adjustments and comprehensive reforms. But it indicated that the political changes in Sudan provide an opportunity to implement critical reforms that address major macroeconomic imbalances. It considered that authorities should liberalize the exchange rate, increase revenues and gradually phase out fuel subsidies in order to re-establish macroeconomic stability and support growth. It encouraged authorities to implement structural reforms that reduce corruption, as well as improve governance and the business environment. Further, the IMF welcomed the authorities' engagement with international partners to secure support for debt relief and the delisting of Sudan from the U.S. list of countries that sponsor terrorism, which would pave the way for foreign investments and funding.

Source: International Monetary Fund

PAKISTAN

External position improves under IMF program

The Institute of International Finance considered that Pakistan has made significant progress under the program related to the $6bn Extended Fund Facility that the International Monetary Fund approved in July 2019. It pointed out that the country's external position is improving due to tighter monetary policy, the sharp depreciation of the rupee and lower global oil prices. It said that the current account deficit narrowed, as imports declined by 23% year-on-year in the first four months of the fiscal year that ends in June 2020, while exports were subdued. It expected the current account deficit to narrow from 4.9% of GDP in FY2018/19 to 2.1% of GDP in FY2019/20, as it anticipated exports to increase due to improved competitiveness and a pickup in economic activity. As a result, it indicated that Pakistan's foreign currency reserves grew from $8.8bn at the end of June 2019 to $10.6bn at end-November. It projected reserves to reach $17.8bn by the end of the IMF program in June 2022, driven by a narrower current account deficit, high rollover of short-term debt, increased private capital inflows, as well as by disbursements from multilateral creditors. In parallel, it noted that Pakistan's gross external financing needs are equivalent to about 9% of GDP in FY2019/20. It estimated that the government needs to repay $18bn, or 6% of GDP in external debt in FY2019/20. However, it said that a large portion of the external debt is owed to China and GCC countries, which makes it easier for authorities to renegotiate and refinance this part of the debt in case of need.

Source: Institute of International Finance

ARMENIA

Economy to grow by 4.5% yearly in medium term

The International Monetary Fund indicated that Armenia's economic performance is strong with sound growth rates, low inflation rates, a stable financial system, and improving external and fiscal buffers. It estimated real GDP growth at 6.5% in 2019 driven by strong private consumption, while it expected economic activity to expand by 5% in 2020 and to grow by around 4.5% over the medium term, in line with the economy's growth potential. It projected the average inflation rate to increase from 1.6% in 2019 to 2.5% in 2020 as the impact of lower food prices fades. It considered that the Central Bank of Armenia's (CBA) current policy stance is appropriate amid favorable conditions in the foreign currency market and still strong lending growth. In parallel, it said that the country's fiscal position has been better than expected, as it estimated that the fiscal deficit narrowed from 1.8% of GDP in 2018 to 1.5% of GDP in 2019 amid strong economic growth, and higher revenues from the value added, income and excise taxes. However, it pointed out that the under-execution of foreign-financed capital spending remains a concern. It expected the deficit to reach 2.3% of GDP in 2020, in case capital spending increases. It considered that the deficit, despite widening, would still reduce the public debt level and support economic growth. Further, the IMF projected the current account deficit to narrow from 9.4% of GDP in 2018 to 6% of GDP in 2024, in case exports increase. Consequently, it forecast foreign currency reserves to rise from $2.4bn at the end of 2020 to $2.7bn by 2024.

Source: International Monetary Fund

ETHIOPIA

IMF program to address hard currency shortages

The International Monetary Fund indicated that its $2.9bn financial package for Ethiopia, which it will disburse over three years, aims to support the authorities' economic program and catalyze concessional donor financing. It pointed out that the program intends to permanently address foreign currency shortages and narrow the spread between the official and parallel exchange rates through greater exchange rate flexibility and tighter monetary policy. It noted that, under the program, a decrease in infrastructure projects that are reliant on capital imports, and the implementation of structural reforms, would help address external vulnerabilities. It also said that the program will strengthen the oversight and management of state-owned enterprises in order to contain debt vulnerabilities and ensure financial stability. It added that authorities intend to increase public revenues and improve the efficiency of public investments to allow for higher infrastructure spending without affecting debt sustainability. Also, it indicated that the program will include reforms to the financial sector to support private investment and modernize the monetary policy framework. In parallel, Fitch Ratings considered that Ethiopia's agreement with the IMF would support the country's external position that is constrained by the low level of foreign currency reserves. It said that a more flexible exchange rate could help address foreign currency shortages, but it considered that authorities need to implement fiscal, structural and monetary reforms in order to have durable gains to external finances. It added that exchange rate reforms could create several challenges to the external position, including higher inflation and public debt level.

Source: International Monetary Fund, Fitch Ratings

AFRICA

WAEMU economies increase monetary autonomy

S&P Global Ratings considered that the announced reforms to the framework of the West African Economic & Monetary Union's (WAEMU) CFA franc will not have an immediate impact on the sovereign ratings of the WAEMU countries that it rates. It noted that the reforms stipulate that the CFA franc will be renamed the "eco" in 2020, that the WAEMU countries will no longer be required to deposit 50% of their reserves at the French Treasury, and that France will withdraw its oversight of the currency union. However, it indicated that the "eco" will remain pegged to the euro, and that France will maintain its guarantee of unlimited convertibility from "eco" to the euro. The agency anticipated that retaining the fixed exchange rate to the euro will help contain inflation in WAEMU economies, especially during periods of political instability and fluctuations in commodity prices. It said that the guarantee of unlimited convertibility also supports the stability of the exchange rate. In parallel, Standard Chartered Bank pointed out that the changes to the CFA franc framework are the region's most significant currency reforms since the franc was established in 1945. It noted that the announced set of reforms address the increasing calls for greater monetary autonomy of WAEMU countries from France. It anticipated that the economies of the Central African Economic and Monetary Community would also likely implement similar reforms to their currency arrangement with France.

Source: S&P Global Ratings, Standard Chartered Bank

ANGOLA

Recapitalization of banks to trigger banking sector's consolidation

Fitch Ratings indicated that the Banco Nacional de Angola (BCA) gave domestic banks until the end of June 2020 to address any capital shortfalls identified in the asset quality review that the BCA concluded in September 2019. It said that the BCA did not disclose information about the size of the capital shortfalls, but it noted that the capitalization of Angolan banks is weak amid large uncovered impaired loans and single-name loan concentrations. It considered that the BCA's deadline for the recapitalization of Angolan banks is tight and that not all banks will be able to meet their capital needs. It added that the banks' imminent access to new and large amounts of capital would be difficult, given the fragmented shareholding structures of some privately-owned banks and the uncertainty about the willingness of foreign banks to support their Angolan subsidiaries. As a result, it anticipated that the banks' difficulties to comply with the deadline would lead to consolidation in the banking sector or to the closure of some banks in case they fail to attract new capital. It expected consolidation to be credit positive for the sector if weaker banks merge into larger entities and further improve their capital position. But it cautioned that mergers among the larger private-sector banks would create further concentration risks. In parallel, the agency anticipated that the state-owned Banco de Poupanca e Credito (BPC), the largest bank in the country, will show the highest capital shortfall. It projected the BPC's recapitalization needs to reach about $2bn, which, in turn, could raise Angola's already elevated public debt level. As a result, it expected the BCA to allow some flexibility related to the timing of BPC's recapitalization.

Source: Fitch Ratings

IRAQ

Banks' NPLs ratio at 13% at end-March 2019

The Central Bank of Iraq (CBI) indicated that Iraqi banks are adopting a conservative stance based on the banking sector's indicators for the first quarter of 2019. It said that the sector's loans-to-deposits ratio regressed from 58% at the end of March 2018 to 52% at end-March 2019, below the CBI's ceiling of 70%, which reflects the banks' sufficient liquidity to weather sudden deposit withdrawals. It also noted that the ratio of private sector deposits at banks to broad money supply (M2) slightly increased from 56% at the end of March 2018 to 57% at end-March 2019, reflecting improved confidence in the banking sector. It pointed out that total deposits increased by 13.9% at the end of March 2019 from a year earlier, with current accounts representing 70% of total deposits, followed by saving accounts (16.3%), and fixed-term deposits (13.7%). In parallel, the CBI indicated that the banks' return on assets regressed from 0.2% on an annualized basis in the first quarter of 2018 to 0.13% in the first quarter of 2019, while their return on equity declined from 2.12% on an annualized basis in the first quarter of 2018 to 1.04% in the first quarter of 2019. It attributed the deterioration in the banks' profitability metrics to the narrowing of the spread between the exchange rate at the CBI's window market and the market exchange rate, as well as to slower lending activity. Further, it said that the non-performing loans (NPLs) ratio increased from 11.9% at end-March 2018 to 12.9% at end-March 2019. It indicated that banks should take adequate measures to contain the rise in NPLs and to safeguard financial stability.

Source: Central Bank of Iraq, Byblos Research

NIGERIA

Decline in NPLs ratio is credit positive for banks

Moody's Investors Service considered that the decline in the non-performing loans (NPLs) ratio in Nigeria's banking sector from 14.1% at the end of October 2018 to 6.6% at end-October 2019, is credit positive for the banks. It attributed the decrease in NPLs in the second half of 2019 mainly to the banks' write-off of some of their provisioned NPLs, as well as to the increase in lending activity to meet the Central Bank of Nigeria's new minimum loans-to-deposits ratio requirement. It indicated that lower NPLs would reduce the loan-loss provisions that banks need to cover these problem loans, which, in turn, will support their profitability. It pointed out that the banks' profitability has weakened in previous years due to the high provisioning costs, which constrained their capacity to build up capital buffers. However, Moody's said that the banks' asset quality remains vulnerable to risks stemming from the cyclical hydrocarbon sector, which accounted for about 30% of the banks' loan portfolio as of June 2019. It also noted that foreign currency-denominated loans represented 42.6% of the banking sector's loan book as of June 2019, which exposes the banks' unhedged clients to the fluctuations in the exchange rate of the naira. In addition, it said that corporate leverage increased, which limits the borrowers' capacity to repay their debt. Further, the agency expected that the improvement in the asset quality of banks to be constrained by Nigeria's weak operating environment.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Brent oil prices down 10% to $64 p/b in 2019

ICE Brent crude oil front-month prices averaged $64.2 per barrel (p/b) in 2019, constituting a decline of 10.4% from $71.6 p/b in 2018 and relative to an average of $54.8 p/b in 2017. Oil prices traded between a low of $55 p/b in early January 2019 and a high of $75 p/b in April, resulting in a $20 p/b range, which is the narrowest range since 2003. However, prices posted their largest single-day increase since 2008 of $9 p/b on September 16, 2019, the first day of trading after the attack on energy installations in Saudi Arabia. Overall, rising U.S. oil production and trade tensions between the U.S. and China have contained the upward pressure on prices last year from geopolitical risks in the Middle East, sanctions on Iran and Venezuela, and OPEC's production cut agreement. In parallel, prices averaged $65.3 p/b in December 2019, the highest average since May 2019, and constituted increases of 4.1% from $62.7 p/b in November 2019 and 13.8% from $57.3 p/b in December 2018. The increase in December was mainly due to OPEC's decision to deepen its oil production cuts by 500,000 barrels per day (b/d) until March 2020, as well as to higher optimism about the global economic outlook in 2020. Further, oil prices traded at around $67 p/b in the first week of January 2020, and closed at nearly $69 p/b on January 6, following the U.S. air strike in Baghdad that targeted Iranian General Qasem Soleimani. But prices decreased to $65.4 p/b on January 8 following U.S. President Donald Trump's press conference that showed signs of de-escalation. Brent oil prices are forecast to average $69 p/b in the first quarter of 2020.

Source: U.S. EIA, Citi Research, Refinitiv, Byblos Research

Iraq's oil exports up 1% in December 2019

Preliminary figures show that Iraq's crude oil exports totaled 106.3 million barrels in December 2019, constituting an increase of 1.2% from 105 million barrels in November 2019. They averaged 3.4 million barrels per day (b/d) in December 2019 compared to an average of 3.5 million b/d in the previous month. Oil exports from the central and southern fields reached 103 million barrels in December, while shipments from the Kirkuk fields totaled 2.8 million barrels. Oil export receipts stood at $6.7bn in December 2019, up by 6.3% from $6.3bn in November of 2019.

Source: Iraq Ministry of Oil, Byblos Research

Steel output up 3% in first 11 months of 2019

Global steel production reached 1.68 billion tons in the first 11 months of 2019, up by 2.7% from 1.64 billion tons in the same period of 2018. Steel production in China totaled 904.2 million tons and accounted for 53.7% of global output. India followed with 102 million tons (6.1%), then Japan with 91.5 million tons (5.4%), and the U.S. with 80.6 million tons (4.8%).

Source: World Steel Association, Byblos Research

Qatar to supply Kuwait with 3 million tons of LNG per year over 15 years

National petroleum companies Qatar Petroleum and Kuwait Petroleum Corporation signed a 15-year sale and purchase agreement, under which Qatar will supply Kuwait with up to three million tons of Liquefied Natural Gas (LNG) per year. Qatar's LNG deliveries to the new LNG terminal at Al-Zour Port in Kuwait will begin in 2022. The deal aims to help Kuwait meet its growing energy needs, particularly in the power generation sector, and would contribute to reducing its carbon emissions.

Source: Refinitiv

Base Metals: Copper prices down 8% in 2019

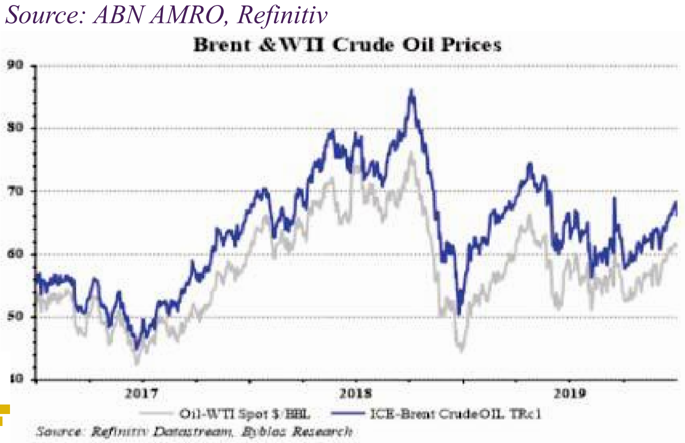
LME copper cash prices averaged $6,009 per metric ton in 2019, constituting a decline of 8% from an average of $6,527 per ton in 2018, mainly due to the prolonged global trade tensions. However, prices grew by 7% from $5,790 per ton on December 3, 2019 to $6,196 a ton on December 30, their highest level since May 6, 2019. The rise in prices was mainly driven by the ease in trade tensions, as the U.S. and China reached an agreement on the first phase of a trade deal, as well as by the expansion of China's manufacturing activity. In addition, prices were supported by a decline in copper output from Chile, the world's largest producer of the metal, along with a decrease in copper inventories. In parallel, the latest available figures show that global demand for refined copper was 18.3 million tons in the first nine months of 2019, up by 0.3% year-on-year, as Chinese demand grew by about 2.8%, while demand from the rest of the world decreased by around 2%. On the supply side, global refined copper production reached 17.9 million tons in the first nine months of 2019, nearly unchanged annually, amid lower output from Chili, India, Japan, Peru, the U.S., Zambia, and some European countries. This was offset by higher production in Australia, Brazil, China, Iran and Poland. Refined copper output grew by 11% in Oceania and by 3.5% in Asia, while it declined by 9% in Africa, by 8% in Latin Americas, and by 2.5% in each of North America and Europe.

Source: International Copper Study Group, Refinitiv

Precious Metals: Gold prices to reach $1,600 per ounce by end-2020

Gold prices averaged $1,393 per troy ounce in 2019, constituting an increase of 9.7% from an average of $1,269 per ounce in 2018. Prices were mainly supported by increased investors' holdings of gold Exchange Traded Funds amid lower U.S. interest rates, as well as by the continued purchase of the metal by central banks worldwide. Prices traded at a low of $1,268 per ounce and a high of $1,549 an ounce in 2019. Further, the metal's price increased by around 3% in the first week of 2020 to a near seven-year high of $1,569.7 per ounce on January 7 and closed at $1,568.7 an ounce on January 8, largely driven by escalating tensions between the U.S. and Iran. In fact, the killing of Iranian General Qassem Soleimani by the U.S. and the resulting concerns of a military confrontation between the two countries fuelled investors' demand for the safe haven asset. Gold prices are projected to reach $1,600 per ounce by end-2020, supported by expectations of additional cuts in U.S. interest rates this year, a weaker US dollar, heightened geopolitical tensions, uncertainties related to the 2020 U.S. presidential elections, and risks of a disorderly Brexit.

Source: ABN AMRO, Refinitiv



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	Negative	-	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	Negative	Negative	-	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
Côte d'Ivoire	-	B3	B+	-	B+								
	-	Stable	Positive	-	Stable	-4	52.2	35.9**	-	-	-	-3.4	-
Libya	-	-	-	-	B-								
	-	-	-	-	Stable	-7.4	-	-	-	-	-	2	-
Dem Rep	CCC+	Caa1	-	-	CCC								
Congo	Positive	Stable	-	-	Stable	-0.5	15.7	12.9**	4.4	3	104.1	-0.5	2.8
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-3.7	65.2*	33.2	30.6	7.4	93	-4.5	2.1
Nigeria	B	B2	B+	-	BB-								
	Stable	Negative	Negative	-	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+								
	Stable	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+								
	Positive	Stable	Stable	Negative	Stable	-8.4	100.2	189.9	201.7	22.3	327.6	-3.6	0.4
Iran	-	-	-	B	BB-								
	-	-	-	Stable	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-	B+	BB+								
	Stable	Stable	Stable	Stable	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	CCC	Caa2	CC	C+	B-								
	Negative	UR****	-	Negative	Negative	-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	Negative	-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								
	-	-	-	-	Stable	-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	-	Ba3	BB-	-	B-								
	-	Stable	Stable	-	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	Positive	Stable	-	Stable	0.5	21.9	-	25.7	4.7	87.4	0.6	1.5
Pakistan	B-	B3	B-	-	CCC								
	Stable	Stable	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	Positive	-	Stable	0.1	20.5	-	26.0	2.0	100.8	3.9	1.9
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Negative	-2.9	36.6	-	25.8	4.2	95.1	-4.6	2.4
Russia	BBB-	Baa3	BBB	-	BBB-								
	Stable	Stable	Stable	-	Stable	2.8	14.0	-	17.2	2.6	57.4	7.0	-1.3
Turkey	B+	B1	BB-	BB-	B+								
	Stable	Negative	Stable	Negative	Negative	-3.6	29.1	-	84.3	5.9	176.4	-3.6	1.0
Ukraine	B	Caa1	B-	-	B-								
	Stable	Stable	Stable	-	Stable	-2.3	63.9	-	59.3	9.3	129.2	-3.7	1.0

** Central Government*
*** External debt, official debt, debtor based*
**** CreditWatch negative*
***** Under Review for Downgrade*
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	1.50-1.75	11-Dec-19	No change	29-Jan-20
Eurozone	Refi Rate	0.00	12-Dec-19	No change	23-Jan-20
UK	Bank Rate	0.75	19-Dec-19	No change	30-Jan-20
Japan	O/N Call Rate	-0.10	19-Dec-19	No change	21-Jan-20
Australia	Cash Rate	0.75	03-Dec-19	No change	04-Feb-20
New Zealand	Cash Rate	1.00	13-Nov-19	No change	12-Feb-20
Switzerland	3 month Libor target	-1.25-(-0.25)	12-Dec-19	No change	19-Mar-20
Canada	Overnight rate	1.75	04-Dec-19	No change	22-Jan-20
Emerging Markets					
China	One-year Loan Prime Rate	4.15	20-Dec-19	No change	20-Jan-20
Hong Kong	Base Rate	2.00	31-Oct-19	Cut 25bps	N/A
Taiwan	Discount Rate	1.375	19-Dec-19	No change	N/A
South Korea	Base Rate	1.25	29-Nov-19	No change	17-Jan-20
Malaysia	O/N Policy Rate	3.00	05-Nov-19	No change	22-Jan-20
Thailand	1D Repo	1.25	18-Dec-19	No change	28-Mar-20
India	Reverse repo rate	5.15	05-Dec-19	No change	06-Feb-20
UAE	Repo rate	2.00	31-Oct-19	Cut 25bps	N/A
Saudi Arabia	Repo rate	2.25	30-Oct-19	Cut 25bps	N/A
Egypt	Overnight Deposit	12.25	14-Nov-19	Cut 100bps	16-Jan-20
Turkey	Repo Rate	12.00	12-Dec-19	Cut 200bps	16-Jan-20
South Africa	Repo rate	6.50	21-Nov-19	No change	16-Jan-20
Kenya	Central Bank Rate	8.50	25-Nov-19	Cut 50bps	27-Jan-20
Nigeria	Monetary Policy Rate	13.50	26-Nov-19	No change	24-Feb-20
Ghana	Prime Rate	16.00	25-Nov-19	No change	27-Jan-20
Angola	Base rate	15.50	29-Nov-19	No change	27-Jan-20
Mexico	Target Rate	7.25	19-Dec-19	Cut 25bps	N/A
Brazil	Selic Rate	4.50	11-Dec-19	Cut 50bps	05-Feb-20
Armenia	Refi Rate	5.50	10-Dec-19	No change	27-Jan-20
Romania	Policy Rate	2.50	08-Jan-20	No change	07-Feb-20
Bulgaria	Base Interest	0.00	02-Jan-20	No change	03-Feb-20
Kazakhstan	Repo Rate	9.25	09-Dec-19	No change	03-Feb-20
Ukraine	Discount Rate	13.50	12-Dec-19	Cut 200bps	30-Jan-20
Russia	Refi Rate	6.25	13-Dec-19	Cut 25bps	07-Feb-20

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