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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global merchandise trade declines by 4% in third quarter of 2020

The World Trade Organization indicated that the value of global merchandise exports declined by 4% in the third quarter of 2020 from the same quarter of 2019, which is closer to pre-pandemic trends than the contraction of 21% in the second quarter of the year, as production and exports resumed in major economies after the easing of lockdown measures. It estimated that the exports of merchandise contracted by 11% in North America in the third quarter of 2020, followed by South & Central America (-10%), Europe (-2%), and other regions (-23%). In contrast, it noted that merchandise exports from Asia increased by 2% in the covered quarter, supported by a rise in Chinese exports. Further, it said that merchandise imports decreased by 6% annually in the covered quarter, following a contraction of 21% in the preceding quarter. It estimated that the imports of merchandise contracted by 23% in South & Central America, followed by North America (-7%), Asia (-6%), Europe (-3%), and other regions (-13%). It noted that trade in fuels and mining products decreased by 28% in the third quarter of 2020, followed by trade in manufactured goods (-5%), and trade in agricultural products (-4%). Further, global trade in textiles increased by 24% in the third quarter of 2020 driven by high demand for face masks, followed by a rise of 11% in trade in computers, and of 10% in the trade of electronic components. In contrast, it noted that the trade in iron and steel dropped by 19% in the covered quarter, followed by trade of footwear products (-18%), travel goods & handbags (-17%), automotive products (-13%), clothing & industrial machinery (-8% each), other chemicals (-7%), toys, games & sports equipment (-6%), telecommunication equipment including smartphones & precision instruments (-2% each), and pharmaceuticals (-1%).

Source: World Trade Organization

EMERGING MARKETS

Trading in Credit Default Swaps down 19% to $392bn in third quarter of 2020

Trading in emerging markets Credit Default Swaps (CDS) reached $392bn in the third quarter of 2020, constituting a decrease of 19% from $486bn in the third quarter of 2019 and an increase of 36% from $289bn in the second quarter of 2020. CDS trading in the second quarter of the year reached its lowest level in three years due to the adverse impact of the coronavirus outbreak, which explains the significant rebound in the third quarter. The most frequently traded sovereign CDS contracts in the third quarter of 2020 were those of China at $40bn, followed by Brazil at $32bn, and Indonesia at $27bn. As such, traded sovereign CDS contracts on China accounted for 10.2% of total trading in emerging markets CDS in the covered quarter, followed by CDS contracts on Brazil (8.2%), and Indonesia (7%). Further, the most frequently traded corporate CDS contracts in the covered quarter were those of Mexico's state-oil company Pemex at $1.2bn. The survey covered data from 12 major international banks and broker-dealers on CDS contracts for 21 emerging economies and nine emerging market corporate issuers.

Source: EMTA

GCC

Fixed income issuance up 5% to $143bn in first 11 months of 2020

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $142.6bn in the first 11 months of 2020, constituting an increase of 5.2% from $135.5bn in the same period of 2019. Fixed income issuance in the covered period consisted of $47.6bn in sovereign bonds, or 33.4% of the total, followed by $46.3bn in corporate bonds (32.5%), $28.7bn in sovereign sukuk (20.1%), and $20bn in corporate sukuk (14%). Further, aggregate issuance by GCC sovereigns amounted to $76.3bn in the first 11 months of 2020, or 53.5% of aggregate issuance in the region; while bonds and sukuk issued by corporates in the GCC reached $66.3bn, or 46.5% 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, $10.3bn in September, $2.8bn in October, and $0.5bn in November 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, $5.5bn in July, $1.5bn in August, $8.3bn in September, $4.6bn in October, and $17.1bn in November 2020. Sovereign issuance in November consisted of $540.6m in sukuk issued by Oman. In parallel, corporate issuance in the covered month shows that Saudi-based companies issued $7.5bn in bonds and $1.3bn in sukuk, UAE-based firms issued $4.1bn in bonds and $2.4bn in sukuk, Kuwait-based corporates issued $300m in sukuk, and Qatar-based firms issued $202.7m in bonds.

Source: KAMCO

IRAQ

Profits of listed firms up 66% to $326m in first nine months of 2020

The cumulative unaudited pre-tax profits of 76 out of 130 companies listed on the Iraq Stock Exchange totaled IQD403.1bn in the first nine months 2020, constituting an increase of 70% from IQD237.3bn in the same period of 2019. In US dollar terms, the profits of the listed companies reached $326m in the covered period and grew by 65.8% from $196.7m in the first nine months of 2019. The dollar figures reflect the prevailing market exchange rate that depreciated from an average of IQD1,206 per US dollar in the first nine months of 2019 to an average of IQD1,236 per dollar in the same period of 2020. Listed telecommunication firms generated $180.6m in profits in the first nine months of 2020, followed by banks ($93.5m), industrial companies ($46.3m), firms in the hotel & tourism sector ($2.4m), companies operating in the agricultural sector ($1.6m), services providers ($1.4m), and insurers ($0.3m). In parallel, investment firms posted losses of $0.08m in the covered period. Further, the profits of banks surged by 8.3 times year-on-year in the first nine months of 2020, followed by the earnings of insurers (+6 times), firms operating in the agricultural sector (+4.3 times), telecommunication companies (+31.2%), and industrial firms (+23.5%). In contrast, the profits of companies operating in the hotel & tourism sector decreased by 70% in the covered period, while the earnings of service providers regressed by 29%.

Source: Iraq Stock Exchange

POLITICAL RISK OVERVIEW - November 2020

ARMENIA

Prime Minister Nikol Pashinyan signed a Russian-brokered ceasefire with Azerbaijan, as the latter captured the strategic Shusha city in the Nagorno-Karabakh conflict zone. PM Pashinyan defended his decision by saying that the Armenian army and Nagorno-Karabakh officials insisted on the agreement. Under the ceasefire agreement, Azerbaijan retains the captured territories, and Armenia hands over the areas of Agdam, Kelbajar and Lacin districts to Azerbaijan. The ceasefire stipulates the deployment of Russian peacekeepers in the remaining Armenian-controlled parts of Nagorno-Karabakh region. Nationwide violent protests erupted as a result of the signed agreement, and representatives of 17 opposition parties called for the resignation of the prime minister. But PM Pashinyan refused to resign and provided a six-month action plan to ensure stability in the country, following the resignation of several government officials.

CÔTE d'IVOIRE

The electoral commission declared President Alassane Ouattara the winner of the presidential elections that took place on October 31, 2020. Mr. Ouattara, who was elected for a third term, received 94% of the votes and the Constitutional Council ratified the results. The outcome triggered violence in several regions, especially in opposition strongholds in the center of the country. After boycotting the elections, opposition parties announced the creation of the National Transitional Council, which will be in charge of forming a transitional government with the aim of organizing new presidential elections. The United Nations Refugee Agency said that over 8,000 Ivorians fled to neighboring countries since election day, while the government announced that 31 individuals were killed in clashes following the elections.

EGYPT

The Mostaqbal Watan Party, which is affiliated with President Abdel Fattah el-Sisi, won the majority of seats in Parliament following the second stage of the first round of the legislative elections amid a turnout of 30%. Islamic State militants planted explosive devices that killed two soldiers and other civilians, shot dead two soldiers and hit a natural gas pipeline in the area. Egypt, Ethiopia and Sudan failed to reach an agreement about the filling and operation of the Grand Ethiopian Renaissance Dam following new rounds of negotiations.

ETHIOPIA

Following months of tensions between the federal government and the regional state of Tigray, Prime Minister Abiy Ahmed ordered a military offensive against Tigray troops, which led to the killing of thousands and the displacement of tens of thousands into neighboring Sudan. Federal forces captured Mekelle, the capital city of Tigray, after PM Ahmed gave the province's regional forces a 72-hour ultimatum to surrender and Tigray leaders vowed to continue fighting. In parallel, PM Ahmed replaced the Minister of Foreign Affairs, the head of the National Intelligence and Security Service, and the head of the National Defense Force. Tripartite negotiations stalled between Ethiopia, Egypt and Sudan about the Grand Ethiopian Renaissance Dam on the Nile River.

IRAN

The International Atomic Energy Agency (IAEA) indicated that Iran continued to exceed its uranium stockpile limits, which reached 12 times the cap under the Joint Comprehensive Plan of Action (JCPOA). Iran accused Israel of killing its senior nuclear scientist in an ambush in Absard city east of Tehran. The U.S. continued to impose unilateral sanctions on Iranian-linked entities and persons. The government indicated that it would honor its commitments under the JCPOA if the new U.S. administration lifts its sanctions on Iran in line with UN Security Council Resolution 2231. In parallel, the third wave of COVID-19 infections prompted authorities to implement a lockdown in Tehran and 150 other cities for an initial two-week period.

IRAQ

The Ashab al-Kahf group, which is affiliated to Kataib Hizbollah, launched rockets on the Green Zone in retaliation for the arrest of three of its members in Fallujah city. Still, Kataib Hizbollah maintained the agreement to suspend attacks on U.S. targets. In Baghdad, protesters demonstrated against police violence, while protesters in Basra and Nasiriyah cities called for the resignation of local governors. Tensions increased between rival Kurdish factions, as the Kurdistan Workers' Party launched separate attacks on the Kurdistan Regional Government's (KRG) oil and gas police and on Kurdish Peshmerga forces. Relations between Erbil and Baghdad deteriorated as the parliament passed a law that requires the KRG to transfer a share of its oil revenues to Baghdad.

LIBYA

The Joint Military Commission, which consists of military officers loyal to the Government of National Accord (GNA) and others officers affiliated with Field Marshal Haftar's Arab-Libyan Armed Forces, met in order to establish subcommittees for the follow-up on the ceasefire agreement, and discussed reforming the military units that are tasked with protecting oil facilities. However, forces from both sides remained positioned on the front lines and continued to receive foreign military equipment, in defiance of the ceasefire. UN-backed negotiations produced a roadmap to presidential and parliamentary elections to be held in December 2021. Tensions rose between the Central Bank of Libya (CBL) on one side and the GNA and the National Oil Corporation on the other side, amid the latters' decision to transfer oil revenues to a transit account rather than accruing at the CBL.

SUDAN

The chairman of the Sovereign Council Abdel Fattah al-Burhan, signed a decree that granted general amnesty to the leaders of the rebel coalition Sudanese Revolutionary Front, the Sudan Liberation Movement/Army faction led by Minni Minnawi, as well as to military and paramilitary forces involved in fighting rebels. In parallel, peace talks stalled between the government and the rebel Sudan People's Liberation Movement-North faction led by Abdel Aziz al-Hilu. In parallel, the Forces for Freedom and Change alliance postponed the formation of the Transitional Legislative Council until the end of 2020, in order to allow for further consultations on the allocation of council seats with former rebel leaders that returned from exile.

SYRIA

Russia pledged $1bn for the reconstruction of Syria. Turkish troops withdrew from the Marhatat post on the Aleppo-Damascus road and from the Anadan post in the Aleppo governorate, citing Russian harassment of their resupply convoys. The Syrian regime shelled Turkish positions in Jabal al-Zawiya and Saraqib city, but the Turkish army fortified its position in Jabal al-Zawiya Mountain. Islamic State (IS) militants intensified their attacks on the Turkish-controlled Aleppo governorate, while regime forces clashed with IS militants in the central desert. The Kurdish-led Syrian Democratic Forces fought against Turkish-backed forces in Ain Issa town, north of Raqqa city. Alleged Israeli airstrikes killed more than 27 pro-Iranian militants.

TURKEY

Military forces carried out small-scale operations against the Kurdistan Workers' Party (PKK) that were concentrated largely in the rural areas in southeast Turkey. They also targeted PKK positions in northern Iraq. The Turkish government have been criminalizing the pro-Kurdish opposition Peoples' Democratic Party (HDP), as it detained more than 100 HDP officials and members. In parallel, tensions remained high between Turkey, Greece and Cyprus. In addition, the Turkish parliament approved a bill to deploy troops to Azerbaijan for a peacekeeping mission, following the ceasefire agreement between Armenia and Azerbaijan.

Source: International Crisis Group, Newswires

OUTLOOK

WORLD

Record-high public debt levels sustainable in 2021

Citi Research did not anticipate a global public debt crisis to materialize in 2021, as it expected the record-high debt levels to be sustainable next year amid ongoing support from central banks globally. It estimated that the public debt levels of advanced economies and emerging markets reached 130% of GDP and 75% of GDP, respectively, in 2020, due to higher spending and slower economic activity as a result of the coronavirus, as well as to the extremely low "fiscal multipliers". However, it cautioned from three risks that could trigger debt sustainability concerns. First, it said that a rise in inflation rates could challenge the central banks' support to governments, as any decision to tighten monetary policy will lead to a significant increase in government bond yields and threaten debt sustainability. However, it did not expect inflation to grow substantially and considered that many central banks will not react immediately to a sudden rise in inflation rates. It added that even a large increase in interest rates will not have an immediate impact on debt sustainability due to the long maturity of government bonds.

Second, it indicated that persistent uncertainties following the coronavirus pandemic will hinder the global economic recovery and increase further the debt ratios. But it noted that adequate fiscal policies with "high multipliers" could drive activity, notably in the private sector, and improve debt sustainability. It considered that negative actions on sovereign ratings could affect investors' decisions and limit fiscal space. It said that the global recovery requires additional fiscal stimulus. It added that a slow pace of reducing the fiscal deficit and a further rise in the global public debt level in the short term will support economic growth and debt sustainability in the medium term, if decisions-makers implement measures with "high multipliers". Third, it pointed out that a larger-than-anticipated fiscal burden, such as an ageing labor force, will increase concerns about debt sustainability, as it will slow down the increase in public revenues and accelerate the growth in health and pension spending in the long term.

Source: Citi Research

EMERGING MARKETS

Economic recovery to pick up in 2021

S&P Global Ratings considered that emerging markets (EMs) are recovering in the second half of 2020 from the sharp contraction in economic activity in the first half of the year as a result of the COVID-19 outbreak. It noted that the growth momentum slowed in the fourth quarter of the year following a solid rebound in the third quarter, and noted that the near-term outlook is subject to downside risks from the recent resurgence in COVID-19 cases in Europe, the U.S., as well in several major EMs. It projected the average real GDP growth rate of EM countries, excluding China, at 5.9% in 2021 relative to a contraction of 6.1% in 2020. It anticipated the recovery to be stronger in the second half of next year, supported in part by the availability and mass distribution of an effective vaccine against the coronavirus. On a regional basis, it projected real GDP to contract by 7.3% in Latin America, by 3.5% in Emerging Europe, the Middle East and Africa (EEMEA), and by 1.6% in Emerging Asia in 2020. Also, it forecast real GDP growth to rebound to 7.6% in Emerging Asia, 3.8% in Latin America and 3.1% in EEMEA in 2021.

In parallel, the agency expected the withdrawal of stimulus measures that governments deployed in several EMs to slow down the recovery in such countries, and anticipated that a decline in fiscal support could significantly weigh on growth in countries where domestic demand is still fragile. Also, it anticipated many central banks across Emerging Asia and Latin America to further ease monetary policy amid subdued inflationary pressure, while it considered that some central banks, including those in Brazil, Russia and South Africa, have reached the end of the easing cycle and will start raising policy rates.

Further, S&P expected the global economic recovery to support EM exports in 2021. However, it considered that an improvement in domestic demand in EM economies would fuel a self-sustained recovery in EMs, which would help mitigate the volatility in external demand. Still, it said that the outlook for EMs is subject to risks that include weakening fiscal positions, uncertainties about growth trajectories, as well as political and social instability.

Source: S&P Global Ratings

GCC

Real GDP to contract by 4.7% in 2020, growth to rebound to 3.1% in 2021

Deutsche Bank projected real GDP in Gulf Cooperation Council (GCC) countries to contract by 4.7% in 2020 and for growth to rebound to 3.1% in 2021. It expected GCC hydrocarbon production to expand by 2.8% next year following a contraction of 8.2% this year, and for non-hydrocarbon activity to grow by 3.1% in 2021 after it retreated by 2.1% in 2020. It anticipated the global recovery in the coming year to drive private activity in the UAE, given the country's high reliance on logistics and tourism, while it expected private sector activity in Saudi Arabia to outperform its regional peers in 2021. However, it forecast real GDP growth to slowdown to 2.5% in 2022, and anticipated most GCC economies to experience subdued growth rates until 2023.

In parallel, it noted that the lower global oil prices and a slowdown in demand for energy exacerbated the impact of the COVID-19 outbreak on the GCC governments' balance sheets. As such it projected the aggregate fiscal deficit of GCC countries at 11.6% of GDP in 2020 and at a narrower 6.8% of GDP next year, in case oil prices average $45 per barrel (p/b) in the first half and $50 p/b in the second half of 2021. It expected GCC authorities to rely on domestic and external debt issuance to finance their respective governments' fiscal deficits. As such, it forecast the region's aggregate public debt level to rise from 45% of GDP at the end of 2019 to 61% of GDP at the end of 2022. It did not expect the extent of fiscal reforms in GCC countries to be significant next year, due to high sovereign credit ratings, low public debt levels and debt servicing payments, as well as to the abundance of financial buffers. Further, it expected Kuwaiti authorities to pass a debt law facilitating external debt issuance in 2021, given the anticipated depletion of assets in the General Reserve Fund by end-2020. Also, it anticipated the rise in the value-added tax rate in Saudi Arabia to improve its public finances, and expected fiscal reforms in Oman to stabilize the public debt level at about 78% of GDP in the 2021-22 period.

Source: Deutsche Bank

EMERGING MARKETS

Coronavirus-related spending increases fiscal imbalances in LMICs

S&P Global Ratings anticipated new sovereign defaults among low- and middle-income countries (LMICs) after six sovereigns defaulted so far in 2020, as the COVID-19 pandemic forced authorities in LMICs to increase social spending at a time when their ability to continue servicing their debt is weakening. It indicated that the pandemic worsened the fiscal imbalances of the 46 LMICs that it rates, with a significant drop in tax revenues and increased spending pressures on health and social programs. It anticipated that only few of the 46 economies will be able to afford the fiscal stimuli that advanced countries are currently implementing and that are supported by their respective central banks. It said that 70% of LMICs carry a sovereign rating in the low 'B' and 'CCC' categories, reflecting weak public finances, elevated debt levels, high debt servicing burdens, narrow economic bases, and limited monetary flexibility. It added that the ability of some central banks in emerging markets to monetize the fiscal cost of the coronavirus is constrained by the high dollarization of their economies and their underdeveloped capital markets. It also noted that LMICs are highly dependent on external borrowings in foreign currency to finance their already wide deficits, given their underdeveloped domestic capital markets. The agency indicated that bilateral and multilateral lenders, as well as private creditors, will need to take difficult decisions to improve the capacity of LMICs to access more financial resources.

Source: S&P Global Ratings

GCC

Debt level of non-bank government-related entities at 30% of GDP

Fitch Ratings estimated that the aggregate debt of non-bank government-related entities (GREs) in the Gulf Cooperation Council (GCC) countries increased by three percentage points to 30% of GDP in 2019, with a debt of 14% of GDP in Kuwait, 21% of GDP in Saudi Arabia, 29% of GDP in Bahrain, 37% of GDP in Oman, 38% of GDP in Qatar and 45% of GDP in the UAE. In parallel, it noted that the aggregate debt of government-related banks in the GCC reached 17% of GDP in 2019 and ranged from 14% of GDP in Bahrain to 46% of GDP in Qatar in 2019. Fitch pointed out that potential contingent liabilities from banking sectors across the GCC become significantly larger when including banks with public sector ownership of 20% or more, and would range from 88% of GDP in Saudi Arabia to 244% of GDP in Qatar. It considered that the economic contraction in 2020 will exacerbate the debt ratios and raise the risks that the liabilities of GREs materialize on the balance sheets of GCC governments. It added that the sovereign ratings of Qatar and Oman are the most likely to be affected by the debt levels of their GREs. It indicated that Qatar’s banks are at risk of possible volatility in external funding conditions, as their net foreign liabilities rose to an all-time-high of $130bn or 70% of GDP in 2019. In addition, it noted that the debt of non-bank GREs in Qatar expanded in 2019 due to new borrowing by Qatar Airways and the reclassification of its financial lease liabilities. In parallel, it indicated that Oman's government has been encouraging GREs to rely less on government contributions and more on debt.

Source: Fitch Ratings

JORDAN

Sovereign ratings affirmed, outlook 'stable'

Capital Intelligence Ratings affirmed Jordan's long-term foreign and local currency ratings at 'B+', and maintained the 'stable' outlook on the ratings. It said that the COVID-19 outbreak has weakened economic activity and increased the pressure on public finances. However, it noted that the sustained commitment of the international community to provide financial assistance to Jordan, along with the Central Bank of Jordan's (CBJ) adequate foreign currency reserves and the banking system's relative soundness, have supported the sovereign's credit profile at its current level. It added that the sovereign ratings are constrained by a high and rising government debt level, regional instability risks, and significant socioeconomic challenges. It projected the central government's budget deficit to widen from 6% of GDP in 2019 to 8.8% of GDP in 2020, and expected it to remain wide next year amid public opposition to austerity measures. It forecast the central government's debt level to rise from 95.2% of GDP at end-2019 to 106.6% of GDP at the end of 2020. It estimated that foreign budgetary grants have increased from 2.5% of GDP in 2019 to 3.3% of GDP in 2020, which has partially eased fiscal pressures. It also noted that rising inflows in the financial account, including loan disbursements from the International Monetary Fund, Eurobond issuance and a U.S. grant, have alleviated the pressures on foreign currency liquidity. It forecast the CBJ's foreign currency reserves at $14.5bn at end-2020, nearly unchanged from a year earlier. But it said that the wide current account deficit, which it expects to reach 5% of GDP in 2020, makes the economy reliant on large financial inflows,

Source: Capital Intelligence Ratings

ANGOLA

IMF funding conditional on debt restructuring

Fitch Ratings indicated that the Angolan authorities' plan to narrow the fiscal deficit from 3.1% of GDP in 2020 to 2.2% of GDP in 2021 is achievable. However, it anticipated non-oil revenues to fall short of the authorities' target of 7.3% of GDP. Also, the agency said that its projections for oil receipts are higher than in the 2021 draft budget, and pointed out that the government is likely to reduce spending targets next year in case public revenues are lower than expected. It noted that the government's target fiscal deficit is aligned with the September 2020 projections of the International Monetary Fund, given that Angola's program with the IMF is a key source of external financing for the country. Further, it noted that the depreciation of the Angolan kwanza, combined with the high share of the public debt that is denominated in foreign currency, have contributed to the deterioration of the country's debt metrics, as it forecast the public debt level at 129% of GDP and at 774% of public revenues at the end of 2020. Still, it expected Angola to meet its 2020 and 2021 debt-servicing obligations, given the rescheduling of bilateral debt with China and the availability of external financing through the IMF program. But it noted that the IMF may not approve additional disbursements or agree to a follow-on program once the current program ends in 2021, in case authorities do not restructure the public debt, including the restructuring of the privately-held public debt. It said that the loss of the program with the IMF would jeopardize Angola's access to foreign financing.

Source: Fitch Ratings

BANKING

WORLD

Loosened banking regulations to continue until at least June 2021

Fitch Ratings expected the outlook on the global banking sector to be stable in 2021, reflecting expectations that loosened requirements on banking sector regulations will continue at least until June 2021 to mitigate the impact of the coronavirus pandemic. It pointed out that the Basel Committee's April amendment to transitional arrangements for expected credit loss (ECL) regimes allowed national authorities to fully neutralize the impact of ECLs on performing assets for 2020 and 2021. It considered that this step provides banks with more headroom to extend loans and to absorb losses. It anticipated regulatory authorities to provide guidance on the unwinding of the various relief packages and measures during 2021. It projected national supervisors to focus on risk controls, the LIBOR transition, and non-financial risks, such as operational risks. In parallel, the agency anticipated authorities in the Middle East & Africa region to remain supportive of their banking sectors, and did not expect a return to the stringent requirements of the pre-pandemic period. It considered that macro-prudential and financial stability issues will be of high importance for banks in the region. It indicated that banking regulations are used as a policy tool in Nigeria, and that authorities have delayed indefinitely the debate of Basel III proposals in light of the coronavirus. It considered that measures to address capital shortages in Angola's banking sector will continue. It also noted that undercapitalized banks in the West African Economic and Monetary Union will have to address capital shortfalls ahead of end-2022, with similar pressure on banks in the Economic Community of Central African States to adopt Basel II standards.

Source: Fitch Ratings

SAUDI ARABIA

Banking sector outperforms regional peers

Goldman Sachs indicated that banks in Saudi Arabia outperformed their peers in the Middle East & North Africa (MENA) region on several metrics so far in 2020. It attributed the Saudi banks' performance mainly to a growth in lending of 13% in 2020 relative to a credit expansion of 3% at MENA peers; a cost of risk of 100 basis points (bps) compared to 130 bps for banks in other MENA markets; and a contraction of 9% in the growth of earnings per share relative to a decline of 27% for regional peers during the year. In parallel, it projected lending growth at Saudi banks at 8% in 2021, as it anticipated corporate loans to grow by 6%, and for mortgages to expand by 30% next year. Also, it forecast the aggregate net interest margin of Saudi banks to decline by 15 bps in 2021, mainly due to the repricing of retail loans and the full impact of interest rate cuts. Further, it noted that the Saudi Central Bank (SAMA) could place interest-bearing deposits at banks, instead of its current deposits that do not carry interest, which will also affect their interest margins. In addition, it expected non-interest income at Saudi banks to normalize and to contract by 2% in 2021, despite an improvement of 7% in fee income. Further, it forecast a marginal improvement in the cost of risk from 106 bps in 2020 to 94 bps in 2021. It considered that SAMA's support program for banks, the strong growth in the mortgage portfolio, and the banks' non-performing loans coverage ratio of above 150% are key drivers of their credit quality.

Source: Goldman Sachs

BAHRAIN

Banking sector assessment maintained

S&P Global Ratings maintained Bahrain's banking sector in 'Group 7' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '7' and an industry risk score of '6'. The BICRA framework evaluates banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest sectors. Other countries in 'Group 7' are Croatia, Guatemala and Morocco. The agency said that Bahrain's economic risk score reflects its "very high" credit risk in the economy, as well as "high risk" in economic resilience and economic imbalances. It noted that the economic risk score takes into account the country's relatively diversified economy compared to GCC peers, against elevated credit risks from the slowdown in economic activity and high credit concentrations at the individual and sectoral levels. It projected the non-performing loans ratio of retail banks to reach 10% in 2021 following the lifting of regulatory forbearances, due mostly to the banks' exposure to the real estate and construction sectors. But it considered that the deterioration in the banks' asset quality is manageable and that most of the banks' exposure to the retail sector, which represents 37% of total loans, is backed by salary assignments and the high share of mortgages. In parallel, the agency pointed out that the industry risk score reflects the sector's "high risk" in its competitive dynamics and its system-wide funding, as well as "intermediate risk" in its institutional framework. It considered that funding risks for retail banks are rising, given the increase in their net external liabilities. S&P indicated that the trend for economic and industry risks is "stable".

Source: S&P Global Ratings

ARMENIA

Stable outlook on banking sector

Fitch Ratings attributed its 'stable' outlook on the Armenian banking sector to an expected modest rebound in Armenia's economic activity in 2021, as well as to broadly reasonable business prospects and revenue generation for banks. It anticipated that the increase in bank lending next year will be in line with the credit growth rate in 2020, but it said that lending growth in 2021 could be lower than in 2020 in case authorities do not renew the stimulus measures they introduced in response of the COVID-19 outbreak. Further, the agency indicated that the impact of the coronavirus crisis on the banks' asset quality has been mitigated by credit holidays and loan restructuring in the first half of 2020. It anticipated the asset quality of banks to come under moderate pressure, and expected the banking sector to be able to address and absorb its credit losses from the Nagorno-Karabakh crisis. However, it noted that the elevated dollarization rate in lending of 50% and the high indebtedness of households constitute factors of vulnerability for the banking sector's asset quality. In parallel, it noted that profit retention and regulatory forbearances have helped banks preserve their capital levels this year. It expected banks to cover their provisioning needs in 2021 without utilizing their capital base, and to comply with the gradual increase of the regulatory capital requirements, as mandated by the Central Bank of Armenia. It noted that deposits as a source of funding have been stable, as there were no large outflows since the start of the conflict with Azerbaijan in early October 2020.

Source: Fitch Ratings

Brent oil prices to average $54p/b in 2021

ICE Brent crude oil front-month prices reached $49.3 p/b on December 4, 2020, their highest level since March 2020, as expectations of a U.S. economic stimulus package and the positive prospects of a vaccine for the coronavirus outweighed rising global oil supply and the increase in the number of COVID-19 infections worldwide. Also, OPEC and non-OPEC members agreed to cut production by 7.2 million barrels per day (b/d) in January, compared with the current output reduction of 7.7 million b/d, leading to an additional 0.5 million b/d in the market. Also, the OPEC and non-OPEC countries will decide on output cuts from January onwards during their monthly ministerial meetings. Citi Research considered that OPEC and its allied oil exporters complied with the cuts and contributed to reducing the global oil inventories since mid-2020. It forecast Brent oil prices to average $51 p/b in the first quarter of 2021, $53 p/b in the second quarter of the year, $55 p/b in the third quarter and $56 p/b in the fourth quarter of 2021. As such, it anticipated oil prices to average $54 p/b in 2021. In contrast, the Institute of International Finance expected that higher global oil inventory levels and the available spare production capacity in key oil producers will contain the upward pressure on oil prices in 2021. As such, it projected Brent oil prices to average between $47 p/b and $48 p/b in 2021. It considered that prices are likely to remain at around $50 p/b in the long term, as the hydrocarbon industry faces increased competition from renewable energy sources, electric vehicles and stringent global climate-change regulations.
Source: Citi Research, Refinitiv, CNBC, IIF

Egypt invests $27.4bn in petrol and mineral sector

Egypt completed 37 development projects in the petroleum and mineral wealth sector in the last two fiscal years that ended in June 2020, resulting in EGP431.3bn, or $27.4bn, in related investments. The governorates of Assiut, Bani Suef, Dakahlia, Matrouh, Port Said, Qaloubia, and Red Sea received one project each for an aggregate of EGP343.3bn in investments.
Source: Refinitiv

Libya's oil and gas receipts down 77% to $4.8bn in first 11 months of 2020

Libya's oil and gas revenues totaled $4.8bn in the first 11 months of 2020, constituting a decrease of 76.5% from $20.3bn in the same period of 2019. The decline in hydrocarbon receipts was mainly due to supply disruptions amid blockades of several oil facilities. Oil and gas receipts amounted to $700.4m in November 2020, constituting an increase of 204.3% from $230.2m in October, due to the lifting of the blockade at several ports and fields.
Source: National Oil Corporation, Byblos Research

MENA's natural gas exports to grow by 9% in 2021

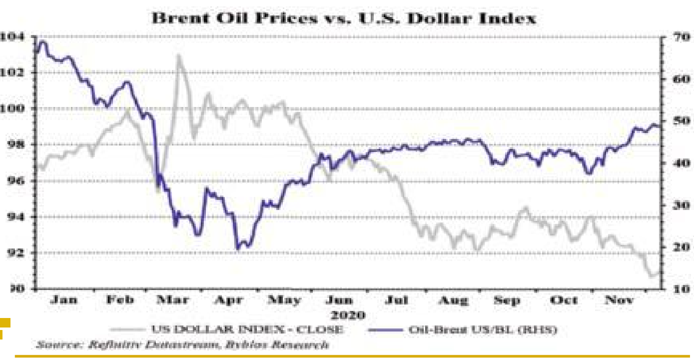
Natural gas exports from the MENA region are forecast to average 4.32 million barrels of oil equivalent per day (boe/d) in 2020, which would constitute a drop of 10.5% from 4.83 million boe/d in 2019. The GCC countries' natural gas exports would account for 78.5% of the region's gas exports this year. Qatar's natural gas exports are projected at 2.53 million boe/d in 2020, equivalent to 58.6% of the region's gas exports, and Algeria at 0.74 million boe/d (17.2%). The region's gas exports are expected to increase by 9.2% to 4.72 million boe/d in 2021.
Source: International Monetary Fund, Byblos Research

Base Metals: Copper prices at highest level since March 2013

LME copper cash prices averaged $7,069 per ton in November, and grew by 5.3% from an average of $6,714 a ton in October 2020. Prices closed at $7,751 per ton on December 4, their highest level since March 2013, and increased by 15.6% from the end of October 2020. The acceleration in manufacturing activity in Europe, the U.S. and Asia in November, as well as the impending coronavirus vaccine, and optimism about an imminent economic stimulus in the U.S. boosted investors' sentiment and pushed copper prices to their highest level in almost eight years. Fitch Solutions anticipated the rally in copper prices to ease in the next few weeks, due to the "extremely bullish" speculative sentiment that would limit a further rise in prices. It considered that investors' expectations of a "broader and stronger" recovery in economic activity in 2021 are contributing to the current surge in copper prices, which will make it difficult for prices to remain high next year. However, copper prices moderated to an average of $7,693 per ton between December 7 and December 9, due to renewed tensions between the U.S. and China, a surge in coronavirus infections, and a decline in Chinese imports. However, optimism about the deployment of the coronavirus vaccine, strong demand for the metal and projected shortages in copper supply are expected to keep prices at high levels.
Source: Refinitiv, Fitch Solutions

Precious Metals: Silver prices up 25% in first 11 months of 2020 on record-high inflows to ETFs

Silver prices averaged $20.1 per troy ounce in the first 11 months of 2020, up by 24.7% from an average of $16.1 an ounce in the same period of 2019. The rise in silver prices has been mainly driven by record-high inflows into silver exchange-traded funds that reached 1.1 billion ounces in the year-to-November 13, as investors started to switch to silver as a cheaper alternative to gold. However, silver prices reached $24.1 per ounce on December 9, 2020, down by 17% from a recent high of $29 an ounce on August 10, driven by positive developments about the production of a vaccine against COVID-19, which raised hopes of a more rapid recovery of the global economy and reduced the appeal of silver as a safe haven for investors. In parallel, the Silver Institute forecast the world supply of silver to decline by 5.5% to 962.4 million ounces in 2020, mainly due to coronavirus-related disruptions to mining activities. Also, it projected worldwide demand for the metal to regress by 6.3% to 931 million ounces in 2020, due to lower demand from the photography industry, as well as reduced consumption of jewelry and silverware. Still, it forecast the metal's price to average $20.6 per ounce in 2020 relative to $16.21 an ounce in 2019 amid the surge in investment demand.
Source: The Silver Institute, Refinitiv, 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	CCC+	Caa1	-	-	CCC								
Congo	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	Negative	-	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	Negative	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-	AA-								
	-	Stable	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	B+	-	B-								
	-	Stable	Stable	-	Stable	-5.0	62.0	-	-	9.9	-	-8.5	0.9
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-11.1	56.0	14.4	47.0	2.2	66.7	1.2	0.4
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Negative	Negative	-	Negative	-11.5	84.6	10.6	56.8	32.1	84.1	-0.9	1.1
Kazakhstan	BBB-	Baa3	BBB	-	BBB-								
	Stable	Positive	Stable	-	Negative	-5.1	20.9	5.4	34.9	8.9	100.0	-5.9	3.4
Pakistan	B-	B3	B-	-	CCC								
	Stable	Stable	Stable	-	Stable	-9.5	88.2	0.5	42.7	61.2	145.8	-1.5	0.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB	-	BBB								
	Stable	Positive	Stable	-	Stable	-4.0	25.6	2.8	32.0	1.6	104.9	1.9	0.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Negative	Negative	Stable	-	Negative	-8.0	46.2	4.0	28.0	4.9	101.5	-4.8	0.5
Russia	BBB-	Baa3	BBB	-	BBB-								
	Stable	Stable	Stable	-	Stable	-6.8	22.9	13.0	23.7	4.9	58.3	0.8	0
Turkey	B+	B2	BB-	B+	B-								
	Stable	Negative	Negative	Stable	Stable	-5.0	38.0	1.8	83.6	9.5	161.9	-1.0	0.5
Ukraine	B	B3	B	-	B-								
	Stable	Stable	Stable	-	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	05-Nov-20	No change	16-Dec-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	01-Dec-20	No change	02-Feb-21
New Zealand	Cash Rate	0.25	11-Nov-20	No change	24-Feb-21
Switzerland	SNB Policy Rate	-0.75	24-Sep-20	No change	17-Dec-20
Canada	Overnight rate	0.25	09-Dec-20	No change	20-Jan-21
Emerging Markets					
China	One-year Loan Prime Rate	3.85	20-Nov-20	No change	21-Dec-20
Hong Kong	Base Rate	0.86	15-Mar-20	Cut 64bps	N/A
Taiwan	Discount Rate	1.125	17-Sep-20	No change	17-Dec-20
South Korea	Base Rate	0.50	26-Nov-20	No change	15-Jan-21
Malaysia	O/N Policy Rate	1.75	03-Nov-20	No change	N/A
Thailand	1D Repo	0.50	18-Nov-20	No change	23-Dec-20
India	Reverse repo Rate	4.00	04-Dec-20	No change	05-Feb-21
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	8.25	12-Nov-20	Cut 50bps	24-Dec-20
Jordan	CBJ Main Rate	2.50	16-Mar-20	Cut 100bps	N/A
Turkey	Repo Rate	15.00	19-Nov-20	Raised 475bps	24-Dec-20
South Africa	Repo Rate	3.50	19-Nov-20	No change	21-Jan-21
Kenya	Central Bank Rate	7.00	26-Nov-20	No change	N/A
Nigeria	Monetary Policy Rate	11.50	24-Nov-20	No change	N/A
Ghana	Prime Rate	14.50	23-Nov-20	No change	25-Jan-21
Angola	Base Rate	15.50	27-Nov-20	No change	28-Jan-21
Mexico	Target Rate	4.25	12-Nov-20	No change	17-Dec-20
Brazil	Selic Rate	2.00	09-Dec-20	No change	N/A
Armenia	Refi Rate	4.25	27-Oct-20	No change	15-Dec-20
Romania	Policy Rate	1.50	12-Nov-20	No change	N/A
Bulgaria	Base Interest	0.00	01-Dec-20	No change	N/A
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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