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BYBLOS BANK SAL
Economic Research & Analysis Department

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Fixed income trading up 8% to $1,619bn in first quarter of 2023

Trading in emerging markets debt instruments reached $1,619bn in the first quarter of 2023, constituting increases of 8% from $1,493bn in the same quarter of 2022 and of 19% from $1,361bn in the fourth quarter of 2022. Turnover in local-currency instruments reached $1,064bn in the covered period, up by 16% from $914bn in the first quarter of 2022, and accounted for 66% of the debt trading volume in emerging markets. In parallel, trading in Eurobonds stood at $536bn in the first quarter of the year and regressed by 7% from $578bn in the same quarter of 2022. The volume of traded sovereign Eurobonds reached $345bn and accounted for 64% of total Eurobonds traded in the first quarter of 2023, relative to $372bn and a share of 64% in the same quarter of 2022. Also, the volume of traded corporate Eurobonds amounted to $190bn and represented 35% of total Eurobonds traded. In addition, turnover in warrants and options stood at $950m, while loan assignments amounted to $18m in the first quarter of 2023. The most frequently-traded instruments in the first quarter of 2023 were Mexican fixed income assets with a turnover of $353bn, or 22% of the total, followed by securities from Brazil with $240bn (15%), and instruments from China with $136bn (8%). Other frequently-traded instruments consisted of fixed income securities from India at $101bn (6.2%) and from South Africa at $82bn (5.1%).

Source: EMTA

KUWAIT

Profits of listed companies up 15.3% to $2.6bn in first quarter of 2023

The cumulative net profits of 147 companies listed on Boursa Kuwait reached KD795.12m, or $2.6bn, in the first quarter of 2023, constituting an increase of 15.3% from KD689.8m ($2.24bn), in the same quarter of 2022. Listed banks generated net profits of $1.5bn in the covered quarter and accounted for 57.5% of total earnings, followed by telecommunications firms with $376m (14.5%), financial services providers with $213.8m (8.2%), industrial companies with $159m (6%), real estate firms with $121m (4.7%), insurers with $74.4m (3%), companies in the discretionary consumers goods segment with $48m (2%), basic materials firms with $40.8m (1.6%), healthcare providers with $29.2m (1.1%), oil and gas corporates and consumer stables companies with $13.24m (0.5%), and utilities firms with $8.2m (0.3%). Further, the net earnings of basic materials companies rose by 170.6% in the covered quarter, followed by the income of healthcare providers (+146%), telecommunications firms (+82.4%), oil and gas corporates (+46%), banks (+37.5%), insurers (+23.8%), consumer staples companies (+21.2%), firms in the discretionary consumers goods segment (+5.8%), and real estate companies (+5%). In contrast, the income of financial services providers decreased by 55.5% in the first quarter of 2023, followed by the net earnings of utilities firms (-29.2%), and of industrial companies (-18.5%).

Source: KAMCO

MENA

Greenfield FDI up 353% to $201.6bn in 2022

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that the Arab region attracted $201.6bn in greenfield foreign direct investments (FDI) in 2022, constituting a surge of 353.3% from $44.5bn in 2021. Greenfield FDI inflows to Arab countries accounted for 35.2% of such flows to developing economies and for 16.6% of global greenfield FDI in 2022 compared to 16.3% of inflows to developing economies and 6% of global greenfield FDI in 2021. Egypt was the destination of $107.5bn in greenfield FDI in 2022, equivalent to 53.3% of such investments in the Arab world. Qatar followed with $30bn (15%), then Morocco with $15.3bn (7.6%), Saudi Arabia with $13.5bn (6.7%), the UAE with $11.1bn (5.5%), Oman with $10bn (5%), Libya with $6.4bn (3.2%), Djibouti with $2.5bn (1.2%) and Bahrain with $2.2bn (1.1%); while the remaining Arab countries received $3.2bn in greenfield FDI last year, or 1.6% of inflows to the region. In parallel, Arab countries attracted 1,784 greenfield FDI projects in 2022, up from 1,029 projects in 2021, and accounted for 26.2% of the aggregate number of greenfield FDI projects in developing economies and for 10% of such projects worldwide. The UAE was the destination of 997 greenfield FDI projects last year and accounted for 56% of the number of projects in the Arab world. Saudi Arabia followed with 239 projects (13.4%), then Qatar with 162 projects (9.1%), Egypt with 161 projects (9%), Morocco with 71 projects (4%), Oman with 50 projects (2.8%), and Bahrain with 30 projects (1.7%), while the remaining Arab countries attracted 74 greenfield FDI projects, or 4% of the total in 2022.

Source: UNCTAD, Byblos Research

Arab world has favorable startup ecosystem

The Global Startup Ecosystem Index for 2023 ranked the UAE in 28th place globally and in first place among 10 Arab economies. Bahrain followed in 60th place, then Saudi Arabia (66th), Egypt (67th), Jordan (68th), Lebanon (75th), Qatar (90th), Tunisia (91st), Morocco (93rd), and Kuwait (94th) as the best startup ecosystems in the Arab world. The index is composed of three sub-indices that are the Quantity Sub-Index that incorporates the number of startups, investors, accelerators, and co-working spaces, and other supporting organizations; the Quality Sub-Index that takes into account the traction of the top startups of an ecosystem; and the Business Sub-Index that considers a number of macroeconomic and business indicators. Further, the rankings of four Arab countries improved and those of six Arab economies deteriorated in 2023, but the rankings of 10 Arab cities increased, those of five Arab cities deteriorated, while two Arab cities were included for the first time in the index in 2023. In addition, the survey identified 556 startups based in the 10 Arab countries in 2022, constituting a decrease of 1.6% from 565 startups in 2021. It stated that deals in the region received $4.65bn in funding in 2022, up by 57.7% from $2.95bn in 2021. The index is issued annually by StartupBlink, a global startup mapping and research center.

Source: StartupBlink, Byblos Research

POLITICAL RISKS OVERVIEW - June 2023

ALGERIA

Political maneuvering started ahead of the 2024 presidential elections as the Front of Socialist Forces party called on opposition factions to join forces "beyond ideological divisions" in order to overcome political apathy and restrictions on political freedoms. Nine pro-government political groups, including the ruling National Liberation Front, reciprocated with a joint initiative to strengthen "national cohesion" amid "growing risks" facing Algeria. In parallel, the United Nations General Assembly elected Algeria as a non-permanent member of the UN Security Council for a two-year term starting on January 1, 2024. President Abdelmadjid Tebboune outlined Algiers' priorities within the UN Security Council, including supporting the self-determination of the Western Sahara territory from Morocco and the Palestinian cause. Also, President Tebboune visited Russia and agreed with President Vladimir Putin to deepen their bilateral strategic partnership.

ARMENIA

The Prime Minister of Armenia, the President of Azerbaijan, the President of the European Council, the President of France, and the German Chancellor met in the capital of Moldova to discuss the normalization process between Yerevan and Baku. Also, the U.S. hosted the negotiations between the ministers of foreign affairs of Armenia and Azerbaijan who noted that they reached an agreement on additional articles and advanced mutual understanding of the draft peace treaty. The two countries pointed out that the border delimitation issues and the withdrawal of forces from the border, as well as the rights and security of individuals in the Nagorno-Karabakh province, still require work. In parallel, PM Pashinyan visited Ankara to attend the inauguration ceremony of Turkish President Recep El Tayep Erdoğan, marking the first visit to Türkiye by an Armenian leader in over a decade.

EGYPT

Egypt and Türkiye stepped up efforts to normalize relations, as the Egyptian Minister of Foreign Affairs traveled to Türkiye to attend President Recep El Tayep Erdoğan's inauguration ceremony, days after the two countries agreed to immediately exchange ambassadors. As thousands of people fleeing the conflict in Sudan remained stranded at the Sudan-Egypt border with no valid travel documents, Cairo reinforced entry requirements and required all Sudanese to obtain electronic visas to enter Egypt, which reversed the longstanding visa exemption for females, elderly males, and children.

ETHIOPIA

Addis Ababa requested to join the BRICS bloc of emerging economies that includes Brazil, China, India, Russia and South Africa. In parallel, the U.S. Special Envoy for the Horn of Africa met with federal and Tigray leaders, while African Union (AU) officials confirmed that the two parties agreed to extend the mandate of the AU Monitoring, Verification and Compliance Mission until December 2023. Also, the Tigray Interim President visited Amhara's capital for the first time since the Tigray war ended, and pledged to continue working towards "sustainable peace" during talks with the President of Amhara. Further, Human Rights Watch reported that Amhara forces in the disputed Western Tigray region continued ethnic cleansing of Tigrayans following the November 2022 truce. The United States Agency for International Development and the World Food Program suspended food aid to Ethiopia after uncovering a "widespread and coordinated campaign" to divert assistance.

IRAN

U.S. and Iranian officials held indirect talks in Oman to discuss Tehran's nuclear program. Further, Supreme Leader Ali Khamenei endorsed the engagement with the International Atomic Energy Agency on resolving safeguards about past activities at undeclared nuclear sites in the country, but emphasized that nuclear "infrastructures should remain untouched". Also, the U.S. sanctioned six individuals and entities due to alleged links to "terrorist plots" that targeted former U.S. government officials, and the European Union sanctioned four Iranian entities linked to the manufacturing of unmanned aerial vehicles and their supply to Russia. Further, Iran reopened its embassy in Saudi Arabia on June 6. The Minister of Foreign Affairs of Iran stated that there will be "very good news" on economic and commercial cooperation with the countries of the region, following his visit to Qatar, Oman, Kuwait, and the UAE.

IRAQ

The Iraqi parliament enacted the budget for the 2023-25 period, which relies almost exclusively on hydrocarbon exports. The budget outlined a new revenue-sharing mechanism for oil exports between the federal government and the Kurdistan Regional Government (KRG). The budget guarantees Erbil a 12.7% share of federal expenditures and increases Erbil's allocation of public salaries and pensions. The authorities met a Turkish energy delegation in Baghdad to discuss the resumption of oil exports after Ankara suspended them following an international arbitration ruling. More than 50 members of the Kurdistan regional parliament resigned to protest a court decision that deemed as unconstitutional the legislature's postponement of elections for a full year.

LIBYA

The members of the 6+6 Joint Committee agreed on a legal framework for presidential and parliamentary elections. Further, the speaker of the House of Representatives and the head of the Tripoli-based High State Council did not sign the electoral law, as points of contentions persisted, mainly on whether military officers can run for president. In addition, Field Marshal Khalifa Haftar called for the formation of a technocratic government to oversee the preparation of the upcoming elections. In parallel, the Eastern-based Prime Minister Osama Hammad threatened to impose a blockade on oil and gas facilities to prevent exports, in protest against the alleged unfair distribution of oil revenues by the Tripoli-based authorities.

SUDAN

The conflict between the Sudanese Armed Forces (SAF) and the paramilitary Rapid Support Forces escalated, as various mediation tracks struggled to gain traction. A 72-hour ceasefire that was brokered by the U.S. and Saudi Arabia broke down, and the U.S. responded by adjourning the Jeddah peace talks as it considered that the format was "not succeeding". The leaders of the Intergovernmental Authority on Development met in Djibouti and adopted a roadmap for the conflict's resolution; while the SAF accused Kenya, which chaired the talks, of favoring the rival paramilitary groups. Also, the African Union's May roadmap for peace failed to make progress. In parallel, fighting intensified in the Khartoum and Kordofan states and drew in the rebel group Sudan People's Liberation Movement-North; while the ethnic conflict escalated in Darfur as the latter witnessed the worst violence since the civil war. Meanwhile, UN agencies reported an increasingly "desperate" situation for civilians across the county as the rainy season started, which could complicate relief efforts.

TUNISIA

The European Union is considering providing more than €1bn in aid for Tunisia to support the country's finances and deal with a migration crisis. Further, France announced that it will extend €25.8m in aid to combat illegal migration. Also, Human Rights Watch and other organizations condemned, in a joint statement, the violence against Sub-Saharan migrants and urged Tunisian authorities to protect migrants and combat discrimination, as tensions escalated in the coastal city of Sfax between residents and migrants, causing property damage. Hundreds of persons demonstrated in Sfax on June 25 against the presence of illegal migrants.

Source: International Crisis Group, Newswires

OUTLOOK

SAUDI ARABIA

Oil policy to play key role in economic transformation

Goldman Sachs indicated that the Saudi Arabian authorities expect the non-oil private sector to replace the oil sector as the main engine of economic growth and employment, in line with Vision 2030 that the government launched in 2016. It considered that the Kingdom's plan does not suggest that the oil sector's contribution to overall GDP growth will diminish, and expected that the transition to and emergence of Saudi Arabia's new growth model could be a catalyst for a shift in focus from short-term revenue maximization to long-term growth in an increasingly competitive global oil market.

It considered that mixed progress on economic and fiscal diversification in the near term implies that the oil sector will remain key to the Saudi economic outlook. Also, it noted that the Kingdom's non-oil economic activity is linked to oil receipts, given that the latter represent the majority of public revenues despite the authorities' progress on fiscal diversification. As such, it expected that oil receipts will also help the authorities increase investments in order to step up efforts to transform the economy in line with Vision 2030. It added that the government has announced more than $2 trillion in investments by the end of this decade, which would be financed mainly from oil receipts.

It considered that the Kingdom's long-term policy will increasingly focus on growth in the oil sector, due mainly to three factors. First, it expected that the global energy transition will result in a more competitive global oil market where low-cost producers, such as Saudi Arabia, have an incentive to raise their market share. Second, it anticipated that the projected decline in the Kingdom's fiscal break-even oil price will allow for a higher share of the oil market, as it will strengthen the economy's already considerable competitive advantage in the oil market. Third, it forecast the Kingdom's export capacity to increase by as much as two million barrels per day by the end of this decade, due to rising energy efficiency, lower reliance on liquids in the domestic energy mix, and investments in higher production capacity.

Source: Goldman Sachs

EGYPT

Outlook contingent on acceleration of reforms

The Institute of International Finance considered that the Egyptian authorities' reluctance to move towards a flexible exchange rate and to reduce the footprint of the state in the economy is derailing the country's program with the IMF. It anticipated the authorities' hesitation, along with the prevailing fiscal and current account deficits, elevated debt amortization, sizable portfolio outflows and a large net foreign liability position of the banking system, to result in a precarious financial position for Egypt.

But it indicated that a large contraction in imports and the sharp increase in tourism receipts have outweighed the decline in remittance inflows and the higher primary income interest payments, which has eased some of Egypt's financial obligations in the fiscal year that ended in June 2023. As such, it estimated that the current account deficit narrowed from 3.5% of GDP in FY2021/22 to 1.1% of GDP in FY2022/23. It expected portfolio outflows to reach about $2bn next year and for authorities to resort to foreign direct investments (FDI) to finance the deficit.

Still, the IIF considered that Egypt remains extremely vulnerable to external factors and to domestic structural bottlenecks. It anticipated that a slowdown in global growth would reduce exports, as well as tourism and transportation receipts as a result of slower shipments via the Suez Canal; while higher import costs as well as the lack of diversification of non-hydrocarbon exports and low competitiveness would rapidly widen the trade deficit. As such, it projected the current account deficit to widen to 1.7% of GDP in FY2023/24. It also expected authorities to clear out about $5.5bn in foreign currency backlogs for imports, and for them to rely on FDI from the sale of state-owned assets and on funding from multilaterals to finance the deficit, amid limited portfolio inflows next year. However, it considered that Egypt will need additional adjustment, such as a future move towards a fully flexible exchange rate, in order to replenish foreign currency reserves and ease the government's financing needs.

Source: Institute of International Finance

NIGERIA

Policy changes improve outlook, challenges remain

The Institute of International Finance indicated that Nigeria's new government has made major policy changes since taking office on May 29, 2023, such as removing the fuel subsidy, which it estimated will cut public spending by about 2% of GDP a year, and adopting a managed float exchange rate regime. But it anticipated that the shortfall in the supply of foreign currency in the domestic market could once again widen the gap between the official and parallel exchange rates, in case global oil prices stabilize at their current level. It expected that the recent devaluation of the exchange rate will boost export receipts and tourism earnings, and that import volumes will decline as a result of the weaker currency. As such, it projected the current account surplus to increase, which would significantly ease investor concerns about a further devaluation of the Nigerian naira and attract foreign capital inflows that would help rebuild foreign currency buffers. Still, it anticipated that a weaker naira and the removal of the fuel subsidy will raise the inflation rate to an average of 25% in 2023, which would lead the Central Bank of Nigeria to increase its interest rates. It estimated that an additional hike of 500 basis points of the key policy rate would stabilize the exchange rate and limit a further deterioration in inflationary pressures.

It projected the fiscal deficit to narrow from 5% of GDP in 2022 to 4.5% of GDP in 2023, due to public spending cuts and new tax receipts. It anticipated that a significant reduction in theft and vandalism of state oil resources will boost fiscal revenues, but for elevated external debt servicing to weigh on public finances.

In parallel, the IIF considered that the government's adoption of a complete floating exchange rate regime, as opposed to a managed float, will be more preferable for investors. It indicated that the key risk to the outlook is a complete reversal of the authorities' policy changes in order to avert social unrest, while other risks include excessive wage demands by labor unions, the sustained monetization of the fiscal deficit, and weak oil production due to theft and drastic weather conditions.

Source: Institute of International Finance

ECONOMY & TRADE

UAE

Abu Dhabi ratings affirmed, outlook 'stable'

Fitch Ratings affirmed the Emirate of Abu Dhabi's short- and long-term foreign-currency Issuer Default Rating at 'F1+' and 'AA', respectively. It also maintained the 'stable' outlook on the long-term the ratings, and affirmed the country ceiling at 'AA+'. It attributed the affirmation of the ratings to Abu Dhabi's strong fiscal and external metrics, and high GDP per capita. It said that Abu Dhabi's debt level is among the lowest and that sovereign net foreign assets are among the highest compared with rated peers. But it noted that the ratings are constrained by Abu Dhabi's high dependence on hydrocarbons, a weak but improving economic policy framework and low governance indicators compared with peers. It projected the Emirate of Abu Dhabi's sovereign net foreign assets to increase from $582bn or 187% of Abu Dhabi's GDP at the end of 2022 to $605bn or 200% of GDP at the end of 2025, which would cover more than six years of the Abu Dhabi government's spending. It pointed out that Abu Dhabi is the financial backer of the UAE and contingent liabilities are elevated but manageable. It said that the debt of GREs, including banks' debt, was at 60% of GDP in 2022 and estimated the debt of other GREs, mainly in Dubai, at 36% of Abu Dhabi's GDP in 2022. But it noted that support for other entities in the UAE is selective and narrowly delineated.

Source: Fitch Ratings

BAHRAIN

Economic activity to grow by 2.7% annually in medium term

The International Monetary Fund (IMF) projected real GDP growth in Bahrain at 4.9% in 2022 relative to 2.7% in 2023. It expected activity in the non-oil sector to expand by 3.3% this year amid the authorities' fiscal consolidation measures, higher interest rates, and favorable base effects. It also forecast real GDP growth to stabilize at about 2.7% over the medium term, in case authorities fiscal and structural reforms under the Fiscal Balance Program and Economic Recovery Plan. But it considered that the outlook is subject to significant uncertainties, including oil price volatility, international financial turmoil and ongoing tightening of monetary policy worldwide, and a slowdown in global economic growth. In parallel, the IMF projected the fiscal deficit to narrow from 6.1% of GDP in 2022 to 5.4% of GDP in 2023 and 4.1% of GDP in 2024, in case authorities step up efforts to enhance non-hydrocarbon revenue mobilization and to limit public spending in order to ensure fiscal and external sustainability and reduce the economy's reliance on oil revenues. It also forecast the public debt level at about 120% of GDP in the 2023-24 period. Further, it anticipated the current account surplus to decline from 15.4% of GDP in 2022 to 7.6% of GDP in 2023 and 6.6% of GDP in 2024, in case of lower oil receipts. As such, it expected foreign currency reserves to rise from $4.5bn at the end of 2022 to $8bn at end-2024. It stressed that fiscal consolidation and structural reforms will support the external position, and that freezing the government overdraft account at the Central Bank of Bahrain and developing a plan for its repayment would help bolster foreign currency reserves and support the country's external position and the peg of the Bahraini dinar.

Source: International Monetary Fund

PAKISTAN

Sovereign ratings upgraded on Staff-Level Agreement with IMF

Fitch Ratings upgraded Pakistan's long-term foreign and local currency Issuer Default Ratings (IDRs) from 'CCC-' to 'CCC', which is eight notches below investment grade. It also affirmed the short-term foreign and local IDRs at 'C' and the country Ceiling at 'B-'. It attributed the upgrade to Pakistan's improved external liquidity and funding conditions following its Staff-Level Agreement (SLA) with the International Monetary Fund (IMF) on a $3bn nine-month Stand-by Arrangement (SBA). But it noted that the implementation of the IMF program and risks of external funding remain, due to a volatile political climate and large external financing needs. Further, it pointed out that the liquid net foreign currency reserves of the State Bank of Pakistan (SBP) declined from $20bn at end-August 2021 to $4bn at end-February 2023, due to a wider current account deficit, large external debt servicing, and earlier injection of foreign currency by the SBP. As such, it anticipated a modest recovery in foreign currency reserves in FY2023/24 on new external financing flows, although these flows will lead to the renewed widening of the current account deficit. In parallel, it said that it could downgrade Pakistan's ratings in case of an increasing likelihood of sovereign default. But it noted that it could upgrade the ratings if the country's foreign currency reserves increase, in case external financing risks recede, and/or if the country's performance under the IMF-supported program ensures the sustained availability of funding.

Source: Fitch Ratings

QATAR

Insurance sector faces intermediate industry risks

In its Insurance Industry and Country Risk Assessment, S&P Global Ratings considered that the property and casualty (P&C) insurance sector in Qatar has an "intermediate" risk level. It noted that it derived its assessment from an "intermediate" country risk and industry risk levels for the domestic P&C insurance sector. It expected the rate of increase in premiums to moderate in the next two years from the levels seen in 2019-2022, but anticipated premium growth in the P&C sector to continue to outpace the overall Qatari economy. It said that the profitable Qatari P&C sector benefits from the country's high economic wealth, as well as from a market structure where six of the largest national insurance companies form a local consortium, which creates high barriers to entry. But it pointed out that the significant exposure of the P&C sector to the equity and real estate asset classes could lead to earnings volatility in case of a slowdown in economic activity and a decline in share prices. Further, it said that the assessment of the industry risk of Qatar's non-life insurance sector reflects the insurers' above-average operating performance and supportive institutional framework. It considered that the sector has good underlying growth potential and should remain resilient if economic growth slows down. It added that the implementation of Qatar's mandatory health coverage plan should further support the sector and could generate between QAR1bn and QAR1.5bn in premiums. It forecast the insurers' net combined ratio, which is the ratio of incurred losses and expenses to earned premiums, at between 91% and 93% in the 2023-24 period, driven by higher claims frequency.

Source: S&P Global Ratings

BANKING

UAE

Capital adequacy ratio at 17% at end-June 2022, NPLs ratio at 7%

The International Monetary Fund (IMF) indicated that banks in the UAE are adequately capitalized and liquid, but expected their exposure to the real estate sector to continue to weigh on their asset quality. It noted that the sector's capital adequacy ratio was 16.9% and that the Tier One capital-to-risk weighted assets ratio stood at 15.8% at end-June 2022, slightly lower than pre-crisis levels. Also, it pointed out that the non-performing loans (NPLs) ratio reached 6.9% at the end of June 2022 relative to 7.3% at end-2021 and to a peak of 7.6% during the COVID-19 outbreak, but that about 60% of NPLs are covered by specific provisions. In parallel, it indicated that the banks' profitability improved in the first half of 2022 with higher interest income and steady but moderate private-sector credit growth. In addition, it said that the increase in profitability has restored the banks' capacity for capital generation. It also expected banks in the UAE to benefit from the rise in interest rates, but anticipated that higher borrowing rates would weigh on lending growth. Further, the IMF called on authorities to monitor financial stability risks, including through stronger macroprudential and regulatory frameworks. It encouraged authorities to implement stress testing in order to provide guidance to pre-empt and mitigate risks from high interest rates.
Source: International Monetary Fund

TÜRKIYE

Policy normalization to support banks' earnings

Moody's Investors Service expected that the normalization of the Turkish authorities' policies will support the core margins of banks operating in the country. It indicated that, on June 24, 2023, the Central Bank of the Republic of Türkiye (CBRT) reduced the banks' securities maintenance ratio from 10% to 5%. It said the ratio requires banks to hold long-term Turkish lira-denominated government bonds against their foreign currency deposits. It pointed out that the move came two days after the CBRT raised its policy rate from 8.5% to 15%, which also increased the interest rate cap on new loans. First, it expected that the reduction in the securities maintenance ratio will result in a moderate decline in the average deposit costs for banks, despite the policy rate hike, because deposit rates on lira-denominated deposits are much higher than the policy rate. Second, it pointed out that the increase in the policy rate shifts the lending rate cap to 28.5%, which reflects a 12-percentage point year-on-year increase in the banking sector's loan rates to several sectors. Further, the agency considered that the CBRT's actions are a step closer to orthodox monetary policy after a prolonged period of unorthodox policy and macroprudential measures that weakened the profitability of Turkish banks. As a result, it expected the authorities to gradually normalize their policy in the rest of 2023, which would support the banking sector's profitability. But it considered that policy sequencing requires careful calibration, which could be a source of risk for banks in case authorities fail to commit to their planned course of action. Also, it noted that a return to a more orthodox policy environment has so far prompted a 25% depreciation of the lira's exchange rate since the beginning of June, which raises risks to the banking sector's capital adequacy because of the high volume of foreign-currency risk-weighted assets. It added that failure to effectively manage the policy reversal would lead to a sharp economic slowdown and weigh on the banks' asset quality.
Source: Moody's Investors Service

DEM REP CONGO

New legislation to improve banking sector's supervision and governance

The International Monetary Fund indicated that the new banking law that the Congolese parliament enacted in December 2022 will support the reforms to strengthen the supervision of the banking and financial sector, make the financial system more transparent and resilient, as well as boost credit growth. It said that the Banque Centrale du Congo will improve the regulatory framework to align it with the new banking law, and will draft new instructions on internal controls, licensing, governance for financial companies, and on payment institutions. It noted that the sector's capital adequacy ratio stood at 12.1% at the end of 2022, unchanged from a year earlier and down from 12.5% at end-September 2022; while its Tier One capital ratio was 9.9% at end-2022 compared to 10.2% at end-September 2022 and 10% at end-2021. Further, it pointed out that the sector's non-performing loans ratio increased from 5.2% at end-2021 to 7.4% at end-2022, following the reinstatement of credit quality rules in December 2021. It said that the banks' credit to the private sector grew by 46% and was equivalent to 8.6% of GDP at end-2022. Also, it indicated that deposits from the extractive sector dropped by 60% last year, while foreign currency deposits grew by 3% in 2022 relative to an increase of 31% in 2021. It noted that foreign currency deposits accounted for 85% of aggregate deposits, while foreign currency lending represented 95% of total credit in 2022.
Source: International Monetary Fund

IRAN

FATF urges Tehran to complete AML/CFT action plan

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), declared that Iran will remain on the FATF statement of "High Risk Jurisdictions Subject to a Call for Action", which identifies countries or jurisdictions with serious strategic AML/CFT deficiencies, until the authorities implement their action plan to address the country's significant AML/CFT deficiencies in full. It said that Iran committed in June 2016 to address its strategic deficiencies, but noted that, since February 2020, Iran has not completed its action plan. Further, in October 2019, the FATF reiterated its call on its members and on all jurisdictions to increase their examination of branches and subsidiaries of financial institutions based in Iran, to introduce relevant reporting mechanisms or systematic reporting of financial transactions, and to demand higher external audit requirements for financial groups. Also, the FATF lifted in full the suspension of counter-measures used by international financial institutions against Iran, since the latter failed to enact the Palermo and Terrorist Financing Conventions. It also called on its members and urged all jurisdictions to apply effective counter measures to risks emanating from the country. In parallel, it pointed out that, in case Iran ratifies the Palermo and Terrorist Financing Conventions, the FATF will decide on the next steps, including whether to suspend counter measures. It stated that it will continue to be concerned about terrorism financing risks until Tehran implements the required measures to address the CFT deficiencies identified in its action plan.
Source: Financial Action Task Force

ENERGY / COMMODITIES

Oil prices to average $78.3 p/b in third quarter of 2023

ICE Brent crude oil front-month prices stood at $80.1 per barrel (p/b) on July 12, 2023, constituting an increase of 4.5% from $76.7 p/b a week earlier and reaching an 11-week high, driven mainly by a decrease in U.S. inflation rates that raised hopes of slowing interest rate hikes by the U.S. Federal Reserve. In parallel, the U.S. Energy Information Administration (EIA) expected crude oil prices to gradually increase in the coming months, due to a decline in global oil inventories and the extended crude oil production cuts by the OPEC+ coalition. It forecast global oil inventories to decrease by an average of 0.7 million barrels per day (b/d) in the second half of 2023 following their increase by an average of 0.6 million b/d in the first half this year. But it indicated that ongoing concerns about weakening global economic conditions continued to limit expectations of a rise in global oil demand, which would weigh on oil prices. Also, the National Bank of Kuwait expected higher global oil demand and lower oil supply, mainly from Saudi Arabia and Russia, to put upward pressure on oil prices in the third quarter of 2023 despite prevailing macroeconomic concerns. In addition, it considered that elevated oil prices and Russia's invasion of Ukraine constitute major catalysts for the shift away from the consumption of oil. As such, it projected the growth in oil demand to slow down in the next five years, driven by higher demand for electric vehicles. Moreover, the EIA projected oil prices to average $78.3 p/b in the third quarter and $80 p/b in the fourth quarter of 2023.

Source: U.S. Energy Information Administration, National Bank of Kuwait, Refinitiv, Byblos Research

Angola's oil export receipts down 78% to $356.5m in May 2023

Oil exports from Angola reached 30.78 million barrels in May 2023, constituting an increase of 1.93 million barrels (+6.7%) from 28.9 million barrels in April 2023 and a decrease of 2.98 million barrels (-8.8%) from 33.76 million barrels in the same month in 2022. The country's oil export receipts totaled KZ189.7bn, or $356.5m, in May 2023 and dropped by 72.2% from KZ683bn ($1.3bn) in April 2023 and by 78% from KZ858.4bn ($2.08bn) in May 2022.

Source: Ministry of Finance of Angola

Global output of natural gas to stay flat in 2023

The International Energy Agency projected global natural gas production to reach 4,105 billion cubic meters (bcm) in 2023, nearly unchanged from 4,108 bcm in 2022. It anticipated production for natural gas in North America at 1,250 bcm and to represent 30.5% of the world's aggregate output in 2023, followed by Eurasia with 820 bcm (20%), the Middle East with 727 bcm (17.7%), Asia Pacific with 666 bcm (16.2%), Africa with 262 bcm (6.4%), and Europe with 226 bcm (5.5%).

Source: International Energy Agency, Byblos Research

Algeria's crude oil production up 1.2% in March 2023

Crude oil production in Algeria totaled one million barrels per day (b/d) in March 2023, constituting an increase of 1.2% from 996,000 b/d in March 2022. Further, aggregate crude oil exports from Algeria stood at 398,000 barrels per day (b/d) in March 2023 and regressed by 0.7% from 401,000 b/d in March 2022.

Source: JODI, Byblos Research

Base Metals: Nickel prices to average $21,000 per ton in third quarter of 2023

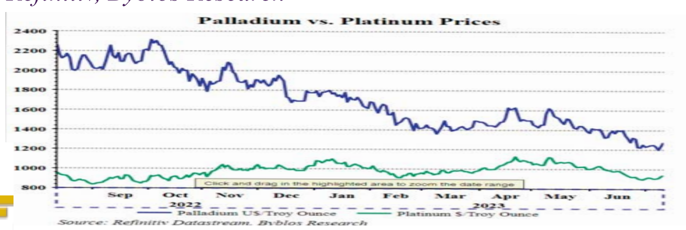
The LME cash prices of nickel averaged $23,985.5 per ton in the year-to-July 12, constituting a decrease of 15.2% from an average of $28,285.4 a ton in the same period of 2022, due to global macroeconomic concerns, financial market turbulence, and monetary tightening. In parallel, The International Nickel Study Group projected the total primary supply of nickel at 3.4 million tons in 2023, which would constitute an increase of 10.3% from 3.06 million tons in 2022 and relative to 2.6 million tons in 2021, mainly due to high production in Indonesia. Also, it forecast the global demand for primary nickel at 3.13 million tons in 2023, which would represent a rise of 6.1% from 2.9 million tons in 2022, compared to 2.78 million tons in 2021. As such, it projected the nickel market to post a surplus of 239,000 tons in 2023, which would constitute a rise of 127.6% from 105,000 tons in 2022, due to the increase of the supply of the metal. Further, S&P Global Market Intelligence expected nickel prices to remain relatively stable in the 2023-27 period, due to elevated nickel supply in the pipeline and growing market surpluses, mainly from higher production in China and Indonesia, in addition to elevated demand for electric vehicles and positive market sentiment. Also, Citi Research forecast nickel prices to average $21,000 per ton in the third quarter and $20,000 a ton in the fourth quarter of 2023.

Source: International Nickel Study Group, S&P Global Market Intelligence,Citi Research, Refinitiv, Byblos Research

Precious Metals: Gold prices to average $1,941 per ounce in third quarter 2023

Gold prices averaged $1,933.41 per troy ounce in the year-to-July 12, 2023 period, constituting an increase of 3.4% from an average of $1,868.8 an ounce in the same period of 2022, mainly due to higher demand for gold, as well as to the acceleration of inflows into gold-backed exchange traded funds in recent months. Further, gold prices advanced to a near one-month high after reaching $1,953.7 per ounce on July 12, 2023, supported by a weaker dollar due to a decrease in U.S. inflation rates that raised expectations that the U.S. Federal Reserve would soon stop its monetary policy tightening. Further, the World Gold Council expected gold prices to remain supported in the near term by stable U.S. bond yields and a weaker dollar. It expected stronger investment demand for gold if global economic conditions deteriorate and risks of a recession increase. It noted that a significant increase in sovereign defaults, high volatility in the stock market, and geopolitical or financial crises, would reinforce the appeal of the metal as a safe haven for investors. But it pointed out that outflows from gold-backed exchange traded funds would increase in case monetary tightening continues for a longer than expected period. Moreover, S&P Global Market Intelligence forecast gold prices to average $1,940.6 per ounce in the third quarter, with a low of $1,750 per ounce and a high of $2,150 an ounce. Further, it forecast prices to average $1,929.4 an ounce in the fourth quarter of 2023, with a low $1,750 per ounce and a high of $2,250 an ounce during the quarter.

Source: World Gold Council, S&P Global Market Intelligence, Refinitiv, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	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 (%)
Africa												
Algeria	- -	- -	- -	- -	-6.5	-	-	-	-	-	-10.8	1.1
Angola	B- Stable	B3 Positive	B- Stable	- -	-1	111.2	7.8	62.6	40.4	101.0	-4.0	1.5
Egypt	B Negative	B3 RfD**	B Negative	B+ Negative	-8.0	90.2	5.6	68.6	50.1	121.1	-3.5	1.9
Ethiopia	CCC Negative	Caa1 RfD	CCC- -	 -	-3.4	34.3	2.0	60.4	5.0	169.5	-6.5	2.6
Ghana	SD -	Ca Stable	SD -	- -	-7.5	71.7	2.6	42.3	53.2	121.4	-3.1	3.8
Côte d'Ivoire	- -	Ba3 Positive	BB- Stable	- -	-4.1	43.2			14.3		-3.5	1.4
Libya	- -	- -	- -	- -	-	-	-	-	-	-	-	-
Dem Rep Congo	B- Stable	B3 Stable	- -	- -	-0.8	13.17	0.49	7.88	2.16	116.35	-4.3	3
Morocco	BB+ Stable	Ba1 Stable	BB+ Stable	- -	-5.0	68.2	5.3	35.1	8.6	99.0	-5.3	1.5
Nigeria	B- Negative	Caa1 Stable	B- Stable	- -	-4.5	46.0	4.1	56.7	27.7	119.9	-1.7	0.2
Sudan	- -	- -	- -	- -	-	-	-	-	-	-	-	-
Tunisia	- -	Caa2 Negative	CCC- -	- -	-4.7	81.0	4.2	-	11.9	-	-8.3	0.5
Burkina Faso	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	- -	-9.0	71.4	4.1	24.2	8.0	112.6	-10.7	2.0
Middle East												
Bahrain	B+ Positive	B2 Negative	B+ Stable	B+ Stable	-6.8	115.4	-1.2	198.8	26.7	345.2	-6.6	2.2
Iran	- -	- -	- -	B Stable	-3.7	-	-	-	-	-	-2.0	1.2
Iraq	B- Stable	Caa1 Stable	B- Stable	- -	-8.0	78.1	-4.4	6.0	6.6	185.9	-2.4	-1.0
Jordan	B+ Stable	B1 Positive	BB- Stable	B+ Positive	-3.0	93.9	1.0	86.0	11.9	182.9	-6.4	2.2
Kuwait	A+ Stable	A1 Stable	AA- Stable	A+ Stable	5.7	20.2	1.7	77.9	0.6	157.3	-0.8	0.0
Lebanon	SD -	C -	C -	- -	-10.0	190.7	2.3	168.0	68.5	236.7	-11.2	2.0
Oman	BB- Positive	Ba2 Positive	BB Positive	BB Positive	-11.3	84.3	1.4	47.1	12.4	146.6	-10.9	2.7
Qatar	AA Stable	Aa3 Positive	AA- Positive	AA Stable	5.3	63.3	2.9	179.1	7.2	225.3	-1.2	-1.5
Saudi Arabia	A Stable	A1 Positive	A+ Stable	A+ Positive	-6.2	38.2	16.3	18.4	3.6	50.4	-0.6	-1.0
Syria	- -	- -	- -	- -	-	-	-	-	-	-	-	-
UAE	- -	Aa2 Stable	AA- Stable	AA- Stable	-1.6	40.5	-	-	2.5	-	3.1	-0.9
Yemen	- -	- -	- -	- -	-	-	-	-	-	-	-	-

COUNTRY RISK METRICS

Countries	LT Foreign currency rating: S&P	Moody's	Fitch	CI	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 (%)
Asia												
Armenia	B+ Positive	Ba3 Stable	B+ Positive	B+ Positive	-4.9	65.5	-	-	11.3	-	-6.7	1.6
China	A+ Stable	A1 Stable	A+ Stable	- -	-3.0	72.6	12.1	40.6	2.5	68.7	1.7	0.4
India	BBB- Stable	Baa3 Negative	BBB- Negative	- -	-10.0	89.6	9.5	41.7	31.6	79.5	-0.6	1.5
Kazakhstan	BBB- Stable	Baa3 Positive	BBB Stable	- -	-1.7	32.0	5.1	30.8	7.3	95.6	-3.2	3.0
Pakistan	CCC+ Stable	Caa3 Stable	CCC -	- -	-8.0	89.4	1.9	41.5	45.9	127.7	-1.6	0.6
Central & Eastern Europe												
Bulgaria	BBB Stable	Baa1 Stable	BBB Stable	- -	-5.0	30.4	2.7	28.3	1.9	104.2	0.4	1.0
Romania	BBB- Negative	Baa3 Negative	BBB- Negative	- -	-7.2	52.4	3.5	25.5	4.5	102.9	-5.1	2.0
Russia	C CWN***	Ca Negative	C -	- -	-2.2	23.4	11.4	18.6	2.9	59.3	1.9	-0.8
Türkiye	B Negative	B2 Negative	B Negative	B+ Stable	-4.0	38.5	-0.9	74.0	9.9	205.7	-4.2	1.0
Ukraine	B- CWN	B3 RfD	CCC -	- -	-5.3	67.3	4.5	56.5	7.9	115.7	-2.1	2.5

** Current account payments*
***Review for Downgrade*
**** CreditWatch with negative implications*
Source: S&P Global Ratings, Fitch Ratings, Moody's Investors Service, CI Ratings, 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	5.25	14-Jun-23	No change	26-Jul-23
Eurozone	Refi Rate	4.00	15-Jun-23	Raised 25bps	27-Jul-23
UK	Bank Rate	5.00	22-Jun-23	Raised 50bps	03-Aug-23
Japan	O/N Call Rate	-0.10	16-Jun-23	No change	28-Jul-23
Australia	Cash Rate	4.10	04-Jul-23	No change	01-Aug-23
New Zealand	Cash Rate	5.50	24-May-23	Raised 25bps	12-Jul-23
Switzerland	SNB Policy Rate	1.75	22-Jun-23	Raised 25bps	21-Sep-23
Canada	Overnight rate	4.75	07-Jun-23	Raised 25bps	12-Jul-23
Emerging Markets					
China	One-year Loan Prime Rate	3.55	20-Jun-23	Cut 10bps	20-Jul-23
Hong Kong	Base Rate	5.50	15-Jun-23	No change	27-Jul-23
Taiwan	Discount Rate	1.875	15-Jun-23	Raised 12.5bps	21-Sep-23
South Korea	Base Rate	3.50	13-Jul-23	No change	24-Aug-23
Malaysia	O/N Policy Rate	3.00	06-Jul-23	No change	07-Sep-23
Thailand	1D Repo	2.00	31-May-23	Raised 25bps	02-Aug-23
India	Reverse Repo Rate	3.35	10-Feb-23	No change	N/A
UAE	Base Rate	5.15	14-Jun-23	No change	26-Jul-23
Saudi Arabia	Repo Rate	5.75	14-Jun-23	No change	26-Jul-23
Egypt	Overnight Deposit	18.25	22-Jun-23	No change	03-Aug-23
Jordan	CBJ Main Rate	7.25	05-May-23	Raised 25bps	N/A
Türkiye	Repo Rate	15.00	22-Jun-23	Raised 650bps	20-Jul-23
South Africa	Repo Rate	8.25	25-May-23	Raised 50bps	20-Jul-23
Kenya	Central Bank Rate	9.50	29-May-23	No change	N/A
Nigeria	Monetary Policy Rate	18.50	24-May-23	Raised 50bps	25-Jul-23
Ghana	Prime Rate	29.50	22-May-23	No change	24-Jul-23
Angola	Base Rate	17.00	19-May-23	No change	14-Jul-23
Mexico	Target Rate	11.25	22-Jun-23	No change	10-Aug-23
Brazil	Selic Rate	13.75	21-Jun-23	No change	N/A
Armenia	Refi Rate	10.50	13-Jun-23	Cut 25bps	01-Aug-23
Romania	Policy Rate	7.00	05-Jul-23	No change	07-Aug-23
Bulgaria	Base Interest	2.77	27-Jun-23	Raised 30bps	26-Jul-23
Kazakhstan	Repo Rate	16.75	05-Jun-23	No change	25-Aug-23
Ukraine	Discount Rate	25.00	15-Jun-23	No change	27-Jul-23
Russia	Refi Rate	7.50	09-Jun-23	No change	21-Jul-23

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut - Lebanon
Tel: (+961) 1 338 100
Fax: (+961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293