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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

M&A activity up 34% to $920bn in first nine months of 2021

Figures released by Refinitiv indicate that merger and acquisition (M&A) activity in emerging markets totaled $920.1bn in the first nine months of 2021, constituting an increase of 34% from $686.6bn in the same period of 2020. It added that the number of M&A deals reached 13,710 in the covered period, rising by 21% from 11,331 deals in the first nine months of the previous year. Further, M&A activity in the technology sector amounted to $198.5bn in the first nine months of 2021 and accounted for 21.6% of the total, followed by M&As in the energy & power sector with $125bn (13.6%), the financial sector with $103.5bn (11.2%), the materials sector with $92.5bn (10%), and the industrial sector with $88.5bn (9.6%), while M&A activity in other sectors totaled $312.1bn (34%). Also, M&A deals in the technology sector stood at 2,909 transactions in the first nine months of 2021 and accounted for 21.2% of the total, followed by the industrial sector with 1,598 deals (11.7%), the financial sector with 1,498 transactions (11%), the energy & power sector with 1,124 deals (8.2%), and the materials sector with 1,081 transactions (8%), while deals in other sectors reached 5,500 (40%). Moreover, Goldman Sachs accounted for $147bn (65 deals) of M&A activity in the covered period, followed by Morgan Stanley with $115.2bn (50 deals) and JPMorgan Chase & Co. with $108.8bn (81 deals).

Source: Refinitiv

GCC

Fixed income issuance down 3% to $117bn in first nine months of 2021

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached $117.1bn in the first nine months of 2021, constituting a decrease of 3.1% from $120.8bn in the same period of 2020. Fixed income issuance in the covered period consisted of $53bn in corporate bonds, or 45.2% of the total, followed by $25bn in sovereign bonds (21.3%), $20bn in corporate sukuk (17%) and $19.3bn in sovereign sukuk (16.5%). Further, aggregate bonds and sukuk issued by corporates amounted to $72.8bn in the covered period, or 62.2% of total fixed income proceeds in the region; while aggregate issuance by sovereigns reached $44.3bn, or 37.8% of the total. GCC sovereigns issued $12.3bn in bonds and sukuk in January, $6bn in February, $6.4bn in March, $800m in April, $500m in May, $8.1bn in June, $800m in July, $2.4bn in August and $7bn in September 2021. In parallel, companies in the GCC issued $6.3bn in bonds and sukuk in January, $9.6bn in February, $5.5bn in March, $7.7bn in April, $5.1bn in May, $15.5bn in June, $17.3bn in July, $1.4bn in August and $4.4bn in September of this year. Sovereign proceeds in September consisted of $3bn in bonds from the UAE, $2.4bn in bonds and $1.6bn in sukuk from Qatar. In parallel, corporate issuance in the covered month included $1bn in bonds issued by firms based in Kuwait, $678m in bonds from companies in the UAE, $600m in sukuk issued by Bahrain-based companies, and $150m in bonds from Qatari firms.

Source: KAMCO

MENA

Stock markets up 25% in first nine months of 2021

Arab stock markets increased by 25.4% and Gulf Cooperation Council equity markets grew by 29% in the first nine months of 2021, relative to contractions of 9.4% and of 7%, respectively, in the same period of 2020. In comparison, global stocks improved by 9.9%, while emerging market equities regressed by a marginal of 0.2% in the covered period. Activity on the Beirut Stock Exchange, based on the official stock market index, surged by 136.2% in the first nine months of 2021, the Abu Dhabi Securities Exchange rallied by 52.6%, the Damascus Securities Exchange grew by 40.5%, the Saudi Stock Exchange rose by 32.3%, the Boursa Kuwait increased by 29.3%, the Amman Stock Exchange appreciated by 25%, and the Palestine Exchange gained 23%. In addition, the Casablanca Stock Exchange improved by 16.8%, the Iraq Stock Exchange advanced by 15.7%, the Bahrain Bourse expanded by 14.5%, the Dubai Financial Market gained 14.2%, the Qatar Stock Exchange grew by 10.1%, the Muscat Securities Market appreciated by 7.8%, the Tunis Bourse increased by 5.8%, and the Khartoum Stock Exchange expanded by 3.4% in the covered period. In contrast, activity on the Egyptian Exchange deteriorated by 3% in the first nine months of 2021.

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

Country risk level slightly decreases in second quarter of 2021

The Euromoney Group's quarterly survey on global country risk shows that the risk level in the Arab world slightly decreased in the second quarter of 2021, as the average country risk score of 18 Arab economies was 41.72 points relative to 41.45 points in the second quarter of 2020. A higher score represents a lower country risk level. The UAE had the 33rd lowest country risk level globally and the lowest in the region, followed by Qatar (34th), Saudi Arabia (41st), Kuwait (42nd) and Morocco (49th) as the five Arab countries with the lowest risk levels in the region. In contrast, Iraq (157th), Sudan (160th), Lebanon (169th), Yemen (171st) and Syria (173rd) posted the highest risk levels in the Arab world. In parallel, the Arab region's risk level was higher than the global risk level (49.05 points), as well as higher than the risk levels of North America (66.06 points), Europe & Central Asia (60.26 points), East Asia & Pacific (53.65 points), Latin America & the Caribbean (47.67 points), and South Asia (41.89 points); while it was lower than the risk level of Sub-Saharan Africa (37.1 points). Further, Qatar ranked in first place regionally on the Economic Assessment and Access to International Capital Markets categories, Morocco came first on the Structural Assessment indicator, and the UAE ranked in first place among Arab countries on the Political Assessment and Debt Indicators categories.

Source: Euromoney Group, Byblos Research

POLITICAL RISK OVERVIEW - September 2021

ARMENIA

Armenia instituted legal proceedings against Azerbaijan at the International Court of Justice about violations of the International Convention on the Elimination of All Forms of Racial Discrimination, while the Ministry of Foreign Affairs of Azerbaijan filed a counter lawsuit accusing Armenia of similar offenses. Authorities arrested former Defense Minister Davit Tonoyan in a criminal investigation into the supply of faulty ammunitions and weapons that the Armenian armed forces used in the 2020 conflict with Azerbaijan, and the General Jurisdiction Court of Yerevan sentenced him to a pre-trial detention of two months. In parallel, Prime Minister Nikol Pashinyan affirmed his country's willingness to begin discussions with Turkey, after President Recep El Tayep Erdoğan expressed his country's readiness for the gradual normalization of relations with Armenia.

ETHIOPIA

The Ethiopian military and forces from the Afar region in the northwest of the country compelled Tigray forces to withdraw from the State of Afar. Deadly clashes and violence persisted in several regions of the country, which led to the killing of hundreds of civilians in September, as well as to the displacement of hundreds of thousands of persons since September 2020. U.S. President Joe Biden ordered the U.S. government to impose sanctions on individuals involved in the Tigray conflict. Ethiopia said that it expelled seven senior United Nations officials for interfering in the internal affairs of the country. The government held delayed parliamentary elections in the regional states of Somali, Harari, and Southern Nations, Nationalities and People's Region (SNNPR) on September 30, 2021, where registration issues and a legal dispute caused the postponements.

IRAN

The International Atomic Energy Agency's (IAEA) quarterly report indicated that Iran continued to produce 20% enriched uranium metal and 60% enriched uranium at the Natanz Pilot Fuel Enrichment Plant. The IAEA's general director visited Tehran and reached an agreement with Iranian authorities that allows international inspectors to monitor nuclear activities at sensitive sites. However, the IAEA expressed concerns about Iran's cooperation, since it considered that the inspectors' verification and monitoring activities of the nuclear program were severely curtailed, especially at the TESA Karaj site. The U.S. Department of the Treasury sanctioned four Iranians for arranging to kidnap an Iranian-American journalist in July 2021.

IRAQ

Rocket attacks struck the Erbil International Airport that hosts the U.S.-led coalition. The Kurdish Peshmerga forces and the Iraqi military announced a joint operation against Islamic State militants in the Kirkuk province. Members of Iran's Islamic Revolutionary Guards Corps allegedly fired missiles at militants from the Kurdistan Democratic Party of Iran in Erbil. Further, the U.S deployed an additional 2,000 troops for nine months in Iraq, while authorities in Baghdad and Washington agreed to reduce the U.S. military presence in the Anbar and Erbil provinces. In parallel, several political parties announced that they will boycott the parliamentary elections of October 10, 2021.

LIBYA

The Tobruk-based House of Representatives (HOR) enacted legislation that allows the presidential election to take place in December, but many political parties rejected the law. Also, the HOR allowed Prime Minister Abdul Hamid Dabaiba and his cabinet to stay in power, but with restricted access to the country's finances. Government forces arrested in Tripoli a senior leader of the Islamic State militant group. Libya's Presidential Council released political prisoners as part of a national reconciliation effort to ease domestic political tensions.

SUDAN

Sudanese authorities thwarted a coup attempt by loyalists of ousted president Omar al-Bashir, which heightened tensions between Sudan's military and civilian politicians. Further, Prime Minister Abdallah Hamdok confirmed the need to reform the security and military apparatus. The chairman of the Sovereign Council, Abdel Fattah al-Burhan, and his deputy, accused politicians of creating conditions for coups by seeking personal gains and neglecting citizens; while the governing coalition, Forces for Freedom and Change (FFC), considered the accusation as a "direct threat" to the democratic transition. Also, groups within the FFC signed a pledge to support the transitional government, while rebel groups and the Sudan Liberation Movement/Army faction Minni Minnawi refused to sign it. Authorities formed a joint force to protect civilians, amid continued violence in the Darfur region. Tensions persisted with Ethiopia over the disputed al-Fashaga border zone.

SYRIA

Clashes persisted in the Daraa province despite the ceasefire agreement between Russian forces and the local committee of Daraa, which requires rebels to surrender their light weapons and allows the government to establish army checkpoints inside Daraa al-Balad city. In parallel, the ceasefire in the northwestern province of Idlib, in place since March 2020, held up despite reported clashes. Further, Russia continued its airstrikes against Islamic State targets in the central desert region. Turkish-backed armed groups clashed with Kurdish-led Syrian Democratic forces in the Hasakah province, while unidentified assailants launched rockets at a U.S. base in the northeast of Syria.

TUNISIA

The Tunisian General Labour Union (UGTT), along with several political parties, called for early legislative elections after President Kais Saïed planned to suspend the constitution and amend the political system through a referendum. President Saïed appointed geology professor Najla Bouden Romdhane as Prime Minister. In parallel, more than 100 officials from the Ennahda Party resigned due to the party's failure to confront Saïed's decisions. Thousands of people protested in the capital Tunis against Saïed's seizure of power. Also, ambassadors from the Group of Seven advanced economies urged the president to quickly appoint a new head of government and to "return to constitutional order, in which an elected parliament plays a significant role".

TURKEY

The Interior Minister of Turkey stated that the number of militants from the Kurdistan Worker's Party in the country dropped to less than 200 in September and declared that "Turkey has been cleared of terror''. Turkish security units continued to carry out operations against Islamic State (IS) activists, and Turkish police detained more than 80 individuals for their alleged links to the IS militant group. In parallel, Turkish airstrikes against rebels from the Kurdistan Workers Party continued in northern Iraq.

YEMEN

Hostilities intensified in the Marib, Shebwa and Abyan governorates, as Huthi rebels threatened to attack road intersections and transport lines in government-held areas. Also, fighting escalated in the South of Yemen, which led the leader of the Southern Transition Council, Aydrous al-Zubaidi, to declare a state of emergency in southern governorates. Also, Huthis deployed multiple brigades and fired drones and missiles at the Red Sea Port of Mocha, which destroyed humanitarian aid warehouses. Hundreds of demonstrators protested in several Yemeni cities against the failure of public services, electricity outages and the collapse of the currency, while others demanded the withdrawal of Saudi and UAE troops from Yemen.

Source: International Crisis Group, Newswires

EMERGING MARKETS

Net private capital inflows to rise by 30% to $1.5 trillion in 2021

The Institute of International Finance projected non-resident capital inflows to emerging markets (EMs) at $1.47 trillion in 2021, constituting an increase of 29.7% from $1.13 trillion in 2020. It noted that the rise in capital inflows to EMs is in line with the economic recovery in developed and emerging economies and with the rebound in investor sentiment amid the fading effects of the COVID-19 shock. In addition, it forecast portfolio inflows to EMs at $382bn in 2021, representing a rise of 21% from $316bn in the previous year; while it estimated foreign direct investments (FDI) at $663bn in 2021, nearly unchanged from $664bn in 2020. Also, it expected other investments in EMs, mainly banking-related flows, at $425bn in 2021, up by 178% from $153bn in 2020. Further, it projected non-resident capital flows to EMs ex-China at $853bn in 2021, constituting an increase of 40.3% from $608bn in 2020, driven by a robust recovery in FDI, strong portfolio debt flows, and the new Special Drawing Rights allocations of the International Monetary Fund.

In parallel, it projected non-resident capital inflows to EMs to decline by 14.7% to $1.25bn in 2022. It forecast portfolio inflows to EMs to grow by 10.5% to $422bn, while it expected FDI in EMs to regress by 5.4% to $627bn next year. Also, it anticipated other investments in EMs to drop by 52% to $204bn in 2022. Further, it projected non-resident capital flows to EMs ex-China to decrease by 16.4% to $713bn next year.

The IIF considered that medium-term downside risks to the outlook include sharper-than-expected tightening in global liquidity conditions and a slowdown in economic activity in China. It added that long-term downside risks to the outlook could originate from subdued growth rates in EMs and the latter's overreliance on receipts from commodities exports or from low-value added exports.

Source: Institute of International Finance

AFRICA

Economic outlook dependent on long-term impact of pandemic and relations with China

Standard Chartered Bank estimated that the impact of the COVID-19 outbreak on economic activity in Sub-Saharan Africa (SSA) was less severe than its effect on the global economy. Still, it anticipated that, despite an initial low level of measured coronavirus cases, the slow vaccine rollout in SSA countries remains a health and economic concern to these economies as the threat of new waves of the virus persists. Also, it considered that it is too early to assess the extent of the long-term impact of the pandemic on the region's economies, especially in more services-dependent countries.

In parallel, it indicated that authorities in SSA countries had limited fiscal space to mitigate the impact of the pandemic, but that central banks in the region addressed the shock through the easing of monetary policy. Also, it noted that the faster economic recovery in developed markets in 2021 resulted in higher global commodity prices and, in turn, in higher inflation rates, which could limit the room for further monetary easing in SSA economies in the near term. Still, it expected the region's central banks to continue to adopt a broadly accommodative monetary policy, and for South Africa to be the first country to raise interest rates.

Further, it expected SSA markets to remain vulnerable to changing risk sentiment, despite the rise in foreign currency reserves from the International Monetary Fund's new allocation of new Special Drawing Rights, which it did not deem sufficient to limit the depreciation of currencies across the region. In addition, it said that the COVID-19 shock resulted in an increase in public debt levels across the region, and stressed that SSA countries need to restore pre-pandemic growth levels in order to put their public debt levels on a sustainable path. Also, it considered that the level of economic relations between China and the SSA region in terms of trade, investment and lending will be key to determine the growth prospects of SSA countries in the medium term.

Source: Standard Chartered Bank

SAUDI ARABIA

Current account surplus to average 2.3% of GDP in 2022-24 period

S&P Global Ratings considered that the Saudi economy is recovering from the COVID-19 shock and the sharp drop in global oil prices. It projected real GDP to expand by 1.9% in 2021 following a contraction of 4.1% in 2020, and for real GDP growth to average 2.5% in the 2022-24 period, supported by higher oil prices, an easing of OPEC+ oil production quotas, and the widespread rollout of COVID-19 vaccines. It expected activity in the non-hydrocarbon sector to grow significantly, while it anticipated production constraints tied to OPEC+ agreements to limit oil output. Further, it indicated that the Kingdom is stepping up efforts to diversify the economy away from the hydrocarbon sector, to improve the business environment and to achieve socioeconomic liberalization in the medium term, in line with the Vision 2030 plan.

In parallel, the agency indicated that the Saudi authorities are committed to fiscal consolidation. It projected the fiscal deficit to significantly narrow from 11.2% of GDP in 2020 to 4.3% of GDP in 2021, supported by higher oil export receipts, returns from the increase in the value-added tax rate, dividends from Saudi Aramco, and a lower public-sector wage bill. Still, it forecast the Kingdom's net asset stock position to average about 50% of GDP in the 2021-24 period. It expected authorities to finance the deficit through domestic and external debt issuance, as well as by drawing down on the existing stock of assets.

Further, the agency expected Saudi Arabia's external position to improve in in the medium term, as it projected the current account balance to shift from a deficit of 2.8% of GDP in 2020 to a surplus of 3.3% of GDP in 2021, supported by an increase in oil and non-oil exports, and forecast the surplus to average 2.3% of GDP annually in the 2022-24 period. It projected foreign currency reserves to rise from $453bn at the end of 2020 to $470bn in the 2021-24 period, as it anticipated that non-resident inflows and the International Monetary Fund's new allocation of new Special Drawing Rights will more than offset outward investments. It also expected the Kingdom to maintain a net external asset position of 121% of current account payments in the 2021-24 period. It forecast gross external financing needs at about 50.7% of current account receipts plus usable reserves in the 2021-24 period.

Source: S&P Global Ratings

SAUDI ARABIA

Fiscal balance to post surpluses in 2022 and 2023

Fitch Ratings indicated that Saudi Arabia's pre-budget statement (PBS) for 2022 highlights the authorities' commitment to fiscal consolidation, and targets a fiscal deficit of about 1.6% of GDP in 2022. It added that the authorities expect the fiscal balance to post a surplus in 2023 and 2024, in contrast to previous expectations of a marginal deficit in 2023, which points to the authorities' more optimistic expectations about public revenues and significantly lower public spending. However, the agency indicated that its projections assume a higher trajectory for public expenditures in nominal terms than the figures of the PBS, and forecast the fiscal deficit at about 3.2% of GDP in 2022. It noted that the 2021 budget planned to use SAR66bn, or $18bn, of the government's fiscal reserves at the Saudi Central Bank for the financing of the deficit. However, it pointed out that better-than-expected public revenues and favorable financing conditions helped the authorities maintain the reserve broadly stable until August 2021. As such, it said that the authorities intend to benefit from the fiscal surpluses in the 2023-24 period in order to accumulate funds in the fiscal reserve, and expected them to use new debt issuance for the amortization of existing debt. It added that the PBS targets a fiscal reserve of SAR350bn in 2022, or 11% of GDP, and anticipated it to increase in the medium term. It considered that maintaining a substantial fiscal reserve is supportive of Saudi Arabia's rating. In parallel, Fitch indicated that the PBS projects the public debt to remain flat in nominal terms starting in 2022 but to decline as a share of GDP to 29.2% of GDP at end-2023 and 27.6% of GDP at end-2024. Also, it anticipated that spending outside the budget related to public-sector entities and the potential for the increase of the debt of state-owned enterprises could create medium-term risks to the sovereign's balance sheet.

Source: Fitch Ratings

MORROCO

Fiscal consolidation contingent on implementation of reforms

Standard Chartered Bank indicated that Morocco's credit profile continues to be affected by its high fiscal deficit and rising contingent liability risks. It said that persistently wide fiscal deficits have resulted in the rise of its debt-to-GDP ratio, and forecast the debt level to increase from 76% of GDP at end-2020 to 77% of GDP by the end of 2021 as growth remains muted. It expected the fiscal deficit in 2021 to be narrower than the government's target of 6.4% of GDP. But it forecast the deficit to still exceed 5% of GDP this year, which would necessitate a structural reforms program to narrow the deficit to about 3% of GDP in the medium term. It added that guarantees to state-owned enterprises and publicly-guaranteed debt were equivalent to 18.6% of GDP at the end of March 2021, which, along with unfunded public pension plans and subsidized credit to face the pandemic, have increased contingent liability risks. It considered that the country's favorable public debt structure eases concerns about the rising debt levels, as strong domestic capital markets and a robust appetite from domestic banks have helped support the country's financing needs. As such, it expected the debt level to moderate gradually in the medium term, in case the implementation of reforms leads to gradual fiscal consolidation.

Source: Standard Chartered Bank

OMAN

Outlook on sovereign ratings revised to 'positive'

S&P Global Ratings affirmed Oman's long- and short-term foreign and local currency sovereign credit ratings at 'B+' and 'B', respectively, and revised the outlook from 'stable' to 'positive' on the long term ratings. It also maintained the transfer and convertibility assessment at 'BB-'. It pointed out that the ratings are supported by strong government liquid assets that it estimates at 50% of GDP in 2021. It attributed the outlook revision to its expectation that the government's reforms program and the increase in oil receipts would narrow the fiscal deficit and put the public debt level on a downward path during the 2021-24 period. It parallel, it indicated that the authorities have outlined a solid process to reduce the historically elevated fiscal deficits and added that the government has set out an ambitious target to achieve a balanced fiscal position by 2025. Further, it forecast the country's gross external financing needs at 131.2% of current account receipts and usable reserves in 2021, as well as at 128.7 % of such receipts and reserves in 2022, 122.5% in 2023, and 122% in 2024. Moreover, it said that it could upgrade the ratings if economic growth and the government's planned fiscal reforms reduce the fiscal deficit sustainably, or if the public debt level declines beyond the agency's expectations in the next 12 months. In contrast, it said that it may downgrade the ratings if external debt issuance by government-related entities increases the country's external debt more than expected, or if the pace and scope of the government's planned fiscal measures are insufficient to limit the deterioration in the government's balance sheet and to contain the increase of the external debt.

Source: S&P Global Ratings

JORDAN

Real GDP growth to average 2.5% in 2021-22 period

Citi Research projected Jordan's real GDP to expand by 2.4% in 2021 and by 2.6% in 2022, following a contraction of 1.6% in 2020. It expressed concerns about the country's prospects to improve its persistently low real GDP growth rates, and if the reforms that authorities plan to implement will have the required impact on the stability of the public and external debt levels. Also, it anticipated the government's deficit to narrow from 7% of GDP in 2020 to 6.5% of GDP in 2021 and 4.4% of GDP in 2022, supported by the authorities' fiscal consolidation efforts. Still, it forecast the public debt level to rise from 106.5% of GDP at the end of 2020 to 110% of GDP at end-2021 and to 111% of GDP at the end of 2022. It expected the debt level to stabilize starting in 2022, in case authorities step up fiscal consolidation efforts as part of Jordan's program with the International Monetary Fund. But it considered that the decline of the pubic debt level will depend on the country's economic growth rates. In parallel, it projected the current account deficit to widen from 8% of GDP in 2020 to 9.5% of GDP in 2021, due to higher global oil prices, and to reach 6.8% of GDP in 2022 amid subdued tourism receipts. It expected foreign currency reserves to improve from $15.9bn at the end of 2020 to $16.bn in the 2021-22 period, supported by disbursements of about $1.95bn from the IMF in the 2020-24 period.

Source: Citi Research

WORLD

Central bank digital currencies to support monetary policy

Barclays Capital indicated that the adoption of digital currencies by central banks would contribute to a more effective and flexible monetary policy, would accelerate payments, and would allow individuals who do not have bank accounts to access financial services. It said that, in a cashless economy that utilizes a central bank digital currency (CBDC), monetary policy-makers could stimulate activity through negative interest rates during downturns and rely less on asset purchases. It added that using digital currencies will reduce the transaction costs of cross-border payments and transfers. Also, it stated that households that have a CBDC deposit account could benefit from risk-free digital payments compared to a traditional deposit account at banks. As such, it considered that the implementation of CBDCs would lead to slower deposit growth at banks and financial institutions. It added that CBDCs must be a stable store of value and need to be based on the credibility of the issuer, in order to gain widespread acceptance as a method of payment. In parallel, it noted that several countries such as the Bahamas, China, countries in the Eastern Caribbean, and Sweden have implemented CBDC pilot projects. It anticipated that CBDCs will be easily adopted in developed and democratic economies where trust in the stability of the financial sector is elevated.

Source: Barclays Capital

EGYPT

Asset quality of main banks deteriorates from impact of pandemic

Regional investment bank EFG Hermes indicated that the credit quality of Qatar National Bank Alahli, Commercial International Bank, Crédit Agricole Egypt, Al Baraka Bank Egypt, Abu Dhabi Islamic Bank-Egypt, the Housing & Development Bank, Egyptian Gulf Bank, and Faisal Islamic Bank of Egypt has slightly worsened a year after the end of the Central bank of Egypt's (CBE) six-month deferral program. It stated that the banks' aggregate non-performing loans (NPLs) ratio increased from 3.9% in December 2019 to 4.8% in June 2021, due to the impact of the COVID-19 pandemic on the economy. Further, it said that the banks' Stage 2 loans reached 15% of total loans in June 2021, as the CBE instructed banks to downgrade loans extended to sectors affected by the pandemic, such as the tourism and building materials sectors. Also, it pointed out that total provisions stood at 157% of NPLs at end-June 2021. However, it expected provisioning charges to decline in full year 2021 and in 2022, in line with the expansion of economic activity. Further, it anticipated the net interest margin of the seven banks to remain stable at nearly 4.8% in the second quarter of 2021, although the CBE cut benchmark rates by 300 basis points in March 2020. Moreover, it expected banks to post a compound annual growth rate (CAGR) of 11% in operating revenues and a CAGR of 17% in profits in the 2021-2022 period. In parallel, it considered that the seven banks have enough capital reserves and retained earnings to comply with the CBE's new capital requirement that mandated banks to have a minimum of EGP5bn in paid-in capital. It added that the banks' capital adequacy ratio is improving in 2021 and is well above the minimum regulatory requirement.

Source: EFG Hermes

GCC

Central banks help banks absorb COVID-19 and oil price shocks

S&P Global Ratings considered that the banking sector in the Gulf Cooperation Council (GCC) countries demonstrated its resilience to the COVID-19 shock on the economy and to the sharp decline in oil prices in 2020. It stated that the interventions of GCC central banks, such as injecting liquidity and regulating forbearance measures, helped banks to mitigate global uncertainties. It pointed out that the aggregate non-performing loans (NPL) ratios of the top 45 GCC banks increased by 20 basis points from 3.6% at end-2020 to 3.8% at the end of June 2021. Also, it expected the NPLs ratio of the 45 banks to peak at 6% in the near term, as authorities gradually lift forbearance measures and the impact of the coronavirus pandemic on businesses materializes. It said that the banks' cost of risk declined, as they increased their provisions to cover the expected rise in NPLs. It indicated that the ratio of problem loans, which includes Stage 2 loans and Stage 3 loans, reached 15.3% of total loans at the end of June 2021. Further, it expected the net profit margin of GCC banks to remain stable at 2.4% in the 2021-2022 period due to cost efficiency measures, with an average cost-to-income ratio of 38% in the first half of 2021. It forecast the banks' return on assets to stabilize at 1% to 1.2% in the coming two years, but to remain below historical levels. In addition, it said that lending growth accelerated from 6.6% in 2020 to 8.4% in the first half of 2021, mainly due to improving economic conditions and higher oil prices. But it expected the growth in lending to the private sector to remain subdued in the coming two years, except in Saudi Arabia.

Source: S&P Global Ratings

TURKEY

Profitability gap between state-owned and private banks narrows

Moody's Investors Service indicated that the aggregate profits of Ziraat Bankasi, Turkiye Is Bankasi, Turkiye Garanti Bankasi, Akbank, Yapi ve Kredi Bankasi, Turkiye Halk Bankasi and Turkiye Vakiflar Bankasi decreased by 9% in the first half of 2021 from the same period of 2020. It noted that the 18% contraction in the banks' net interest income more than offset the reduction of 25% in their loan-loss provisions. Also, it expected the average return on assets of the seven banks to remain at 1% in 2021, as the profitability gap between the four privately-owned banks and the three state-owned banks gradually narrows. Further, it stated that the banks' average problem loans regressed from 4.6% of total loans at the end of 2020 to 4.1% of total loans at the end of June 2021 despite slower lending growth. It added that the banks' Stage 2 loans was 11% of total loans at end-June 2021, nearly unchanged from end-2020, but it expected that some Stage 2 loans could transition to problem loans due to the impact of the COVID-19 pandemic on borrowers. It anticipated that the lifting of forbearance measures at end- September 2021 will increase the problem loans ratio of the seven banks by 50 basis points. In parallel, it pointed out that the regulatory capital adequacy ratio of the seven banks regressed from 16.6% at end-2020 to 15.7% at end-June 2021, due to slower lending growth and the depreciation of the currency. It noted that the banks' loans-to-deposits ratio was 103% at end-June 2021, and that their average foreign currency liquidity coverage ratio stood at 377% at end-June 2021, reflecting the banks' strong funding base in foreign currency.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Oil prices at $78.5 p/b in fourth quarter 2021

ICE Brent crude oil front-month prices averaged $74.9 per barrel (p/b) in September 2021, constituting an increase of 6.2% from $70.5 p/b in August 2021 and a surge of 78.8% from $41.9 p/b in September 2020. The rise in oil prices was driven by expectations of robust global demand amid the anticipated strong global economic recovery, as well as by the decline in global oil supply due to Hurricane Ida that led to damages in the oil infrastructure of energy firms on the U.S. Gulf coast. In parallel, the OPEC+ coalition maintained in its most recent meeting its previous decision to gradually raise oil output by adding 400,000 barrels per day (b/d) starting in August of this year. In parallel, Standard Chartered Bank considered that the OPEC+ decision came after the OPEC organization projected a decrease in global oil demand by 1.71 million b/d in the first quarter of 2022. However, it anticipated oil prices to remain elevated, since it considered that the increase in global oil production will not match the demand for oil, with the global economic recovery picking up pace. As such, it anticipated oil prices to average $78.5 p/b in the fourth quarter of 2021and $74 p/b in the first quarter of 2022. Also, it revised upwards its oil price forecast for 2021 to $71 p/b from $65 p/b, and for 2022 to $67 p/b from $59 p/b.

Source: Standard Chartered Bank, Refinitiv, Byblos Research

Iraq's oil exports receipts at $6.7bn in September 2021

Preliminary figures show that Iraq's crude oil exports totaled 92.4 million barrels in September 2021 and decreased by 2.4% from 94.6 million barrels in August 2021. Oil exports from the central and southern fields amounted to 89.2 million barrels in September, while shipments from the Kirkuk fields totaled 2.9 million barrels. Oil receipts stood at $6.7bn in September, up by 2.4% from $6.5bn in August 2021.

Source: Iraq Ministry of Oil, Byblos Research

Middle East accounts for 32% of world's crude oil production

BP indicated that the Middle East region's aggregate crude oil production reached 24.3 million barrels per day (b/d) in 2020, constituting a decrease of 8.4% from a year earlier, and representing 31.7% of the world's oil output. Saudi Arabia's oil production totaled 9.4 million b/d, or 39% of the region's global output. Iraq followed with 4 million b/d (16.7%), then the UAE with 3.1 million b/d (12.7%), Iran with 2.7 million p/d (11.2%), Kuwait with 2.4 million b/d (10%) and Qatar with 1.4 million b/d (5.6%); while other Middle Eastern countries' crude oil production reached 1.2 million b/d (5%).

Source: BP, Byblos Research

Middle East accounts for 9% of world's oil consumption

BP indicated that the Middle East region's aggregate oil demand reached 8.3 million barrels per day (b/d) in 2020, compared to 9 million barrels b/d in 2019, and representing 9.1% of the world's oil demand. Saudi Arabia's consumption totaled 3.5 million b/d, or 42.6% of the region's global demand. Iran followed with 1.7 million b/d (20.6%), then the UAE with 0.8 million b/d (9.6%), Iraq with 0.6 million b/d (7.5%), Kuwait with 0.4 million b/d (5%), and Qatar with 0.3 million b/d (3.6%); while demand from other Middle Eastern countries reached one million b/d (11%).

Source: BP, Byblos Research

Base Metals: Zinc prices to average $2,825 per ton in 2022

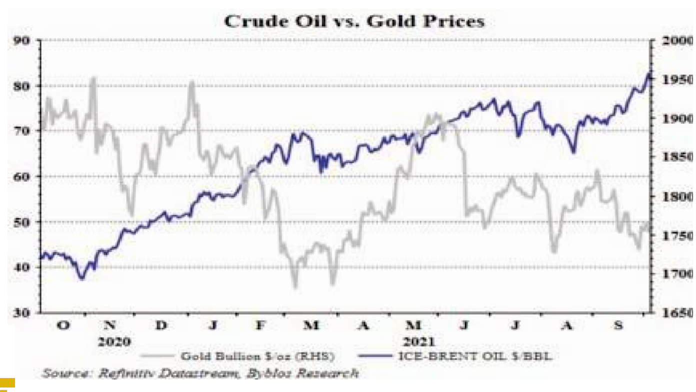
The LME cash prices of zinc averaged $2,885.5 per ton in the first nine months of 2021, constituting an increase of 34.5% from an average of $2,145.4 a ton in the same period of 2020. They reached $3,061 per ton on June 2, 2021, their highest level since June 2018, driven mainly by speculations that major smelters in China are reducing output due to power shortages. Also, increased buying of the metal, improved demand prospects, the rollout of the coronavirus vaccine, and lower inventories supported the rise in zinc prices. In parallel, Citi Research projected demand for refined zinc to increase by 5% from 13.4 million tons in 2020 to 14.1 million tons this year, and for the supply of refined zinc to grow by 1% from 13.9 million tons last year to 14 million tons in 2021. However, it expected price to trend lower in the near term, as a severe downturn in the construction sector in China and the ongoing decline in the production for the metal in China will affect demand for zinc. As such, it projected zinc prices to average $3,000 per ton in the fourth quarter of 2021, unchanged from the previous quarter. It forecast zinc prices to average $2,915 a ton in 2021 and $2,825 per ton in 2022.

Source: Citi Research, Refinitiv, Byblos Research

Precious Metals: Palladium prices to average $2,625 an ounce in 2022

Palladium prices averaged $2,551.2 per troy ounce in the first nine months of 2021, constituting an increase of 19.4% from an average of $2,137.2 an ounce in the same period last year. Prices surged to an all-time high of $3,000 per ounce on May 4, 2021 supported by expectations of a rebound in auto sales, as the latter have boosted autocatalyst demand from the automotive industry. In fact, about 80% of demand for palladium originates from the automotive sector, where the metal is replacing platinum as a key component of pollution-control devices in vehicles. In parallel, Standard Chartered Bank projected global palladium demand to reach 10.6 million ounces in 2021 and to increase by 6.1% from 2020. It attributed the expected rise in demand to a 5.6% uptick in autocatalyst demand, which more than offset the 7.7% drop in investments in palladium-backed exchange traded funds due to chip shortages in the automotive sector. It expected the palladium market to shift from a deficit in the first half of 2021 to a surplus in the second half of the year, as demand for the metal slowed and its supply recovered. Further, it forecast global palladium supply to increase by 6.3% to 9.9 million ounces in 2021, with mine output representing 65% of the total. As such, it forecast platinum prices to average $2,790 an ounce in 2021 and $2,625 per ounce in 2022.

Source: Standard Chartered Bank, 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	-6.5	-	-	-	-	-	-10.8	1.1
Angola	CCC+ Stable	B3 Stable	CCC -	- -	CCC Negative	-1	111.2	7.8	62.6	40.4	101.0	-4.0	1.5
Egypt	B Stable	B2 Stable	B+ Stable	B+ Stable	B+ Stable	-8.0	90.2	5.6	68.6	50.1	121.1	-3.5	1.9
Ethiopia	B- CWN**	Caa1 RfD***	CCC -	 -	B+ Negative	-3.4	34.3	2.0	60.4	5.0	169.5	-6.5	2.6
Ghana	B- Stable	B3 Negative	B Negative	- -	BB- Negative	-7.5	71.7	2.6	42.3	53.2	121.4	-3.1	3.8
Côte d'Ivoire	- -	Ba3 Stable	BB- Stable	- -	B+ Stable	-4.1	43.2			14.3		-3.5	1.4
Libya	- -	- -	- -	- -	CCC Negative	-	-	-	-	-	-	-	-
Dem Rep Congo	CCC+ Positive	Caa1 Stable	- -	- -	CCC Stable	-0.8	13.17	0.49	7.88	2.16	116.35	-4.3	3
Morocco	BBB- Negative	Ba1 Negative	BB+ Stable	- -	BBB Negative	-5.0	68.2	5.3	35.1	8.6	99.0	-5.3	1.5
Nigeria	B- Stable	B2 Negative	B Stable	- -	B- Negative	-4.5	46.0	4.1	56.7	27.7	119.9	-1.7	0.2
Sudan	- -	- -	- -	- -	CC Negative	-	-	-	-	-	-	-	-
Tunisia	- -	B3 Negative	B Negative	- -	B+ Negative	-4.7	81.0	4.2	-	11.9	-	-8.3	0.5
Burkina Faso	B Stable	- -	- -	- -	B+ Stable	-5.4	51.3	0.4	22.3	7.1	134.0	-5.5	1.5
Rwanda	B+ Negative	B2 Negative	B+ Stable	- -	B+ Negative	-9.0	71.4	4.1	24.2	8.0	112.6	-10.7	2.0
Middle East													
Bahrain	B+ Negative	B2 Negative	B+ Stable	BB- Negative	B+ Negative	-6.8	115.4	-1.2	198.8	26.7	345.2	-6.6	2.2
Iran	- -	- -	- -	B Negative	B- Negative	-3.7	-	-	-	-	-	-2.0	1.2
Iraq	B- Stable	Caa1 Stable	B- Negative	- -	CC+ Stable	-8.0	78.1	-4.4	6.0	6.6	185.9	-2.4	-1.0
Jordan	B+ Stable	B1 Stable	BB- Negative	B+ Stable	B+ Stable	-3.0	93.9	1.0	86.0	11.9	182.9	-6.4	2.2
Kuwait	A+ Negative	A1 Stable	AA Negative	A+ Stable	AA- Stable	5.7	20.2	1.7	77.9	0.6	157.3	-0.8	0.0
Lebanon	SD -	C -	C -	SD -	CCC Negative	-10.0	190.7	2.3	168.0	68.5	236.7	-11.2	2.0
Oman	B+ Positive	Ba3 Negative	BB- Negative	BB Negative	BB- Negative	-11.3	84.3	1.4	47.1	12.4	146.6	-10.9	2.7
Qatar	AA- Stable	Aa3 Stable	AA- Stable	AA- Stable	A+ Negative	5.3	63.3	2.9	179.1	7.2	225.3	-1.2	-1.5
Saudi Arabia	A- Stable	A1 Negative	A Negative	A+ Stable	A+ Stable	-6.2	38.2	16.3	18.4	3.6	50.4	-0.6	-1.0
Syria	- -	- -	- -	- -	C Stable	-	-	-	-	-	-	-	-
UAE	- -	Aa2 Stable	AA- Stable	AA- Stable	AA- Stable	-1.6	40.5	-	-	2.5	-	3.1	-0.9
Yemen	- -	- -	- -	- -	CC Stable	-	-	-	-	-	-	-	-

COUNTRY RISK METRICS

Countries	S&P	Moody's	Fitch	CI	IHS	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 (%)
	LT Foreign currency rating												
Asia													
Armenia	-	Ba3	B+	-	B-								
	-	Stable	Stable	-	Stable	-4.9	65.5	-	-	11.3	-	-6.7	1.6
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.0	72.6	12.1	40.6	2.5	68.7	1.7	0.4
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Negative	Negative	-	Negative	-10.0	89.6	9.5	41.7	31.6	79.5	-0.6	1.5
Kazakhstan	BBB-	Baa3	BBB	-	BBB-								
	Stable	Positive	Stable	-	Negative	-1.7	32.0	5.1	30.8	7.3	95.6	-3.2	3.0
Pakistan	B-	B3	B-	-	CCC								
	Stable	Stable	Stable	-	Stable	-8.0	89.4	1.9	41.5	45.9	127.7	-1.6	0.6
Central & Eastern Europe													
Bulgaria	BBB	Baa1	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	-5.0	30.4	2.7	28.3	1.9	104.2	0.4	1.0
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Negative	Negative	Negative	-	Negative	-7.2	52.4	3.5	25.5	4.5	102.9	-5.1	2.0
Russia	BBB-	Baa3	BBB	-	BBB-								
	Stable	Stable	Stable	-	Stable	-2.2	23.4	11.4	18.6	2.9	59.3	1.9	-0.8
Turkey	B+	B2	BB-	B+	B-								
	Stable	Negative	Stable	Stable	Stable	-4.0	38.5	-0.9	74.0	9.9	205.7	-4.2	1.0
Ukraine	B	B3	B	-	B-								
	Stable	Stable	Stable	-	Stable	-5.3	67.3	4.5	56.5	7.9	115.7	-2.1	2.5

** Current account payments*
*** CreditWatch with negative implications*
****Review for Downgrade*
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 Date	Last meeting Action	Next meeting
USA	Fed Funds Target Rate	0.25	22-Sep-21	No change	03-Nov-21
Eurozone	Refi Rate	0.00	09-Sep-21	No change	28-Oct-21
UK	Bank Rate	0.10	05-Aug-21	No change	N/A
Japan	O/N Call Rate	-0.10	22-Sep-21	No change	28-Oct-21
Australia	Cash Rate	0.10	05-Oct-21	No change	02-Nov-21
New Zealand	Cash Rate	0.50	06-Oct-21	Raised 25 bps	24-Nov-21
Switzerland	SNB Policy Rate	-0.75	23-Sep-21	No change	16-Dec-21
Canada	Overnight rate	0.25	08-Sep-21	No change	27-Oct-21
Emerging Markets					
China	One-year Loan Prime Rate	3.85	22-Sep-21	No change	20-Oct-21
Hong Kong	Base Rate	0.86	15-Mar-20	Cut 64bps	N/A
Taiwan	Discount Rate	1.125	23-Sep-21	No change	N/A
South Korea	Base Rate	0.75	26-Aug-21	Raised 25 bps	12-Oct-21
Malaysia	O/N Policy Rate	1.75	09-Sep-21	No change	03-Nov-21
Thailand	1D Repo	0.50	29-Sep-21	No change	10-Nov-21
India	Reverse repo Rate	4.00	06-Aug-21	No change	08-Oct-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	16-Sep-21	No change	28-Oct-21
Jordan	CBJ Main Rate	2.50	16-Mar-20	Cut 100bps	N/A
Turkey	Repo Rate	18.00	23-Sep-21	Cut 100bps	21-Oct-21
South Africa	Repo Rate	3.50	23-Sep-21	No change	18-Nov-21
Kenya	Central Bank Rate	7.00	28-Sep-21	No change	N/A
Nigeria	Monetary Policy Rate	11.50	17-Sep-21	No change	23-Nov-21
Ghana	Prime Rate	13.50	27-Sep-21	No change	22-Nov-21
Angola	Base Rate	20.00	01-Oct-21	No change	N/A
Mexico	Target Rate	4.50	30-Seo-21	Raised 25 bps	11-Nov-21
Brazil	Selic Rate	6.25	22-Sep-21	Raised 100bps	27-Oct-21
Armenia	Refi Rate	7.25	14-Sep-21	Raised 25bps	N/A
Romania	Policy Rate	1.50	05-Oct-21	Raised 25bps	09-Nov-21
Bulgaria	Base Interest	0.00	01-Oct-21	No change	01-Nov-21
Kazakhstan	Repo Rate	9.50	13-Sep-21	Raised 25bps	25-Oct-21
Ukraine	Discount Rate	8.50	09-Sep-21	Raised 50bps	21-Oct-21
Russia	Refi Rate	6.75	10-Sep-21	Raised 25bps	22-Oct-21

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