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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global tourism expenditures to decline by up to $8 trillion in 2020-23 period

McKinsey & Company projected global tourism expenditures to drop by $3 trillion to $8 trillion during the 2020-23 period, before returning to pre-COVID-19 levels starting in 2024. It expected the rebound in tourism activity to be primarily driven by the strength of the global economic recovery. Also, it considered that the attractiveness of domestic destinations, the degree of dependence on air transport, health and hygiene factors, as well as the importance of business travel and the level of environmental awareness, constitute factors that are likely to impact the speed of the tourism recovery. In addition, it anticipated that, under an optimistic recovery scenario that combines rapid virus containment and an economic recovery, global domestic and outbound tourism expenditures will increase to 85% of their 2019 levels in 2021, and will fully recover by 2023. In contrast, under a pessimistic scenario, it expected global tourism spending in 2021 to be as low as 60% of its 2019 level, which would further delay the recovery in tourism activity worldwide. In parallel, it projected domestic tourism to return to pre-crisis levels earlier by one to two years than outbound tourism does, mainly due to fewer restrictions on domestic travel, more options for non-air-based transport, anxiety related to the pandemic during overseas travel, and a larger share of domestic business travel.

Source: McKinsey & Company

GCC

Fixed income issuance down 4% to $123bn in first 10 months of 2020

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $123bn in the first 10 months of 2020, constituting a decrease of 3.5% from $127.4bn in the same period of 2019. Fixed income issuance in the covered period consisted of $46.8bn in sovereign bonds, or 38% of the total, followed by $33bn in corporate bonds (26.8%), $28.2bn in sovereign sukuk (23%), and $15bn in corporate sukuk (12.2%). Further, aggregate issuance by GCC sovereigns amounted to $75bn in the first 10 months of 2020, or 61% of aggregate issuance in the region; while bonds and sukuk issued by corporates in the GCC reached $48bn, or 39% of the total. GCC sovereigns issued $1.7bn in bonds and sukuk in January, $10.2bn in February, $4.2bn in March, $27.3bn in April, $3.4bn in May, $3.5bn in June, $11.9bn in July, $0.5bn in August, $10bn in September, and $2.3bn in October 2020. In parallel, companies in the GCC issued $3.3bn in bonds and sukuk in January, $10.9bn in February, $1.6bn in March, $1.7bn in April, $6.9bn in May, $4.9bn in June, $5bn in July, $1.5bn in August, $7.8bn in September, and $4.4bn in October 2020. Sovereign issuance in October consisted of $2bn in bonds issued by Oman, and $250m in bonds issued by Saudi Arabia. In parallel, corporate issuance in the covered month show that UAE-based companies issued $2.45bn in bonds, Qatar-based firms issued $750m in sukuk and $175m in bonds, and Saudi-based corporates issued $750m in sukuk.

Source: KAMCO

MENA

Stock markets down 11% in first 10 months of 2020

Arab stock markets declined by 11% and Gulf Cooperation Council equity markets decreased by 9.1% in the first 10 months of 2020, relative to expansions of 2.1% and 0.2%, respectively, in the same period of 2019. In comparison, global stocks regressed by 3% and emerging market equities retreated by 2% in the covered period. The index of the Beirut Stock Exchange jumped by 159.4% in the first 10 months of 2020, the index of the Damascus Securities Exchange expanded by 27.2%, and activity on the Khartoum Stock Exchange grew by 9.4%. In contrast, activity on the Egyptian Exchange dropped by 24.7% in the first 10 months of 2020, the Dubai Financial Market fell by 21%, the Palestine Exchange contracted by 17.3%, the Amman Stock Exchange retreated by 14.5%, the Casablanca Stock Exchange declined by 14.1%, the Boursa Kuwait regressed by 11.8%, while the Bahrain Bourse lost 11.4%. Also, activity on the Muscat Securities Market deteriorated by 10.6%, the Abu Dhabi Securities Exchange declined by 8.2%, the Tunis Bourse decreased by 8%, the Qatar Stock Exchange shrank by 7%, the Saudi Stock Exchange regressed by 5.7%, and the Iraq Stock Exchange decreased by 2%.

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

Remittance inflows to drop by 8.5% to $55bn in 2020

The World Bank projected remittance inflows to 17 Arab countries at $54.7bn in 2020, which will constitute a drop of 8.5% from $59.8bn in 2019, compared to an increase of 3.2% in 2019. Further, inflows to Arab countries would account for 8.2% of global remittance flows and for 10.8% of remittances to developing economies in 2020. The Arab region will rank as the third smallest recipient among developing markets this year, ahead of only Emerging Europe & Central Asia (9.4%), and Sub-Saharan Africa (8.7%). Also, the Bank forecast the decrease in remittance inflows to Arab countries in 2020 to be the third smallest among developing economies, after Latin America and Caribbean (-0.2%) and South Asia (-3.6%). In parallel, it expected Egypt to be the largest Arab recipient of remittances with $24.4bn or 44.6% of the total in 2020, followed by Lebanon with $7bn (12.6%), Morocco with $6.4bn (11.7%), Jordan with $3.9bn (7.1%), and Yemen with $3.8bn (7%). It anticipated that all Arab countries will post a decline in remittance inflows this year, except for Yemen (unchanged) and Qatar (+6%). It estimated remittance inflows to Lebanon to be equivalent to 36.2% of GDP in 2020, the highest in the region, followed by Yemen at 19.1% of GDP, the West Bank & Gaza at 15% of GDP, Jordan at 9.2% of GDP, and Egypt at 6.7% of GDP. When excluding Syria, remittance inflows to Arab countries would be equivalent to about 2.7% of the region's GDP this year.

Source: World Bank, Byblos Research

POLITICAL RISK OVERVIEW - October 2020

ARMENIA

Fighting between Armenia and Azerbaijan escalated following Azerbaijan's military offensive in September on the Line of Contact in the Nagorno-Karabakh conflict zone. Fighting reportedly killed and wounded thousands of military personnel on both sides and damaged civilian areas. Missile and drone attacks also spread to Armenia's proper territory near the disputed area. After attacks on border regions, Armenia's Prime Minister Nikol Pashinyan sent an official appeal to Russia for military support, in line with Russia's defense pact with Armenia. PM Pashinyan confirmed Armenia's readiness to stop the fighting and start peace negotiations, if both parties make concessions. The Armenian prosecutor's office announced that two Syrian fighters are detained in Nagorno-Karabakh, and that one of them revealed that Turkish officials recruited and transported him to fight along Azeri troops.

CÔTE d'IVOIRE

Violence broke out in several regions in the lead-up to the presidential elections that took place on October 31, 2020. The United Nations, the African Union and the Economic Community of West African States sent a joint high-level delegation to Abidjan on a mission to defuse electoral tensions; while tens of thousands of opposition supporters rallied to protest President Alassane Ouattara's candidacy for a third term. Prime Minister Hamed Bakayoko held talks with the opposition prior to the elections. The Front Populaire Ivoirien and the Parti Démocratique de la Côte d'Ivoire boycotted the talks, as they considered that the government did not show genuine willingness to compromise on any of their core demands.

ETHIOPIA

The Tigray Region's ruling Tigray People's Liberation Front recalled its representatives from the federal government and Parliament, as it considered that their mandates expired amid the delay in holding Ethiopia's general elections; while the federal government approved the redirection of federal funding away from the Tigray Region's government. The federal parliament approved the request of five zonal administrations and a district of the Southern Nations, Nationalities, and People's Region for a referendum on the creation of a regional state. Tripartite talks between Ethiopia, Egypt and Sudan took place to discuss the Grand Ethiopian Renaissance Dam on the Nile River.

IRAN

The United Nation's arm embargo on Iran expired on October 18. The U.S. rejected the expiration of the arms embargo, and warned that it is prepared to sanction individuals or entities that participate in arm sales to Iran. The U.S. continued to enforce sanctions against Iran and Iran-linked targets by blacklisting 18 Iranian banks, eight companies and persons linked to Iran's Shipping Lines company, and the National Iranian Oil Company. Also, the U.S. sanctioned five Iranian entities for attempting to influence the U.S. elections, the Iranian ambassador in Iraq, and eight entities for their involvement in the sale and purchase of Iranian petrochemical products.

IRAQ

"Resistance" factions to the U.S. presence in Iraq suspended rocket attacks on U.S. forces in Iraq on condition that the Iraqi government presents a timetable for the withdrawal of U.S. troops. The Iraqi government announced a deal with the Kurdish Regional Government over the Sinjar district, which stipulates establishing a unified administration to facilitate the return of 200,000 displaced Yazidis and forming a 2,500-member security force. In parallel, tensions rose between the Popular Mobilization Forces (PMF) and Kurdish forces, after Kurdish authorities blamed the PMF for a rocket attack on the Erbil international airport. Security forces launched a campaign against Islamic State strongholds in the Kirkuk, Salah ad-Din, and Ninewa provinces.

LIBYA

The United Nations-backed Government of National Accord (GNA) and the Libyan Arab Armed Forces, led by Field Marshal Khalifa Haftar, signed a countrywide "permanent ceasefire" agreement on October 23, following UN-led talks in Geneva. The UN re-launched the Libyan Political Dialogue Forum on October 26, where discussions will focus on the formation of a unified government and on reaching a comprehensive political settlement. In addition, the GNA's current Prime Minister Fayez Sarraj withdrew his resignation and announced that he will stay in office until a new government is formed "to avoid a political vacuum". Oil production continued to increase following the lifting of the blockade on export terminals and major oil fields.

NIGERIA

Peaceful protests erupted in major cities, after a video emerged of police officers of the Special Anti-Robbery Squad (SARS) killing an unarmed young man in the Delta southern state. Protesters demanded the disbandment of the SARS unit and reforming the police system. The federal government dissolved the SARS and then created the Special Weapons and Tactics team as a replacement, which angered the protesters. As a result, the protests grew and turned violent, as security forces brutally dispersed demonstrators and opened fire at them. Mobs destroyed about 25 police stations, killed or wounded dozens of police officers, and facilitated the escape of over 2,000 prisoners. The government reported that 69 people were killed in the protests, including civilians and security forces.

SUDAN

U.S. President Donald Trump signed on October 23, 2020 the order to remove Sudan from the U.S. list of State Sponsors of Terrorism, after Sudan transferred $335m to an escrow account for the victims of al-Qaeda's 1998 bombings of the U.S. embassies in Kenya and Tanzania. President Trump announced on the same day the normalization of relations between Sudan and Israel. The government, the rebel coalition Sudanese Revolutionary Front and the Sudan Liberation Movement/Army faction led by Minni Minnawi formalized the peace deal signed in August 2020. The Sovereign Council and Cabinet approved the deal and its incorporation into the Constitutional Declaration.

SYRIA

Jihadist rebel group Hei'at Tahrir al-Sham continued to launch attacks on rival groups in northwest Syria. Russia resumed its airstrikes on jihadist positions in Idlib. Suspected Russian air raids targeted a military training camp of the Turkish-backed Failaq al-Sham group. Simultaneous rebel attacks in Idlib, Hama, Latakia and Aleppo reportedly killed 15 regime soldiers. The Kurdish-led Syrian Democratic Council issued a "blanket amnesty" to all 25,000 Syrians in al-Hol camp in northeast Syria, which holds displaced people and families of suspected Islamic State militants. Heightened conflicts continued between regime forces and IS fighters in Deir Ez-Zor and Hama. Alleged Israeli strikes hit Iran-linked targets in al-Quneitra province.

TURKEY

Military operations against the Kurdistan Workers' Party (PKK) continued in southeast Turkey and northern Iraq. Ankara welcomed the agreement between the Iraqi Federal government and the Kurdistan Regional Government on the security of Sinjar, in hope that the deal helps remove PKK-affiliated groups from the region. In parallel, renewed Turkish exploration for hydrocarbon resources and military drills in the eastern Mediterranean Sea fuelled tensions with Greece. Turkey sided with Azerbaijan in the Nagorno-Karabakh conflict with Armenia. The European Commission's 2020 Progress Report on Turkey warned of serious deterioration in the areas of democracy, rule of law, fundamental rights, and in the independence of the judiciary.

Source: International Crisis Group, Newswires

EMERGING MARKETS

Economic recovery tied to activity in developed markets and financial conditions

Goldman Sachs expected economic activity in emerging markets (EMs) to improve in 2021, and to peak in the second quarter of the year. It anticipated economic growth to remain volatile in the short term, amid widespread but short-lived lockdown measures. It considered that, even if economic growth slows in the fourth quarter of 2020 and in the first quarter of 2021 from a second wave of the coronavirus pandemic, the recovery in economic activity that took place right after the second quarter of 2020 supports the positive outlook for 2021. Still, it considered that a second wave of the virus and delays in producing a COVID-19 vaccine would pose risks to the economic outlook in EMs.

Further, it indicated that economic activity in developed markets (DMs), global financial conditions, commodity prices and fiscal policy will have an impact on economic growth in EMs. It estimated that an increase of one percentage point in economic activity in DMs would raise activity across EMs by an average of 0.8 percentage points, with a lag of up to one month. In parallel, it anticipated that a tightening of 100 basis points in financial conditions would lower real GDP growth rates in EMs by an average of one percentage point for a period of one to two years. Further, it estimated that an increase in global oil prices by 10% would raise economic activity in EM oil-producing countries by 0.5 to one percentage point in the next two to three years. In contrast, it expected the increase in oil prices to reduce economic activity in EM oil-importing countries by about 0.3 to 0.4 percentage points. Still, it pointed out that the coronavirus-related developments will continue to outweigh other factors in driving EM economic output in the near term. It noted that monetary and fiscal easing during the pandemic will increasingly influence the pace of the economic recovery in EMs beyond mid-2021.

Goldman Sachs considered that the significant easing in financial conditions in Central & Eastern Europe, the Middle East & Africa from interest rate cuts and currency depreciation, will likely provide support to economic activity in the region.

Source: Goldman Sachs

AFRICA

Modest economic recovery in 2021 due to limited fiscal space and significant uncertainties

The International Monetary Fund projected economic activity in Sub-Saharan Africa (SSA) to contract by 3% in 2020, the steepest contraction on record, and nearly seven percentage points below the IMF's growth forecast in October 2019. Also, it expected economic activity of oil-exporting countries in the SSA region to shrink by 4% in 2020, with a contraction of 4% in Angola and of 4.3% in Nigeria. It also forecast real GDP in non-oil commodity exporters to retreat by 4.6% this year. It anticipated activity in the region's more-diversified economies, such as Côte d'Ivoire and Rwanda, to decelerate but to register positive growth rates in most of these countries.

It projected real GDP in the SSA region to grow by 3.1% in 2021 in case the global economy recovers and supports commodity prices and the region's export receipts, and if private consumption and investments rebound. It noted that the anticipated growth rate for SSA next year is significantly smaller than in other emerging markets, due in part to the relatively limited policy space to sustain an expansionary fiscal stance in most of the region's countries. It added that the SSA region will not return to its 2019 growth level until 2022, while its largest economies will revert to pre-crisis growth rates in 2023 or 2024. It said that the outlook is subject to substantial uncertainties, especially about the path of the pandemic and the development of a vaccine, the resilience of the region's healthcare systems, and the availability of external financing. It considered that SSA countries will struggle to maintain macroeconomic stability and to meet the basic needs of their population without external financing. It noted that other factors that could negatively affect the region's outlook are political instability, as well as floods or drought.

In parallel, the Fund forecast the region's external financing needs at $890bn in the 2020-23 period, which include about $480bn in external debt amortization. It expected private capital flows to finance less than 50% of the region's external financing needs, while it anticipated bilateral and multilateral funding to cover 25% of these needs. As such, it noted that the region faces a financing gap of about $223bn between 2020 and 2023.

Source: International Monetary Fund

MENA

Non-resident capital inflows to decline by 24% to $172bn in 2020

The Institute of International Finance projected capital inflows to the Middle East & North Africa (MENA) region at $172bn in 2020, which would constitute a decline of 23.7% from a peak of $225bn in 2019. It anticipated inflows to Gulf Cooperation Council (GCC) countries to drop by 23.2% to $144.7bn this year, but to be dominated by sovereign borrowing amid the collapse in global oil prices and widening fiscal deficits. In addition, it expected non-resident capital inflows to the region's oil importers to regress by 28% to $27.6bn, largely due to the decline in non-resident holdings of Egyptian securities. It noted that increased official flows, including from the International Monetary Fund, will in part offset the decrease in private capital inflows to the region's non-oil importers. It forecast portfolio inflows to the MENA region at $71.8bn in 2020, which would constitute a drop of 26% from a high level of $97bn in 2019, while it expected FDI inflows at $27bn in 2020, down by 19.5% year on year. It also projected other investments to drop by 22.8% to $73.3bn in 2020.

In parallel, the IIF projected non-resident capital inflows to the MENA region to grow by 2.7% to $176.5bn in 2021, due in large part to the increase in gross public external financing needs. It forecast the latter at $107bn in 2021 relative to nearly $100bn in 2020, with $73bn in external financing needs for oil exporters and $34bn for oil importers. In addition, it expected private capital inflows to the MENA region at $157bn next year and to target mainly Saudi Arabia, the UAE and Qatar; while it anticipated official flows at $20bn. It forecast portfolio inflows to the MENA region to rise by 1.8% to $73bn in 2021, and for FDI inflows to surge by 15.2% to $31bn next year. Still, it said that FDI inflows will remain subdued at about 1% of GDP in 2021, and will be largely concentrated in the oil and gas sector, with the UAE and Egypt receiving more than 50% of FDI flows. It anticipated other inflows to the region to regress by 1.2% to $72.4bn in 2021.

Source: Institute of International Finance

UAE

Agencies take actions on emirates' ratings

Fitch Ratings affirmed at 'AA' Abu Dhabi's long-term foreign-currency Issuer Default Rating, with a 'stable' outlook. It said that the rating balances the Emirate's strong fiscal and external positions and elevated GDP per capita against its high dependence on the hydrocarbon sector, an economic policy framework that is still under development and relatively weak governance indicators. It estimated Abu Dhabi's sovereign net foreign assets at 218% of GDP at end-2019, the third-largest among rated-sovereigns, which provides a strong buffer against the drop in global oil prices. In parallel, S&P Global Ratings downgraded from 'A' to 'A-' the long-term foreign and local currency sovereign credit ratings of the Emirate of Ras Al Khaimah (RAK), with a 'stable' outlook. It attributed the downgrade to its expectations of a 5% contraction in the Emirate's economic activity in 2020, mainly due to lower oil prices and the impact of the COVD-19 outbreak, and to its forecast of below-trend growth rates in the 2020-23 period. Also, it pointed out that RAK has limited fiscal space as public revenues averaged just under 9% of GDP in the 2014-19 period, and anticipated this trend to persist until 2023. In parallel, S&P downgraded from 'BBB' to 'BBB-' the Emirate of Sharjah's long-term sovereign credit ratings, with a 'stable' outlook. It attributed the downgrade to the Emirate's weakening fiscal position, as it forecast its net public debt level to rise from 12% of GDP at the end of 2017 to 29% of GDP at end-2020, and for the government's debt servicing to increase from 12% of public revenues in 2020 to about 17% of receipts by 2023.

Source: Fitch Ratings, S&P Global Ratings

MOROCCO

Sovereign ratings downgraded, coronavirus weighs on fiscal and external positions

The International Monetary Fund expected Morocco's real GDP to contract by 6% to 7% in 2020, due to the drought and the coronavirus pandemic. It anticipated economic activity to grow by 4.5% in 2021, but it noted that the outlook is subject to significant downside risks. In addition, it forecast the fiscal and external deficits to widen, amid lower tax revenues and tourism receipts. However, it considered that resilient remittance inflows and lower imports reduced the country's external financing needs, and that foreign currency reserves remain adequate. The Fund indicated that a gradual fiscal consolidation and the resumption of structural reforms are essential to support the economic recovery from the pandemic. In parallel, Fitch Ratings downgraded Morocco's long-term foreign-currency Issuer Default Rating from 'BBB-' to 'BB+' and assigned a 'stable' outlook to the rating. It attributed the downgrade to the significant adverse impact of the coronavirus on the economy, as well as on the country's public and external finances. It anticipated the general government's fiscal deficit to widen to 7.3% of GDP in 2020 due to a steep drop in tax revenues. It expected the fiscal deficit at 5.8% of GDP in 2021, amid higher public spending and a slow recovery in tax receipts. As such, it projected the general government's debt to expand to 68.5% of GDP at end-2021. Further, it forecast the current account deficit at 5.4% of GDP in 2022 and the net external debt at 23.5% of GDP at end-2022 due to the slowdown in manufacturing and tourism activities.

Source: International Monetary Fund, Fitch Ratings

JORDAN

Economic activity to contract by 3% in 2020

The International Monetary Fund indicated that the Jordanian authorities have effectively responded to the first COVID-19 wave. However, it noted that the pandemic weighed on the economy, as the unemployment rate surged, tourism activity slowed down, remittance inflows declined, and public revenues decreased. As such, it projected real GDP to contract by 3% in 2020, and for growth to rebound to 2.5% in 2021 in case the pandemic abates and supports a gradual recovery in activity. In parallel, it said that authorities have relaxed fiscal targets for 2020 to mitigate the impact of the outbreak, and expected the Extended Fund Facility with the IMF to accommodate higher-than-expected pandemic-related spending. Still, it pointed out that authorities showed policy discipline, including through equitable tax reforms that aim to tackle tax evasion, close loopholes, and broaden the tax base. It added that the government has agreed on the fiscal targets for 2021, which aim to support the economic recovery while limiting the rise in the public debt level. It encouraged authorities to closely monitor contingent liabilities from the broader public sector, and stressed that structural reforms are critical, especially in the electricity sector, where pressures on the latter increased in the aftermath of the pandemic. Further, the IMF forecast international reserves at the Central Bank of Jordan to remain adequate in the 2020-21 period. It noted that the virus has significantly increased the country's financing needs and considered that multilateral and official bilateral lenders might need to increase critical financial support.

Source: International Monetary Fund

IRAN

Sovereign ratings affirmed, outlook 'negative'

Capital Intelligence Ratings affirmed at 'B' Iran's long- and short-term foreign and local currency ratings, with a 'negative' outlook on the long-term ratings. It said that the ratings reflect the government's strained finances, the challenging economic environment, and high external and internal political risks. It noted that, despite the country's very low external debt level, the ability of the authorities to service it on time has weakened due to U.S. sanctions that restricted the access to large assets held abroad. It pointed out that the 'negative' outlook reflects expectations that the fiscal deficit will widen from 5.7% of GDP in the fiscal year that ended on March 20, 2020 to 9.4% of GDP in FY2020/21, due to the adverse economic impact of the COVID-19 pandemic and the sharp decrease in oil prices since early 2020. It pointed out that the widening deficit raises government-financing risks, given the restricted capacity of the domestic banking sector to provide financing and the country's very limited access to international borrowing. As a result, it noted that the government continues to rely on funding from the Central Bank of Iran, which fueled inflationary pressures and increased macroeconomic stability risks. It added that substantial risks to fiscal sustainability originate from the very large contingent liabilities, despite the central government's moderate debt level of 46% of GDP as at the end of March 2020. It forecast Iran's real GDP to contract by 3.3% in FY2020/21 and to grow by 1.5% in FY2021/22, as it expected global oil demand and Iran's services sector to recover only very gradually until coronavirus-related risks abate.

Source: Capital Intelligence Ratings

SUDAN

Authorities preparing ground for exchange rate unification

The International Monetary Fund considered that the banking sector in Sudan is weak and that several banks are undercapitalized. It said that the sector's risk-weighted capital adequacy ratio stood at 15.4% at the end of 2019 compared to 10% at end-2018, but it noted that 12 out of 37 banks have capital adequacy ratios below the regulatory minimum of 12%. Further, it pointed out that authorities conducted a stress test on individual banks to assess the impact of the planned unification of the exchange rates on the banking system. It said that the assessment revealed that nine banks, including two systemically important ones, could be vulnerable to an adjustment of the exchange rate. It noted that the Central Bank of Sudan (CBoS) agreed with each of the nine banks on measures to reduce their vulnerabilities, including through capital injections, restrictions on dividend payouts, as well as other regulatory measures, in order to ensure that the exchange rate reforms do not undermine the stability of the banking sector. It estimated that problematic banks need to increase their capital by SDG3bn in order to reach levels that support the adjustment of the exchange rate. The Fund indicated that, under the program, authorities are expected to unify the exchange rates, except the customs exchange rate that will be adjusted at a later stage. It noted that commercial banks and foreign exchange bureaus will be able to set exchange rates in line with market conditions, subject to an adjustable band around the daily official exchange rate. It added that the CBoS will set the daily official exchange rate based on the market average exchange rate.

Source: International Monetary Fund

KUWAIT

Pandemic and low oil prices affect banks' asset quality and profitability

Fitch Ratings indicated that the COVID-19 outbreak and low global oil prices have weakened the asset quality and profitability metrics of the Kuwaiti banking sector. It noted that asset quality at banks deteriorated in the first half of 2020, mainly in the services and real-estate sectors, as the ratio of average impaired loans-to-gross loans rose from 1.4% at end-2019 to 2.5% at end-June 2020. It added that the loan impairment charges relative to average gross loans increased despite the banks' existing high loan-loss allowances. It anticipated pressure on asset quality at Kuwaiti banks to continue throughout the first half of 2021, and cautioned that loan deferral programs and regulatory flexibility for banks will mask the true impact of the crisis in the short term. In addition, the agency said that the system's liquidity is elevated and sufficient to meet all funding maturities, as the average liquidity coverage ratio stood at 180% at end-June 2020. It pointed out that the average gross loans-to-deposits ratio increased from just above 85% at end-2019 to 86% at end-June 2020. Also, it noted that the banks' core capital ratios slightly decreased in the first half of 2020, but remained adequate despite high concentration risks. It added that the average common equity Tier One ratio declined from 14.2% at end-2019 to 13.3% at end-June 2020. Further, Fitch expected lower interest rates, a decline in non-interest income, and higher loan impairment charges to continue to weigh on the banks' profitability in the near term.

Source: Fitch Ratings

QATAR

Ratings of eight banks affirmed

Fitch Ratings affirmed the long-term issuer default rating (IDR) of Qatar National Bank (QNB) at 'A+', and the IDRs of Qatar Islamic Bank (QIB), the Commercial Bank (CBQ), Doha Bank, Dukhan Bank, Qatar International Islamic Bank (QIIB), Al Khalij Commercial Bank (AKCB), and Ahli Bank at 'A'. It also maintained the 'stable' outlook on the IDRs of the eight banks. It noted that the ratings reflect the government's extremely high probability and capacity to support the banks in case of need. In parallel, the agency affirmed the viability rating (VR) of QNB at 'bbb+', the rating of QIB at 'bbb', the VR of Ahli Bank at 'bbb-', the VRs of CBQ, Dukhan Bank and QIIB at 'bb+', and the ratings of Doha Bank and AKCB at 'bb'. It indicated that pressures on the operating environment of Qatari banks from the spread of the coronavirus pandemic will weigh on their financial metrics. It added that the banking sector is largely exposed to the "distressed" real estate sector. As such, it expected banks that have a large stock of "Stage 2" loans in the real estate and contracting sectors to face higher restructuring and migration rates to "Stage 3" loans. However, it did not anticipate the impact on the banks' asset quality to fully materialize before the first quarter of 2021, as the Central Bank of Qatar's payments deferment measures expire in December 2020. In parallel, it said that Qatari banks have adequate capital buffers, but it noted that an increase of "Stage 2" and "Stage 3" loans could rapidly erode these buffers.

Source: Fitch Ratings

NIGERIA

Steep currency depreciation to affect banks' capital ratios

S&P Global Ratings maintained Nigeria's banking sector in 'Group 10' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '10' and an industry risk score of '9', as it considered that operating conditions for banks are uncertain because of low global oil prices and COVID-19-related setbacks. The BICRA framework evaluates banking systems based on economic and industry risks facing banks, with 'Group 10' including the riskiest banking sectors. The agency indicated that Nigeria's economic risk score reflects its "extremely high risks" in economic resilience and credit risk in the economy, as well as its "high risks" in economic imbalances. It expected the banks' non-performing loans ratio to rise from 6% in 2019 to 12% though 2021, and cautioned that the capital ratios at some banks could fall below the minimum regulatory level in case of a steeper-than-anticipated currency depreciation. It forecast the sector's profitability to weaken in the 2020-21 period due to higher credit losses and lower interest margins. Further, S&P pointed out that the industry score reflects the country's "extremely high risks" in its institutional framework, "very high risks" in its system-wide funding, and "high risks" in its competitive dynamics. It noted that it reduced its funding risks rating from "extremely high" to "very high" because customer deposits finance more than 80% of loans, and as the external debt will remain manageable. It considered that this mitigates the risks related to the Central Bank of Nigeria's priority of preserving foreign currency reserves to meet the government's financial obligations. It indicated that the trend for Nigeria's economic and industry risks is "stable".

Source: S&P Global Ratings

Brent oil prices to average $44p/b in 2020

IICE Brent crude oil front-month prices averaged $42.5 p/b in the first 10 months of 2020, constituting a drop of 33.8% from $64.2 p/b in the same period of 2019. They averaged $41.5 per barrel (p/b) in October 2020 and regressed by 0.8% from $41.9 p/b in September. The decline in prices in the first 10 months of the year is mainly due to the COVID-19 lockdown measures that reduced global demand for oil. However, the OPEC and non-OPEC production cut agreement in June, as well as the recovery in global economic activity and in oil demand in the third quarter of 2020, provided some support to oil prices, which rose from a low of $19.3 p/b on April 21. Still, the marginal decline in oil prices in October was due to the surge in coronavirus cases in the U.S. and Europe and renewed lockdown measures, as well as to the increase in Libya's oil output, and to the "wait-and-see" mode of traders ahead of the results of the U.S. presidential election. Citi Research expected the potential election of Joe Biden as U.S. President to have major geopolitical repercussions on oil prices. It noted that the possibility of a return of the U.S. to the Joint Comprehensive Plan of Action with Iran could have a negative impact on oil prices, as it would raise Iranian oil exports. However, it considered that Biden's election would likely solidify the relationship between Russia and Saudi Arabia, and would lead OPEC to cut production further in January. It forecast oil prices to average $44 p/b in 2020 and $57 p/b in 2021.
Source: Citi Research, Refinitiv, Byblos Research

Iraq's oil exports receipts up 8% in October

Preliminary figures show that Iraq's crude oil exports totaled 89.2 million barrels in October 2020, up by 13.7% from 78.4 million barrels in September 2020. They averaged 2.9 million barrels per day (b/d) in October 2020 compared to 2.6 million b/d in the previous month. Oil exports from the central and southern fields reached 86 million barrels in October, while shipments from the Kirkuk fields totaled 2.9 million barrels. Oil receipts stood at $3.4bn in October, up by 8% from $3.2bn in September 2020.
Source: Iraq Ministry of Oil, Byblos Research

Steel output down 3% in first nine months of 2020

Global steel production reached 1.35 billion tons in the first nine months of 2020, constituting a decrease of 3.2% from 1.4 billion tons in the same period of 2019. Production in China totaled 781.6 million tons and accounted for 58% of global output in the covered period. India followed with 70.2 million tons (5.2%), then Japan with 61.2 million tons (4.5%), the U.S. with 53.5 million tons and Russia with 53.3 million tons (4% each), as well as South Korea with 49.6 million tons (3.7%).
Source: World Steel Association, Byblos Research

Middle East's jewelry demand down 36% to 82 tons in first nine months of 2020

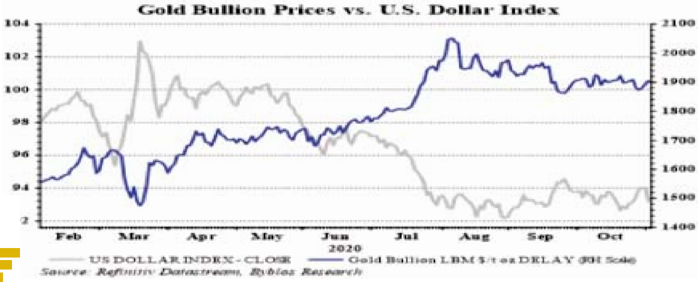
Demand for jewelry in the Middle East totaled 82.2 tons in the first nine months of 2020, constituting a decline of 35.7% from 128 tons in the same period of 2019. It accounted for 9.1% of global jewelry demand. Consumption of gold jewelry in Saudi Arabia reached 18.3 tons in the covered period, representing 22.3% of the region's demand. Iran and the UAE followed with 14.6 tons each (17.8% each), then Egypt with 14 tons (17%), and Kuwait with 7.6 tons (9.3%).
Source: World Gold Council, Byblos Research

Base Metals: Copper prices were unchanged in October 2020

LME copper cash prices averaged $6,714 per ton in October 2020, nearly unchanged from an average of $6,705 a ton in September 2020. Prices reached a more than two-year high of $6,978 per ton on October 21, then moderated to $6,708 a ton at the end of the month, mainly due to a stronger US dollar and the resurgence of coronavirus infections that led to new lockdown measures in Europe and renewed concerns about demand for metals. Copper prices increased to $6,829 per ton on November 4, supported by ongoing concerns about supply disruptions from Chile and by the acceleration in manufacturing activity in the U.S., China and the Eurozone, which boosted market sentiment. In addition, investors' optimism about the outcome of the U.S. presidential election drove copper prices, as they consider that a win by Democratic candidate Joe Biden increases the probability of an economic stimulus in the U.S. and of an ease in trade tensions with China. In parallel, the latest figures show that global demand for refined copper was 14.2 million tons in the first seven months of 2020, unchanged year-on-year, as higher demand in China offset the decrease in demand in the rest of the world. Also, global refined copper production increased by 1% annually to 13.97 million tons in the covered period, as higher output from Chile, the Democratic Republic of the Congo, Japan and Zambia was partially offset by lower production in the U.S, China, and India.
Source: International Copper Study Group, Refinitiv

Precious Metals: Global demand for gold drops by 10% in first nine months of 2020

Gold prices reached $1,899 per troy ounce on November 4, 2020, constituting an increase of 25% from $1,521 an ounce at the end of 2019. The rise in the metal's price is mainly due to higher uncertainties about the evolution of the COVID-19 pandemic, lower gold supply and a weaker US dollar. However, gold prices regressed by 1.3% from a recent high of $1,923.3 per ounce on October 21, 2020, driven by a stronger dollar amid a tighter-than-expected U.S. presidential race and optimism for a Trump win. In parallel, global gold demand totaled 2,972 tons in the first nine months of 2020 and declined by 10% from the same period last year. The drop was due to a decline of 58.2% in net purchases by central banks, a decrease of 41% in jewelry consumption, and a contraction of 10.4% in demand from the technology sector, which were partly offset by an increase of 63% in investments in ETFs and demand for bars & coins. Demand for bars & coins and investments in ETFs accounted for 55% of demand in the first nine months of 2020, followed by jewelry consumption (30.4%), net purchases by central banks (7.4%), and demand from the technology sector (7.3%). In parallel, global gold supply declined by 5.4% to 3,394 tons in the covered period, with mine production representing 73% of the total.
Source: World Gold Council, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	Usable Reserves / CAPs* (months)	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	-	-	-	-	B+								
	-	-	-	-	Negative	-4.8	-	-	-	-	-	-21.4	-
Angola	CCC+	Caa1	CCC	-	CCC								
	Stable	Stable	-	-	Negative	-4.0	127.1	7.7	91.1	45.4	122.9	-14.4	9.5
Egypt	B	B2	B+	B+	B+								
	Stable	Stable	Stable	Stable	Stable	-8.3	86.5	6.0	71.4	44.8	120.1	-4.6	1.8
Ethiopia	B	B2	B		B+								
	Negative	Negative	Negative	-	Negative	-3.2	31.3	2.3	64.8	4.5	175.3	-7.3	2.0
Ghana	B-	B3	B	-	BB-								
	Stable	Negative	Stable	-	Negative	-9.0	66.7	2.7	49.6	52.1	128.0	-4.3	3.8
Côte d'Ivoire	-	Ba3	B+	-	B+								
	-	Stable	Positive	-	Stable	--5.5	43.2	4.8	-	14.4	-	-4.0	0.2
Libya	-	-	-	-	CCC								
	-	-	-	-	Negative	-	-	-	-	-	-	-	-
Dem Rep Congo	CCC+	Caa1	-	-	CCC								
	Stable	Stable	-	-	Stable	-1.5	12.6	0.3	6.4	1.9	120.7	-5.3	2.5
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Negative	Stable	Negative	-	Stable	-7.4	61.6	6.0	40.4	9.2	101.3	-8.9	1.0s
Nigeria	B-	B2	B	-	B-								
	Stable	Negative	Stable	-	Negative	-5.0	47.6	4.5	62.1	56.7	130.1	-6.6	0.2
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-	-	-	-	-	-	-	-
Tunisia	-	B2	B	-	B+								
	-	Negative	Stable	-	Negative	-4.7	81.0	4.2	-	11.9	-	-8.3	0.5
Burkina Faso	B	-	-	-	B+								
	Stable	-	-	-	Stable	-5.0	46.7	0.5	28.51	5.18	140.33	-5.52	0.5
Rwanda	B+	B2	B+	-	B+								
	Negative	Negative	Stable	-	Stable	-12.46	67.5	4.76	30.01	7.51	124.17	-16.44	1.0
Middle East													
Bahrain	B+	B2	B+	BB-	BB-								
	Stable	Stable	Stable	Negative	Negative	-12.1	114.4	-0.9	207.3	33.9	349.5	-10.1	2.2
Iran	-	-	-	B	BB-								
	-	-	-	Negative	Negative	-9.3	-	-	-	-	-	-5.0	-
Iraq	B-	Caa1	B-	-	CC+								
	Stable	Stable	Negative	-	Stable	-17.5	84.4	-0.1	6.9	8.3	140.9	-11.0	-1.0
Jordan	B+	B1	BB-	B+	BB+								
	Stable	Stable	Negative	Stable	Stable	-5.0	85.6	1.7	82.9	11.6	170.0	-6.8	1.5
Kuwait	AA-	A1	AA	AA-	AA-								
	Negative	Stable	Stable	Stable	Stable	-9.7	11.6	2.1	72.6	0.9	160.6	-13.6	0
Lebanon	SD	C	C	SD	CCC								
	-	-	-	-	Negative	-12	197.2	7.5	143.0	80.3	149.7	-5.1	1.5
Oman	B+	Ba3	BB-	BBB-	BB-								
	Stable	Negative	Negative	Negative	Negative	-16.5	83.8	1.7	43.5	11.4	144.6	-15.6	3.8
Qatar	AA-	Aa3	AA-	AA-	A+								
	Stable	Stable	Stable	Stable	Negative	-0.6	84.6	3.1	201.8	8.5	242.2	-4.9	-1.5
Saudi Arabia	A-	A1	A	A+	A+								
	Stable	Negative	Stable	Stable	Stable	-12.6	35.6	19.7	21.9	3.3	48.5	-9.8	-1.1
Syria	-	-	-	-	C								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-	-	-	-	-	-	-	-
Yemen	-	-	-	-	CC								
	-	-	-	-	Stable	-	-	-	-	-	-	-	-

COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	Usable Reserves / CAPs* (months)	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 Stable	B+ Stable	- -	B- Stable	-5.0	62.0	-	-	9.9	-	-8.5	0.9
China	A+ Stable	A1 Stable	A+ Stable	- -	A Stable	-11.1	56.0	14.4	47.0	2.2	66.7	1.2	0.4
India	BBB- Stable	Baa3 Negative	BBB- Negative	- -	BBB Negative	-11.5	84.6	10.6	56.8	32.1	84.1	-0.9	1.1
Kazakhstan	BBB- Stable	Baa3 Positive	BBB Stable	- -	BBB- Negative	-5.1	20.9	5.4	34.9	8.9	100.0	-5.9	3.4
Pakistan	B- Stable	B3 Stable	B- Stable	- -	CCC Stable	-9.5	88.2	0.5	42.7	61.2	145.8	-1.5	0.5
Central & Eastern Europe													
Bulgaria	BBB Stable	Baa2 Positive	BBB Stable	- -	BBB Stable	-4.0	25.6	2.8	32.0	1.6	104.9	1.9	0.5
Romania	BBB- Negative	Baa3 Negative	BBB- Stable	- -	BBB- Negative	-8.0	46.2	4.0	28.0	4.9	101.5	-4.8	0.5
Russia	BBB- Stable	Baa3 Stable	BBB Stable	- -	BBB- Stable	-6.8	22.9	13.0	23.7	4.9	58.3	0.8	0
Turkey	B+ Stable	B2 Negative	BB- Negative	B+ Stable	B- Stable	-5.0	38.0	1.8	83.6	9.5	161.9	-1.0	0.5
Ukraine	B Stable	B3 Stable	B Stable	- -	B- Stable	-7.1	65.1	3.8	55.0	7.3	118.5	-6.0	0.5

* *Current account payments*

Source: S&P Global Ratings, Fitch Ratings, Moody's Investors Service, CI Ratings, IHS Markit, Byblos Research - The above figures are projections for 2020

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.00-0.25	16-Sep-20	No change	05-Nov-20
Eurozone	Refi Rate	0.00	29-Oct-20	No change	10-Dec-20
UK	Bank Rate	0.10	05-Nov-20	No change	17-Dec-20
Japan	O/N Call Rate	-0.10	29-Oct-20	No change	18-Dec-20
Australia	Cash Rate	0.10	03-Nov-20	Cut 15bps	01-Dec-20
New Zealand	Cash Rate	0.25	23-Sep-20	No change	11-Nov-20
Switzerland	SNB Policy Rate	-0.75	24-Sep-20	No change	17-Dec-20
Canada	Overnight rate	0.25	28-Oct-20	No change	09-Dec-20
Emerging Markets					
China	One-year Loan Prime Rate	3.85	20-Oct-20	No change	20-Nov-20
Hong Kong	Base Rate	0.86	15-Mar-20	Cut 64bps	N/A
Taiwan	Discount Rate	1.125	17-Sep-20	No change	N/A
South Korea	Base Rate	0.50	14-Oct-20	No change	26-Nov-20
Malaysia	O/N Policy Rate	1.75	03-Nov-20	No change	N/A
Thailand	1D Repo	0.50	23-Sep-20	No change	18-Nov-20
India	Reverse repo Rate	4.00	09-Oct-20	No change	04-Dec-20
UAE	Repo Rate	1.50	16-Mar-20	No change	N/A
Saudi Arabia	Repo Rate	1.00	16-Mar-20	Cut 75bps	N/A
Egypt	Overnight Deposit	8.75	24-Sep-20	Cut 50bps	12-Nov-20
Jordan	CBJ Main Rate	2.50	16-Mar-20	Cut 100bps	N/A
Turkey	Repo Rate	10.25	22-Oct-20	No change	19-Nov-20
South Africa	Repo Rate	3.50	17-Sep-20	No change	19-Nov-20
Kenya	Central Bank Rate	7.00	29-Sep-20	No change	26-Nov-20
Nigeria	Monetary Policy Rate	11.50	22-Sep-20	Cut 100bps	23-Nov-20
Ghana	Prime Rate	14.50	28-Sep-20	No change	23-Nov-20
Angola	Base Rate	15.50	28-Sep-20	No change	27-Nov-20
Mexico	Target Rate	4.25	24-Sep-20	Cut 25bps	12-Nov-20
Brazil	Selic Rate	2.00	28-Oct-20	No change	09-Dec-20
Armenia	Refi Rate	4.25	27-Oct-20	No change	15-Dec-20
Romania	Policy Rate	1.50	05-Aug-20	Cut 25bps	N/A
Bulgaria	Base Interest	0.00	02-Nov-20	No change	01-Dec-20
Kazakhstan	Repo Rate	9.00	26-Oct-20	No change	14-Dec-20
Ukraine	Discount Rate	6.00	22-Oct-20	No change	10-Dec-20
Russia	Refi Rate	4.25	23-Oct-20	No change	18-Dec-20

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