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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Nearly 54% of rated sovereigns have investment-grade rating

S&P Global Ratings indicated that 54.1% of the sovereigns that it rates had an investment grade rating at the end of November 2019, relative to a low of 51.5% in June 2017 and a recent high of 55.8% at the end of 2014. It said that the share of sovereigns rated in the 'B' category or lower declined from a record high of 34.3% of total rated sovereigns in June 2019 to 32.6% at end-November 2019. However, it pointed out that the global average sovereign credit rating continued to show an overall deterioration in credit quality, as it regressed from 'BBB' at the end of 2008 to 'BBB-' at the end of November 2019, while the GDP-weighted average sovereign rating decreased from 'AA-' to 'A+' over the past 10 years. In parallel, S&P considered that the overall rating outlook is 'stable', with a marginal positive bias in the next six months. It noted that the number of sovereigns carrying a 'positive' outlook on their ratings increased from 13 sovereigns in June 2019 to 14 at end-November 2019, while the number of sovereigns with a 'negative' outlook decreased from 15 to 13 sovereigns. It expected credit and financing conditions to support sovereign creditworthiness in coming months, given ample liquidity worldwide and in the absence of a sudden change in the monetary stance of developed countries. However, it said that geopolitical tensions, domestic politics, the increase in populism, and the recent outbreak of the coronavirus in China are likely to be the most immediate key risks for sovereign ratings over the next six months.

Source: S&P Global Ratings

GCC

Fixed income issuance down 79% to $3bn in January 2020

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $3.3bn in January 2020, down by 79.2% from $15.9bn in January 2019, and was unchanged from $3.3bn in December 2019. Fixed income issuance in January 2020 consisted of $1.8bn in corporate bonds, or 54.5% of the total, followed by $1.3bn in corporate sukuk (39.4%), and $0.2bn in sovereign sukuk (6.1%). Further, aggregate bonds and sukuk issued by corporates in the GCC amounted to $3.1bn in January 2020, or 94% of total fixed income issuance in the region, while aggregate issuance by GCC sovereigns reached $0.2bn, or 6% of the total. Sovereign issuance in the covered month consisted of $190.6m in sukuk issued by Saudi Arabia. In parallel, corporate issuance in the first month of the year included $800m in sukuk issued by Bahrain-based companies Mumtalakat Holding Company and GFH Financial Group, followed by $500m in sukuk and $400m in bonds issued by the UAE-based firms First Abu Dhabi Bank, ADCB Finance Cayman, and Emirates NBD Bank. It also included $500m in sukuk issued by Saudi Arabia-based corporate Samba Funding, as well as $272.6m in bonds issued by the Qatar-based company QNB Finance.

Source: KAMCO

MENA

Democracy level in Arab world unchanged in 2019

The Economist Intelligence Unit's 2019 Democracy Index indicated that the level of democracy in the Arab world was almost unchanged from the previous year, as the average score of the 20 Arab countries included in the index was 3.35 points relative to 3.36 points in 2018. The region's average democracy score came below the global average of 5.44 points in 2019, as well as below the average score of all other regions around the world. The index measures 60 indicators that are grouped in five categories that are the Electoral Processes & Pluralism, Civil Liberties, the Functioning of Government, Political Participation, and Political Culture. Tunisia has the most democratic system in the region and ranked in 53rd place globally, followed by Morocco (96th), Lebanon (106th), Algeria (113th) and Jordan (114th); while the survey claims that Bahrain (149th), Libya (156th), Yemen (158th), Saudi Arabia (159th) and Syria (164th) have the least democratic systems regionally. The rankings of 12 Arab countries improved, five declined and three were unchanged; while the scores of seven Arab countries improved, seven regressed and six were unchanged from the 2018 survey. Algeria's rank jumped by 13 spots year-on-year and posted the best improvement in the Arab region, while Egypt's rank registered a decline of 10 notches from the 2018 survey. Tunisia was the only country in the region to have a "flawed democracy" regime in 2019, while Algeria moved from the "authoritarian" to the "hybrid" regime category. Also, Lebanon and Morocco remained in the "hybrid" regime category, while the remaining 16 countries fell in the "authoritarian" regime category.

Source: Economist Intelligence Unit, Byblos Research

Stock markets down 0.5% in January 2020

Arab stock markets regressed by 0.5% and Gulf Cooperation Council equity markets declined by 1% in January 2020, relative to expansions of 6.2% and 7%, respectively, in January 2019. In comparison, global stocks decreased by 1.3% and emerging markets equities regressed by 4.4% in the covered month. Activity on the Beirut Stock Exchange jumped by 21.2% in January 2020, the Casablanca Stock Exchange, the Bahrain Bourse and the Amman Stock Exchange grew by 3% each, the Muscat Securities Market increased by 2.5%, the Abu Dhabi Securities Exchange improved by 1.6%, the Khartoum Stock Exchange expanded by 1.4%, the Damascus Securities Exchange rose by 1.2%, the Dubai Financial Market grew by 1%, and the Boursa Kuwait and the Qatar Stock Exchange improved by 0.2% each. In contrast, activity on the Iraq Stock Exchange regressed by 2.7% in January 2020, the Saudi Stock Exchange decreased by 1.7%, the Palestine Exchange declined by 0.7%, the Tunis Bourse contracted by 0.6%, and the Egyptian Exchange retreated by 0.3%.

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

POLITICAL RISK OVERVIEW - January 2020

EGYPT

Tensions with Turkey increased as the Egyptian government condemned the Turkish authorities' decision to send troops and weapons to support Libyan militias that are loyal to the UN-backed government of National Accord against the forces of Field Marshal Khalifa Haftar who are supported by Egypt. The Egyptian National Security Council convened to discuss Turkey's intervention in Libya and to identify measures to address any potential threat to national security. Tensions escalated after security forces raided the Cairo office of Turkish state-owned news agency Anadolu and arrested four employees, including a Turkish national, on terrorism charges.

ETHIOPIA

Ethiopia's electoral board set August 16 as the tentative date for the country's general elections. Security forces launched counter-insurgency operations against the armed opposition faction Oromo Liberation Army in Oromia, which prompted student protests and resulted in several injuries. Also, following months of negotiations, the leaders of the three biggest Oromo opposition parties announced the formation of the Coalition for Democratic Federalism. In parallel, Ethiopia, Egypt and Sudan reported some progress in talks to resolve the dispute over the Grand Ethiopian Renaissance Dam on the Blue Nile River, and are expected to sign a final agreement by the end of February 2020.

IRAN

A U.S. drone strike killed General Qassem Soleimani, the leader of Iran's Quds Force, a unit of the Islamic Revolutionary Guards Corps (IRCG), at Baghdad International Airport in Iraq. In response, Iran launched missile strikes on the Ain al-Assad air base in the Anbar province and on another base in Erbil. Iran breached the Joint Comprehensive Plan of Action for the fifth time. In response, the United Kingdom, France and Germany activated the deal's dispute resolution mechanism, which could restore European sanctions on Iran. The U.S. imposed sanctions on the Atomic Energy Organization of Iran, on IRGC Brigadier General Hassan Shahvarpour for human rights violations, and on other Iranian companies. Anti-government protests re-erupted when the IRGC admitted that it had unintentionally shot down a Ukrainian airliner near Tehran.

IRAQ

A series of unclaimed attacks targeting U.S. assets continued following the U.S. drone strike on Baghdad International Airport that killed the deputy commander of the Shiite Popular Mobilization Units (PMU) Abu Mahdi al-Muhandis, as well as Iranian general Qassem Soleimani. Parliament passed a non-binding resolution to expel foreign troops from Iraq. In response, the U.S. threatened the Iraqi government with sanctions in case Iraq demands a forced and immediate withdrawal of U.S. troops. Hundreds of thousands demonstrated in Baghdad demanding the end of the U.S military presence in Iraq. The U.S. military resumed joint operations with Iraq, after suspending activities for 10 days following the U.S. drone strike in Baghdad.

LIBYA

The Turkish Parliament approved the deployment of troops and naval assets to Libya in support of the UN-backed government of National Accord (GNA), and reportedly sent 2,000 allied Syrian fighters and dozens of Turkish military experts to the capital city of Tripoli. Diplomatic efforts to de-escalate the conflict between the GNA and the Libyan National Army (LNA) increased. Russia and Turkey called on the two parties to implement a ceasefire and return to the negotiating table, which led the GNA and the LNA to refrain from aerial strikes. Led by Turkish and Russian efforts, the head of the LNA, General Khalifa Haftar and the UN-backed Prime Minister Faiez Al-Serraj, met in Moscow to seal a ceasefire agreement. Prime Minister Serraj signed the agreement, while General Haftar rejected it.

SUDAN

Peace talks between the government and several rebel groups continued in the South Sudanese capital Juba ahead of the mid-February 2020 deadline to negotiate a comprehensive peace deal. The Sudan People's Liberation Movement-North (SPLM-N) faction, led by Abdel Aziz al-Hilu, extended for three months a unilateral cessation of hostilities, but the government continued to resist the latter's demand for a secular state. Another SPLM-N faction signed a preliminary deal with the government that grants autonomy to the South Kordofan and Blue Nile states and paves the way for its militants to integrate in the army. But the rebel faction Sudan Liberation Movement accused the government of reneging on its promises, while the rebel coalition Sudanese Revolutionary Front reaffirmed its commitment to the peace process.

SYRIA

The Syrian regime and Russian forces continued to launch airstrikes in the Idlib province. The regime regained control of Maarat al Numan city. The United Nations said that the violence in Idlib had displaced nearly 390,000 persons in the past two months. In Raqqa, Islamic State (IS) militants carried out the first open attack against government forces since 2017. Russian President Vladimir Putin visited President Bachar El Assad in Damascus to discuss the military situation in the country. The UN Security Council voted to renew resolution 2165 that allows the delivery of humanitarian aid into Syria.

TUNISIA

Parliament rejected the government that the designated Prime Minister Habib Jemli proposed. As such, President Kaïs Saïed tasked former minister and candidate for the 2019 presidential election Elyes Fakhfakh to form a government by March 15, 2020. PM Fakhfakh proposed to form a Cabinet that is composed of parties that were "aligned with the values of the revolution", including the An-Nahda party. The latter threatened to reject the government if the consultations did not include all parties in Parliament. The An-Nahda party's rejection of PM Fakhfakh's proposal means that the latter could struggle to gain the majority support by the deadline, risking the dissolution of Parliament and the holding of new parliamentary elections.

TURKEY

The Turkish military launched a new operation to clear out the Kurdistan Workers' Party (PKK) militants from rural areas of southern Hatay, southeastern Mardin and Batman provinces. Turkey and Russia agreed on a ceasefire in the Idlib province in Syria, but the ceasefire failed to halt the Syrian regime's attacks. President Recep El Tayep Erdoğan expressed concerns about an additional influx of refugees to Turkey, and said that Turkey is ready to take necessary steps including using military force if the situation in Idlib province does not normalize. Seven Turkish soldiers were killed in car bomb attacks that were attributed to the Kurdish-led People's Protection Units in northeast Syria. Parliament authorized troop deployment to Libya to support the Tripoli-based Government of National Accord.

YEMEN

Fighting escalated between the Saudi-led coalition, and the Huthi rebels and their allies in the Al Jawf, Marib and Sanaa governorates. The Hadi government and the UAE-backed Southern Transitional Council (STC) agreed on "Phase 2" of the Riyadh agreement, which requires government-affiliated forces to redeploy from Aden to the al-Dhale and Abyan provinces, and for the STC to move its forces from Aden to the Lahj governorate by the end of January 2020. As part of "Phase 2", government and STC forces also exchanged prisoners, with the government releasing 33 STC forces in exchange for 20 government-affiliated detainees. Despite initial signs of progress, redeployment efforts by the two parties stalled late in January.

Source: International Crisis Group, Newswires

OUTLOOK

AFRICA

North Africa to be largest contributor to growth in 2020-21 period

The African Development Bank Group (AfDB) projected the real GDP growth of African economies to pick up from 3.4% in 2019 to 3.9% in 2020 and 4.1% in 2021, but to remain below the region's average growth rate of 5% in the past decade. It expected economic activity in the region to be supported by the expected increase in exports as a result of the African Continental Free Trade Area, as well as by sustained public investments, and strong private consumption. Also, it anticipated growth to be driven by improvements in the quality of human capital, higher hydrocarbon output in Egypt, Ghana and Uganda, as well as by increases in commodity prices, which would help improve the terms of trade for major commodity-intensive economies in the region. Still, it noted that the region's outlook is subject to domestic and external downside risks, including extreme weather events, sociopolitical risks amid upcoming elections in several countries, and a slowdown in global economic activity. It added that further monetary policy easing in advanced economies could trigger an inflow of "hot money" into African countries, with the associated macro prudential risks and disorderly exchange rate effects.

In parallel, the AfDB expected growth in Africa to vary significantly across sub-regions and countries. It anticipated North Africa to contribute the most to economic growth in the continent during the 2020-21 period, followed by West Africa, East Africa, Southern Africa and Central Africa. Further, it projected that Egypt, Nigeria, Algeria, Morocco and South Africa would continue to be the five largest contributors to Africa's growth in the covered period. It expected Egypt's real GDP growth to accelerate from 5.6% in 2019 to 5.8% in 2020 and 6% in 2021, due to high domestic demand and export growth. It forecast Nigeria's economic activity to expand by 2.9% in 2020 and 3.3% in 2021, compared to 2.3% in 2019. It anticipated Algeria's real GDP growth to be relatively stable at 2.2% in 2020 and 1.8% in 2021, while it expected Morocco's economic growth to recover from 2.9% in 2019 to 3.7% in 2020 and 3.9% in 2021. It projected South Africa's real GDP to grow by 1.1% in 2020 and 1.8% in 2021 amid structural reforms. Finally, the AfDB considered that African economies should implement deep structural reforms in order to diversify Africa's productive base, support macroeconomic stability, and improve public financial management.
Source: African Development Bank Group

SAUDI ARABIA

Economic outlook contingent on oil market and fiscal reforms

BNP Paribas projected Saudi Arabia's real GDP growth to accelerate from 0.7% in 2019 to 1.2% in 2020, mainly due to a 3% growth in non-hydrocarbon activity, and anticipated the growth rate at 1.6% in 2021. It estimated non-hydrocarbon activity to have expanded by 4.3% annually in the third quarter of 2019, underpinned by a recovery in household consumption, as well as by strong growth in the construction and real estate sectors. It also expected hydrocarbon GDP growth to stabilize in 2020, as it anticipated any reduction in crude oil production to be offset by higher supply of other hydrocarbons. It considered Saudi Arabia's growth potential to be constrained by the mixed outlook of the oil market, as well as by the unpredictable pace of fiscal reforms. Further, it forecast the average annual inflation rate at 0.6% in 2020 and 1.2% in 2021 compared to -1.2% in 2019, which would lead to a decline in the wage bill of the public sector in real terms.

Also, BNP Paribas projected the fiscal deficit to widen from 4.6% of GDP in 2019 to 7.4% of GDP in 2020, mainly due to a sharp decline in hydrocarbon receipts and flat current expenditures. However, it expected the deficit to narrow to 4.2% of GDP this year, in case Saudi Aramco pays out dividends to the government in 2020 as it did in 2019. Further, it forecast the public debt level to rise from 24% of GDP at end-2019 to 26% of GDP at end-2020, as it expected authorities to finance 35% of the deficit this year through debt issuance. It also projected government deposits at the Saudi Arabian Monetary Agency (SAMA) at $142bn, or 18% of GDP, at end-2020. It anticipated that the debt level would further rise to 34% of GDP by end-2022, in case authorities increase their reliance on debt financing in coming years, while it said that government deposits at SAMA would decline to 14% of GDP by end-2022. Further, it forecast the current account surplus to decrease from 4.8% of GDP in 2019 to 1.8% of GDP in 2020, but to increase to 4% of GDP in 2021, while it projected the external debt level to rise from 30% of GDP at end-2019 to 34% of GDP by end-2020 and to 36% of GDP by end-2021.
Source: BNP Paribas

ETHIOPIA

Reform measures under IMF program to weigh on short-term growth

The International Monetary Fund indicated that Ethiopia's newly-announced IMF-supported program will help address the country's external imbalances, debt vulnerabilities, and elevated inflation rates. However, it expected the macroeconomic policy measures envisaged under the program, as well as the authorities' tighter monetary policy and fiscal stance, to contribute to slower economic activity, as it anticipated real GDP growth to decelerate from 9% in the fiscal year that ended on July 7, 2019 to 6.2% in FY2019/20. It expected growth to pick up in the medium term, as structural reforms begin to pay off, but it said that the growth outlook is subject to downside risks, mainly from domestic opposition to reforms ahead of the upcoming elections, as well as from rising protectionism worldwide, weaker-than-expected global growth, and adverse weather conditions.

In parallel, the Fund projected the fiscal deficit at 2.5% of GDP in FY2019/20 and expected it to average 2% of GDP annually in the medium term, in case authorities rationalize public investments, improve tax collection, widen the tax base, and reconsider tax exemptions. Also, it forecast the public debt level to regress from 57.6% of GDP at end-June 2019 to 53.4% of GDP at end-June 2020 and to stabilize at about 49% of GDP annually in the medium term, supported by stronger management of state-owned enterprises (SOEs) and the authorities' privatization program. However, it anticipated the high indebtedness of SOEs to continue to pose contingent liability risks for the government.

Further, the IMF expected the current account deficit at 5.5% of GDP in FY2019/20, and projected it to decline to an average of 4.4% of GDP annually in the medium term, in case the government commits to reducing its import bill, and as a more competitive exchange rate results in higher exports. It forecast foreign currency reserves at $4bn at end-June 2020, up from $3.4bn at end-June 2019 due to higher external financing flows.
Source: International Monetary Fund

JORDAN

IMF program to support structural reform agenda

The International Monetary Fund indicated that it reached a staff-level agreement with Jordanian authorities on a $1.3bn four-year arrangement under the Extended Fund Facility to support the country's macroeconomic and structural reform agenda. It noted that the authorities' reform program aims to support economic growth, stimulate job creation, strengthen external and fiscal stability, improve government transparency and enhance social spending. It said that a gradual and steady fiscal consolidation path would help reduce the public debt level and provide sufficient fiscal space for social and capital spending, while it indicated that monetary policy will continue to be anchored by the currency peg to the US dollar. Overall, the Fund projected Jordan's real GDP to grow by 2.1% in 2020 and by 3.3% annually over the medium term under the IMF-supported program. It forecast the inflation rate to remain at less than 1% this year, but to increase to 2.5% in coming years. It added that the country's external imbalances have receded significantly in 2019, with the current account deficit narrowing from 7% of GDP in 2018 to 2.9% of GDP last year. In parallel, Fitch Ratings considered that the IMF program is supportive for Jordan's public finances and reform agenda, but that the 2019 budget performance and the agreed 2020 budget highlight the challenges of fiscal consolidation. It said that the program could be subject to slow implementation and delayed disbursements, but that the risks are low given that the program does not include new tax measures.

Source: International Monetary Fund, Fitch Ratings

TURKEY

Sovereign ratings affirmed, outlook 'stable'

S&P Global Ratings affirmed Turkey's long-term foreign-currency sovereign rating at 'B+' and its local currency rating at 'BB-', with a 'stable' outlook. It noted that the ratings are supported by the country's relatively low net debt level, but are constrained by Turkey's elevated, albeit declining, external risks and weak institutions. It forecast real GDP growth to pick up from an estimated 0.3% in 2019 to 3.5% in 2020, supported by a rebound in consumption, and by a recovery in investment amid aggressive policy rate cuts. But it considered that the authorities' recent efforts to boost economic growth raise the risk of renewed economic overheating. It pointed out that Turkish authorities have introduced a series of discretionary fiscal and macro-prudential measures in the past two years, adding that some of these measures could be distortionary or generate further imbalances. Also, the agency noted that short-term balance-of-payments risks have eased, supported by higher inflows to emerging markets amid looser monetary policies in some developed economies. Still, it said that external risks remain elevated, given that Turkey needs to roll over around 20% of GDP worth of its foreign debt annually. It added that the Central Bank of the Republic of Turkey has limited buffers to counter a potential deterioration in the balance of payments. In addition, S&P forecast the fiscal deficit to slightly widen from 2.8% of GDP in 2018 to around 3% of GDP annually in the 2020-23 period. It projected the net general government debt level to remain at 30% of GDP over the same period, which provides some fiscal space in case of a negative economic shock.

Source: S&P Global Ratings

KUWAIT

Non-oil growth near 8% in third quarter of 2019

The National Bank of Kuwait (NBK) indicated that Kuwait's economic activity slowed down from 1.4% in the second quarter of 2019 to 0.4% in the third quarter of the year due to a contraction of 5.3% in hydrocarbon output driven by the OPEC production cut agreement. In contrast, it noted that growth in the non-hydrocarbon sector accelerated from 4.3% in the second quarter to 7.8% in the third quarter of 2019, driven by the real estate, electricity, gas and water sectors, and to a lesser extent by the education and public administration sectors. Further, it said that the average inflation rate increased from 0.6% in 2018 to 1.1% in 2019, mostly due to higher food prices, and expected it to average between 1.5% and 2% in 2020. In parallel, it indicated that the fiscal balance shifted from a surplus of KD3.6bn in the first nine months of the fiscal year that ended in March 2019 to a deficit of KD1bn in the same period of FY2019/20, due to lower oil prices and higher public spending. Overall, it expected the fiscal deficit, before the transfers to the Future Generations Fund, to widen from 3% of GDP in FY2018/19 to 8% of GDP in FY2019/20. It said that the government will cover its financing needs through a drawdown of assets from the General Reserve Fund, given the sustained absence of a new debt law. It noted that the government's draft budget for FY2020/21 targets a deficit of 19% of GDP. However, it projected the deficit to narrow to 9% of GDP in FY2020/21, assuming an oil price of $60 per barrel (p/b) relative to a budgeted oil price of $55 p/b, and due to government underspending, in line with previous years.

Source: National Bank of Kuwait

DEM REP CONGO

Economy vulnerable to deterioration of external conditions

S&P Global Ratings indicated that the Democratic Republic of the Congo's (DRC) external position is fragile, with foreign currency reserves decreasing to a critically low level of about $302m, equivalent to one week of imports, at the end of October 2019. It noted that the government resorted to the Banque Centrale du Congo (BCC) to finance its fiscal deficit due to high spending pressures and weak oversight during the political transition, as well as to limited financing options, which depleted the BCC's foreign currency reserves. It said that authorities responded by introducing emergency measures such as suspending the financing of the deficit by the BCC, resuming fiscal discipline and implementing short-term measures to rebuild external buffers. It considered that these measures, along with the disbursement of about $370m under the International Monetary Fund's Rapid Credit Facility in December 2019, allowed foreign currency reserves to recover to about $900m at end-2019. In parallel, S&P anticipated that the end of political deadlock and improved international relations in recent months would enable the government to accelerate structural reforms. It noted that the DRC's very low external buffers and high vulnerability to a deterioration in external conditions could threaten its already weak institutions and fragile economy. It added that the DRC's ability to meet its financial commitments over the medium to long term will depend on improvements in the country's business, financial and economic conditions.

Source: S&P Global Ratings

JORDAN

Lending to resident private sector up 4.3% in 2019

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD53.6bn, or $75.7bn at the end of 2019, constituting an increase of 5.3% from the end of 2018. The banking sector's assets were equivalent to 171.3% of GDP in 2019 relative to 169.8% of GDP in 2018. Claims on the resident private sector grew by 4.4% from end-2018 to JD24.7bn, while credit facilities to the non-resident private sector increased by 3% to JD674.4m, leading to a rise of 4.3% in overall private sector credit facilities in 2019. Lending to the resident private sector accounted for 46.1% of total assets at the end of 2019 compared to 46.5% a year earlier. In parallel, resident private sector deposits reached JD28.3bn at end-2019, up by 5% from JD26.9bn a year earlier, while non-resident private sector deposits grew by 5.6% from the end of 2018 to JD4.1bn. The government's deposits totaled JD912.4m and those of public non-financial institutions reached JD235.2m at end-2019. Claims on the public sector accounted for 22.8% of total assets at end-2019 compared to 22% a year earlier. Also, the banks' reserves at the Central Bank of Jordan totaled JD5.6bn, or $8bn at end-2019, up by 11.7% from a year earlier; while capital accounts and allowances increased by 5.1% from end-2018 to JD8.3bn. Also, deposits at foreign banks reached JD3.8bn, or $5.4bn, at the end of 2019, down by 0.5% from end-2018; while the sector's foreign liabilities increased by 9.7% from end-2018 to JD8.1bn, or $11.4bn.

Source: Central Bank of Jordan, International Monetary Fund

UAE

Resilient banking sector in 2020 amid sustained lending growth

S&P Global Ratings expected the UAE banking sector to be resilient in 2020, supported by sustained lending growth and in the absence of heightened geopolitical risks or a significant drop in global oil prices. It projected lending to grow by 5% to 6% this year, driven by increased investments in the non-hydrocarbon sector and higher tourism-related activities. It forecast deposits at banks to grow by low-single-digits in the next two years, due to a stagnation in the deposits of government and government-related entities, as well as to a decline in non-resident deposits. Further, it noted that the banks' asset quality has remained strong despite the sharp decline in real estate prices since mid-2014 and the banks' large exposure to the real estate sector. It projected the stock of problematic assets, which include Stage 2 and Stage 3 loans, to be stable in 2020, but with some migration within the two categories. It considered that UAE banks are currently better-positioned to face a deterioration in their asset quality than they were during the 2009-10 period, as they have built sufficient loan-loss reserves since then. It added that the banks' non-performing loan coverage ratio increased from 62% at end-2010 to 124% at end-September 2019, and expected the banks to maintain healthy coverage ratios this year. In parallel, it anticipated the banks' capitalization to remain strong in the 2020-21 period, which would provide a solid buffer against external risks. Further, S&P expected the banks' profitability to slightly decline in 2020, as a more accommodative U.S. monetary policy would be mirrored by further interest rate cuts by the Central Bank of the UAE, which will reduce the banks' net interest margins.

Source: S&P Global Ratings

MOROCCO

Capital adequacy ratio at 15% at end-June 2019

The International Monetary Fund considered that the Moroccan banking sector is sound and resilient, and that authorities are stepping up efforts to strengthen the sector's regulatory and supervisory framework. It noted that the introduction of international accounting standard IFRS 9 in 2018 required banks to upgrade their loan classification and provisioning practices. It added that authorities estimate the corresponding capital needs of the banking system, over the five-year phase-in period, to be less than one percentage point of the regulatory capital ratio. In this context, it said the first year of implementation was well absorbed by banks, as the sector's capital adequacy ratio increased from 14% at the end of June 2018 to 15.1% at end-June 2019. In parallel, the Fund indicated that the non-performing loans (NPLs) ratio was relatively elevated at 7.7% at end-September 2019, but that specific provisions covered about 70% of NPLs. Also, it said that risks from large concentrated credit exposures persist despite the authorities' strict regulatory limits, but that such exposures have been declining since their peak in 2007, due to the improved monitoring of consolidated financial statements and incentives to rely more on syndicated lending. In parallel, the IMF indicated that the banks' liquid assets represented 12.8% of total assets at end-June 2019, nearly unchanged from end-June 2018; while they were equivalent to 16.2% of total short-term liabilities at end-June 2019 compared to 14.4% a year earlier.

Source: International Monetary Fund

CÔTE d'IVOIRE

Authorities committed to reducing banking sector vulnerabilities

The International Monetary Fund considered that Côte d'Ivoire's banking system is generally sound, and that the authorities are committed to reducing the remaining vulnerabilities. It said that the aggregate risk-weighted capital adequacy ratio of banks stood at 9.6% at the end of 2018 relative to 9% at end-2017, and was above the regulatory standard of 8.625% for 2018 and 9.5% for 2019 for the West African Economic and Monetary Union, to which Côte d'Ivoire belongs. However, it noted that about a fifth of banks in the sector remain undercapitalized, including two public banks. In addition, the Fund indicated that the non-performing loans (NPLs) ratio declined from 9.8% at end-2017 to 9.3% at end-2018, with general provisions covering 64.9% of NPLs relative to 63% at end-2017. It added that the banks' NPLs net of provisions were equivalent to 3.5% of total loans and to 33.8% of capital at end-2018, down from 3.8% of total loans and 43% of capital at end-2017. Also, it said that lending growth decelerated from 11.3% annually at end-2018 to 7.4% year-on-year at end-August 2019, which reflects the banks' adjustment to higher regulatory norms and the government's increased reliance on domestic banks for financing. In parallel, the IMF indicated that the banking sector's loans accounted for 58.8% of their total assets at end-2018 compared to 57.3% at end-2017, while the loans-to-deposits ratio stood at 90.7% at end-2018 relative to 89.5% at end-2017. Further, it noted that the authorities are stepping up efforts to strengthen the financial sector by restructuring and privatizing public banks.

Source: International Monetary Fund

ENERGY / COMMODITIES

Oil prices to average $64 p/b in first quarter of 2020

ICE Brent crude oil front-month prices averaged $63.8 per barrel (p/b) in January 2020, down by 2.3% from $65.3 p/b in December 2019. Oil prices have been volatile in January, as they reached a five-month high of $68.9 p/b on January 9, 2020 and traded towards a 13-month low of $54 p/b in early February. The relatively high prices in the first half of January 2020 were due to rising geopolitical tensions and mounting risks of conflict in the Middle East, which raised concerns about potential disruptions to oil production in the region. However, the significant drop in oil prices in the remainder of January 2020 was due to concerns about the potential economic impact of the spread of the coronavirus beyond China's borders, which would weigh on global oil demand. In this context, Goldman Sachs indicated that oil prices declined by $11 p/b since January 17, when the 2019 coronavirus became the center of market and media attention, which reflects the factoring of a negative shock on global oil demand. It noted that the oil market is pricing a decline of 500,000 barrels per day in oil demand for 2020. It considered that the uncertainty related to the spread of the virus can keep prices highly volatile. However, it expected the current oil price level to trigger a supply response from both OPEC and U.S. oil producers, which would limit the downside risks to oil prices. Brent oil prices are forecast to average $64.2 p/b in the first quarter of 2020 and $63.2 p/b in the second quarter of the year.
Source: Goldman Sachs, Refinitiv, Byblos Research

Libya's oil output drops to 187,337 b/d due to closure of oilfields and export terminals

Libya's National Oil Corporation (NOC) indicated that oil production declined from an average of 917,000 barrels per day (b/d) in December 2019 to 187,337 barrels per day (b/d) currently. The decline in oil output was mainly due to the closure of several oilfields and export terminals in Libya since mid-January 2020. The NOC also estimated losses from the blockade of oilfields and export terminals at around $931.8m.
Source: National Oil Corporation

Iraq's oil exports down 4% in January 2020

Preliminary figures show that Iraq's crude oil exports totaled 102.5 million barrels in January 2020, constituting a decrease of 3.6% from 106.3 million barrels in December 2019. They averaged 3.3 million barrels per day (b/d) in January 2020 compared to an average of 3.4 million b/d in the previous month. Oil exports from the central and southern fields reached 101 million barrels in January, while shipments from the Kirkuk fields totaled 1.1 million barrels. Oil export receipts stood at $6.2bn in January 2020, down by 7.5% from $6.7bn in December of 2019.
Source: Iraq Ministry of Oil, Byblos Research

New gas field to increase Tunisia's output by 50%

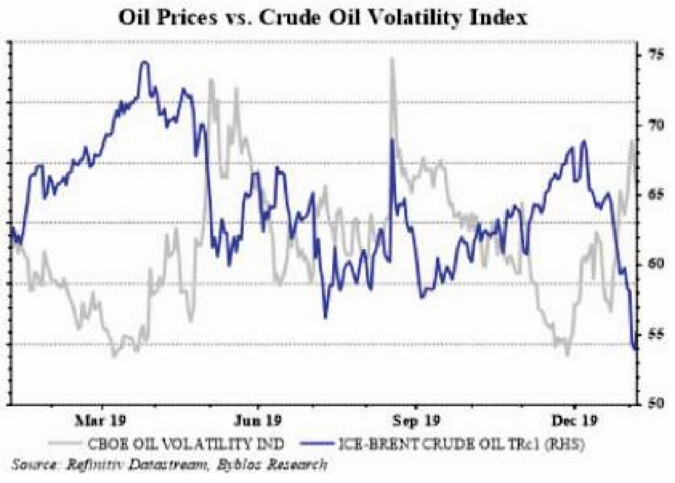
Tunisia's southern Nawara natural gas field, which started production on February 5, 2020, aims to increase Tunisia's natural gas output by 50% and reduce the national energy deficit by 20%. The $1.25bn project, which is jointly owned by Austria's OMV and the Tunisian National Oil Company ETAP, has a capacity of 2.7 million cubic meters of gas per day. Tunisia aims to raise its production of natural gas to about 65,000 barrels of oil equivalent per day.
Source: Refinitiv

Base Metals: Aluminum prices down 15% in 2019

The LME cash price of aluminum averaged $1,794 per ton in 2019, constituting a decrease of 15% from an average of $2,108 a ton in 2018. The metal's price decreased year-on-year due to the impact of the prolonged U.S.-China trade tensions on the demand for metals. Aluminum prices increased by 2% from the end of 2019 to $1,815 per ton on January 21, 2020, as the U.S. and China reached an agreement on the first phase of a trade deal. However, prices declined by 8.6% to $1,658 per ton on February 4, their lowest level since October 2016, mainly due to expectations of lower demand from China, the world's top metals consumer, where an outbreak of the coronavirus raised the prospects of economic slowdown in the country. In this context, Citi Research expected the coronavirus outbreak to weigh on demand growth in China for the majority of the first quarter of 2020, but it anticipated demand to rebound significantly in the second half of the year due to expectations of a significant policy easing from the Chinese government. As such, it revised its forecast for aluminum prices from an average of $1,775 per ton in the first quarter of 2020 to an average of $1,710 per ton. It also revised downward its full year price projection for aluminum from an average of $1,870 per ton to an average of $1,780 per ton in 2020.
Source: Citi Research, Refinitiv

Precious Metals: Gold prices reach seven-year high of $1,587 per ounce at end-January 2020

Gold prices averaged $1,559.4 per troy ounce in January 2020, which constitutes an increase of 5.2% from an average of $1,481 an ounce in December 2019. Prices also increased by 4.4% from end-2019 to close at a seven-year high of $1,587 per ounce at the end of January 2020. The upward trend in prices in January 2020 was mainly due to tensions between the U.S. and Iran, while concerns about the coronavirus outbreak also boosted demand for the safe haven asset and, in turn, prices. The metal's price is expected to increase by 12% to an average of around $1,560 an ounce in 2020, driven by strong investor demand for gold exchange-traded funds this year amid uncertainties related to the U.S. elections and Brexit, as well as tensions between the U.S. and Iran. The continued purchase of the metal by central banks worldwide is also expected to drive prices this year. However, downside risks to gold prices could arise from lower jewelry and bar & coin demand in China following the outbreak of the coronavirus, as well as a further easing of trade tensions between the U.S. and China.
Source: London Bullion Market Association, Refinitiv



COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	IHS	General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
		LT Foreign currency rating											
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	Positive	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	-	Stable	-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 Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	1.50-1.75	29-Jan-20	No change	18-Mar-20
Eurozone	Refi Rate	0.00	23-Jan-20	No change	12-Mar-20
UK	Bank Rate	0.75	30-Jan-20	No change	26-Mar-20
Japan	O/N Call Rate	-0.10	21-Jan-20	No change	19-Mar-20
Australia	Cash Rate	0.75	04-Feb-20	No change	03-Mar-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	22-Jan-20	No change	04-Mar-20
Emerging Markets					
China	One-year Loan Prime Rate	4.15	20-Jan-20	No change	20-Feb-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	17-Jan-20	No change	27-Feb-20
Malaysia	O/N Policy Rate	2.75	22-Jan-20	Cut 25bps	03-Mar-20
Thailand	1D Repo	1.25	18-Dec-19	No change	28-Mar-20
India	Reverse repo rate	5.15	06-Feb-20	No change	03-Apr-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	16-Jan-20	No change	20-Feb-20
Turkey	Repo Rate	11.25	16-Jan-20	Cut 75bps	19-Feb-20
South Africa	Repo rate	6.25	16-Jan-20	Cut 25bps	19-Mar-20
Kenya	Central Bank Rate	8.25	27-Jan-20	Cut 25bps	N/A
Nigeria	Monetary Policy Rate	13.50	26-Nov-19	No change	24-Feb-20
Ghana	Prime Rate	16.00	31-Jan-20	No change	N/A
Angola	Base rate	15.50	27-Jan-20	No change	27-Mar-20
Mexico	Target Rate	7.25	19-Dec-19	Cut 25bps	13-Feb-20
Brazil	Selic Rate	4.25	05-Feb-20	Cut 25bps	18-Mar-20
Armenia	Refi Rate	5.50	24-Jan-20	No change	17-Mar-20
Romania	Policy Rate	2.50	08-Jan-20	No change	07-Feb-20
Bulgaria	Base Interest	0.00	03-Feb-20	No change	02-Mar-20
Kazakhstan	Repo Rate	9.25	03-Feb-20	No change	16-Mar-20
Ukraine	Discount Rate	11.00	30-Jan-20	Cut 250bps	12-Mar-20
Russia	Refi Rate	6.25	13-Dec-19	Cut 25bps	07-Feb-20

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