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COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Global debt at $217 trillion, or 327% of GDP, at end-March 2017

The Institute of International Finance indicated that global debt, which includes the debt of corporates, governments and households, reached a record-high of $217 trillion, equivalent to 326.8% of GDP, at the end of March 2017, compared to $216.4 trillion, or 323.4% of GDP, a year earlier. It pointed out that global non-financial corporate debt reached $63.5 trillion, or 29.3% of global debt, at end-March 2017, followed by government borrowing with $58.8 trillion (27.1%), financial sector indebtedness with $54.1 trillion (24.9%) and household debt with $40.9 trillion (18.8%). In parallel, the IIF noted that emerging market (EM) debt rose from $53.5 trillion, or 213.3 % of EM's GDP at end-March 2016 to $56.4 trillion, or 217.8% of GDP at the end of March 2017, mainly driven by a sharp increase in borrowing by Chinese households. It added that EM foreign currency debt reached about $7.6 trillion, or 13% of EM debt, at end-March 2017, reflecting a $200bn year-on-year increase due mostly to a strong recovery in US dollar-denominated bond issuance. Further, the IIF said that the debt of mature markets reached $160.6 trillion, or 392% of their GDP, at the end of March 2017 relative to $162.9 trillion, or 389.1% of GDP, a year earlier. It attributed the decline in the debt of mature markets mainly to private sector deleveraging in the Eurozone, as well as to weaker mature market currencies against the US dollar.

Source: Institute of International Finance

EMERGING MARKETS

Corporate speculative-grade default rate at 3.6% in 2016

S&P Global Ratings indicated that a total of 32 corporate debt issuers in emerging markets (EM) defaulted in 2016, relative to 26 issuers in 2015 and 15 issuers in 2014. It added that all of the corporates that defaulted had speculative grade ratings. In addition, it said that the average time to default for the 32 rated EM defaulters was 5.09 years compared to an average of 5.8 years for all rated corporates that defaulted in 2016. Further, it indicated that the Emerging Europe, the Middle East & Africa region and Latin America & the Caribbean region accounted for 14 corporate defaults each, or 43.8% each of the total last year, followed by Emerging Asia with four defaults (12.5%). In parallel, S&P pointed out that the EM corporate speculative-grade default rate increased to 3.57% in 2016 from 3.08% in 2015, relative to a global rate of 4.19%. It said that the default rate for EM issuers was 5.88% for the energy sector in 2016, followed by the aerospace, automotive, metals & capital goods industry (4.6%), consumer services corporates (4.5%), transportation (4.2%), the high tech & office equipment sectors (4.17%), and telecom firms (3.2%). It noted that missed interest or principal payments were the main reason for the default of 15 EM corporate issuers, or 62.5% of the 24 EM corporate defaulters in 2016, followed by regulatory intervention (20.8%), distressed exchange (12.5%) and judicial reorganization (4.2%).

Source: S&P Global Ratings

MENA

Sovereign creditworthiness continues to deteriorate

S&P Global Ratings indicated that overall sovereign creditworthiness in the Middle East & North Africa (MENA) region has deteriorated since January 2017. It noted that it downgraded the sovereign ratings of Oman, Qatar and the Emirate of Sharjah due to increased external vulnerabilities and rising debt levels. It also revised the outlook on Sharjah's ratings from 'negative' to 'stable' and that on Bahrain's ratings from 'stable' to 'negative', while it placed Qatar's ratings on CreditWatch negative. It pointed out that the MENA region's average sovereign rating is currently close to 'BBB-' compared to an average closer to 'BBB' in January 2017, with seven out of the 13 rated sovereigns in the region having a rating in the 'BBB' category or above; while the ratings of the remaining six sovereigns are below investment grade. It said that the average sovereign rating becomes closer to 'BBB' when the ratings are weighted by nominal GDP. Further, S&P pointed out that the average rating for the region differs between hydrocarbon- and non-hydrocarbon-based economies. It noted that the average sovereign rating of the region's hydrocarbon exporters is currently close to 'BBB+', unchanged from January 2017, while the average rating of sovereigns with more limited hydrocarbon resources is below investment grade and stands close to 'BB', relative to around 'BB+' in January. S&P has a 'stable' outlook on nine of the MENA sovereigns it rates, and has a 'negative' outlook on the sovereign ratings of Bahrain, Jordan and Oman, while the ratings of Qatar are on CreditWatch negative.

Source: S&P Global Ratings

Resource governance levels vary across region

The Natural Resource Governance Institute included 15 Arab countries on its 2017 Resource Governance Index, which assesses guidelines and practices that authorities apply to govern their countries' oil, gas and mining industries. The index assesses either the oil & gas sector or the mining industry in all Arab countries, except for Tunisia, where it assesses both sectors, given their prevalence in the country. The governance level in Tunisia's oil & gas industry is the 26th highest among 89 sectors in 81 countries globally and is the most developed among 16 sectors regionally. Kuwait's oil & gas sector followed in 33rd place, then Morocco's mining sector (37th), Oman's oil & gas industry (39th) and Tunisia's mining sector (48th) as the industries with the highest level of governance. In contrast, Algeria's hydrocarbon sector (73rd), Yemen's oil & gas industry (78th), Mauritania's mining sector (82nd), Sudan's oil & gas industry (86th) and Libya's oil & gas sector (87th) have the lowest governance levels in the region. In parallel, the survey indicated that hydrocarbon or mining sectors in Arab countries do not have a 'good' or 'satisfactory' level of governance, which ensures that wealth is beneficial to citizens though at some cost. It noted that five sectors in Arab countries have a 'weak' level of governance, which means that these countries have a combination of strong and problematic areas of governance, with weak benefits to society. It added that eight Arab sectors have a 'poor' level of governance and three have a 'failing' governance level.

Source: Natural Resource Governance Institute, Byblos Research

POLITICAL RISK OVERVIEW - June 2017

EGYPT

The Egyptian Parliament approved on June 13 the transfer of two Red Sea islands to Saudi Arabia under a maritime demarcation agreement that has attracted widespread criticism and triggered protests across the country. Security forces arrested seven journalists and at least 15 political activists who were involved in the protests against the deal. President Abdel Fattah el-Sisi ratified on June 24 the maritime border treaty between Egypt and Saudi Arabia. The government continued its crackdown on local and international digital outlets and has blocked 114 websites since May 24. Clashes between the Sinai-based militant groups and security forces continued in and around the Sinai Peninsula.

IRAN

Iran accused Saudi Arabia of supporting Islamic State (IS) militants in their first terrorist attack in Tehran. At least 12 people were killed and others were injured during IS-claimed gun and suicide bomb attacks on Iran's Parliament building and the tomb of Ayatollah Khomeini in Tehran. In retaliation, Iran's Revolutionary Guards launched a ballistic missile strike from domestic bases on alleged IS targets in Syria's eastern city of Deir el-Zor. The U.S. Senate passed on June 15 the Countering Iran's Destabilizing Activities Act of 2017, which imposes new sanctions on Iran related to the latter's ballistic missile program and involvement in international terrorism. The International Atomic Energy Agency reported that Iran has fulfilled its obligations under the 2015 nuclear deal.

IRAQ

U.S.-backed Iraqi government forces and allied militias continued to make advances to recapture the western part of the city of Mosul from Islamic State (IS) militants. Prime Minister Haidar al-Abadi declared on June 29 the end of the Islamic State after Iraqi forces captured the al-Nuri mosque in Mosul where the militant group proclaimed its self-styled caliphate three years ago. IS suicide bombers continued their attacks in and around Baghdad and Mosul. Iraq's autonomous Kurdistan Regional Government (KRG) announced that it will hold an independence referendum on September 25, 2017. The KRG's announcement was strongly opposed by Baghdad's central government. Violence and acts of terrorism in Iraq led to 415 civilian deaths and 300 injuries in June 2017.

DEM REP CONGO

Congolese opposition leader Moise Katumbi filed a legal complaint with the UN Human Rights Committee for alleged violation of his rights, including arbitrary trials and police harassment, in hope of getting international protection if he decides to return and run in the upcoming presidential election. The U.S. imposed sanctions on President Joseph Kabila's top military advisor over alleged human rights abuses. Opposition members in Parliament filed motions of no confidence against the Justice and Interior ministers after at least 4,000 prisoners escaped in the past two months. Violence continued between the Army and local militias in the North Kivu province.

LIBYA

Forces loyal to the Libyan National Army (LNA) clashed with the Benghazi Defense Brigades (BDB), loyal to the Presidential Council, as they advanced towards the strategic towns of Waddan, Hun and Sawkna in the central Jufra district. LNA forces, supported by Egyptian airstrikes, took control of the Jufra air base following the withdrawal of BDB and Misratan-led forces. Saif al-Islam Gaddafi, the son of former Libyan dictator Muammar Gaddafi, was freed by the Abubakr Al-Siddiq brigade after over five years in captivity. Protesters in the western town of Bani Walid called for Saif al-Islam Gaddafi to lead the country. The UN Security Council approved the appointment of former Lebanese Culture Minister Ghassan Salamé as the new UN envoy to Libya, replacing German diplomat Martin Kobler.

SOUTH SUDAN

President Salva Kiir's government continued to unilaterally maintain a ceasefire, despite attacks on government forces by the Sudan People's Liberation Army-In Opposition (SPLA-IO), led by former First-Vice President Riek Machar. Mr. Machar refused to maintain the ceasefire and has not joined the national dialogue process. The Intergovernmental Authority on Development summit called on the country's warring parties to take urgent steps to revitalize the full implementation of the Agreement on the Resolution of Conflict in South Sudan. The SPLA-IO and government representatives of the Yei River State signed a peace agreement and agreed to a permanent ceasefire in the state.

SUDAN

Disputes over leadership continued within the Sudan People's Liberation Movement-North (SPLM-N) rebel group. The Nuba Mountains Liberation Council, an SPLM-N regional body, decided to appoint SPLM-N former Deputy Chairman Abdel-Aziz al-Hilu as the temporary chairman for the movement and removed Malik Agar from the leadership of the armed group. Clashes erupted between factions loyal to Agar and al-Hilu in the south of the Blue Nile state, where the Agar group defeated the al-Hilu group and crossed into the former Upper Nile state in South Sudan. Also, fighting continued between the Sudanese Armed Forces and the SPLM-N rebel group in the Blue Nile state. The African Union and the UN decided to reduce the number of their troops in the Darfur region by 44% to 8,735 and the number of policemen by 30% to 2,360 as a step towards an eventual withdrawal.

SYRIA

The U.S.-backed Syrian Democratic Forces and Syrian regime forces raced to capture the IS-held strategic city of Raqqa. Regime forces, supported by Iran-backed militias, made advances towards the al-Tanf army base where special U.S. forces train anti-IS Syrian rebels. The Syrian Observatory for Human Rights said that IS militants have withdrawn from the last IS-held territory in Aleppo after the Syrian army recaptured the Ithriya-Rasafa road and areas in the town of Khanaser. Turkey deployed troops in the northwestern district of Afrin, as it is reportedly preparing to launch an offensive on the area in coming weeks.

TUNISIA

The government continued its campaign against corruption that was launched in May 2017. A court ordered the freezing of the assets of the head of the opposition Free Patriotic Union, Slim Riahi, on the suspicion of corruption and money laundering. The government announced the suspension of 50 associations and the dissolution of 15 others, including those linked to Qatar, for failing to disclose their funding sources. The government reached an agreement with protesters demanding job creation and development in the southern Tataouine province. Tunisian authorities extended the State of Emergency for four additional months.

YEMEN

The UN Security Council urged the Saudi-backed coalition and the Huthi rebels to agree on a UN-brokered plan that aims to prevent fighting near the rebel-held port city of Hodeida and to resume the payment of government salaries. The Saudi-backed coalition agreed to the two-point plan, while Huthi rebels remained skeptical. The Huthi-Saleh bloc accused UN envoy Ismail Ould Cheikh Ahmed of bias and banned him from returning to the country. The al-Qaeda in the Arabian Peninsula claimed responsibility for a car bomb and gun attack on an army camp in the southeastern province of Hadramout. The World Health Organization indicated that the cholera outbreak in the country claimed 1,500 lives since April. The Saudi-led coalition removed Qatari nationals from the coalition forces, while the Yemeni government cut diplomatic ties with Qatar.

Source: International Crisis Group, Newswires

OUTLOOK

UAE

Medium-term growth outlook improves mainly on easing fiscal consolidation

Merrill Lynch projected the UAE's real GDP growth to decelerate from 2.2% in 2016 to 0.9% in 2017, mainly due to a drop in oil production under the OPEC agreement. But it expected non-hydrocarbon real GDP growth to accelerate from 2.3% last year to 2.7% in 2017 and to average between 3% to 3.5% annually in the medium term, supported by easing fiscal consolidation and a pick up in infrastructure activity ahead of the World Expo 2020. It noted that the UAE economy has managed a soft landing, with a less pronounced contraction in activity than in 2008.

In parallel, it indicated that Dubai remains committed to fiscal prudence, even though it forecast its fiscal balance to shift from a small surplus in 2016 to a deficit of about 1% to 2% of GDP from 2017 onwards due to increased capital spending. It added that Dubai's 2017 budget targets a deficit of 0.6% of GDP. It considered that the refinancing of Dubai's government-related entities' debt remains supported by the favorable external financing environment and improved domestic liquidity. It noted that Dubai's public debt level has stabilized in nominal terms but has remained elevated.

Further, Merrill Lynch expected Abu Dhabi's fiscal balance to shift from a deficit of $7.9bn, or 4% of GDP, in 2016 to a surplus in 2017 in case oil prices average $50 p/b or higher during the year. It noted that Abu Dhabi's central government receives a portion of the Abu Dhabi Investment Authority's investment income, which has helped narrow its financing gap. It said that Abu Dhabi's 2017 budget targets a surplus of $4.1bn or 1.9% of GDP, based on higher public revenues and lower spending. It added that authorities are planning to further increase administered utility and energy prices this year. It considered that major infrastructure projects in Abu Dhabi are near completion, which would limit the increase in capital spending during the 2017-18 period. It noted that the Abu Dhabi authorities are planning to keep spending at a flat level over the next five years, as well as to increase revenues through the introduction of the value-added tax in 2018 and an increase in crude oil production.

Source: Merrill Lynch

ALGERIA

Adjustment to new hydrocarbon price environment to be challenging

BNP Paribas projected Algeria's real GDP growth to decelerate from 3.5% in 2016 to 1.9% in 2017 and 2% in 2018 due to the authorities' ongoing fiscal consolidation under the medium-term budget framework. It said that downside risks to the growth outlook are high and are mostly related to the size of the fiscal adjustment in coming years. It forecast the average inflation rate to increase from 6.4% in 2016 to 6.9% in 2017.

Further, BNP Paribas indicated that Algeria faces a long and delicate adjustment process to adapt to the new hydrocarbon price environment, given its fiscal breakeven oil price of more than $90 p/b. It said that Algeria was one of the few MENA countries to narrow their fiscal deficit in 2016, as it reduced public spending and increased non-hydrocarbon revenues. It expected the fiscal deficit to narrow from 13.7% of GDP last year to 8.4% of GDP in 2017, mainly due to subsidy reforms, greater control over the public-sector wage bill, higher taxes and a more selective approach to public investment. It added that it remains uncertain how authorities intend to cover their future financing needs, given that the oil stabilization fund already reached its statutory floor in 2016, the government is not expected to tap the international debt market and the banks' liquidity has tightened. It forecast the government's debt level to grow from 21% of GDP in 2016 to 23.2% of GDP in 2017 and 29.4% of GDP in 2018. It noted that the fragile financial position of several state-owned entities is an additional source of pressure on the debt level, as the government's support to such entities generated alone an increase of nine percentage points of GDP in the debt level in 2016.

In parallel, BNP Paribas forecast the current account deficit to narrow from 16.7% of GDP in 2016 to 12.3% of GDP this year. It anticipated external liquidity to remain under pressure in the absence of major capital inflows. Also, it expected foreign currency reserves to decrease from $114bn, or 22.8 months of imports cover in 2016, to $95bn or 18.9 months of imports cover in 2017, and to $79bn or 15.5 months of imports in 2018. However, it considered that Algeria's external position remains solid, given the very low level of foreign currency-denominated debt.

Source: BNP Paribas

QATAR

Dispute escalation to increase pressure on currency

Commerzbank indicated that the decision of some Arab countries to cut diplomatic ties, trade and transport links with Qatar has put pressure on the Qatari exchange rate. It said that the Qatar Central Bank (QCB) continues to intervene massively on the currency market to preserve the peg of the Qatari riyal against the US dollar. However, it noted that authorities may have to abandon the currency peg in the long term if the ongoing dispute escalates, as the QCB would have to constantly intervene to ease depreciation pressures, which means that its foreign currency reserves will continue to decline.

In addition, it did not expect Qatar's current account deficit to improve amid the current cut in trade ties, which would further weigh on reserves. It said that the country cannot afford a significant drop in imports, given that the supply of goods depends almost entirely on imports. As a result, it considered that authorities will have to establish new supply chains, which would likely be expensive. In addition, it pointed that transporting liquefied petroleum gas out of the country has also become more expensive, which would weigh on the country's export performance.

In parallel, Commerzbank considered that the stability of the peg is dependent on changes in the foreign currency reserve levels at the QCB. It noted that a significant decline in foreign currency reserves would be a negative signal to the market and would raise concerns about the stability of the peg in the long term. Also, it said that the liquidation of foreign assets would send a signal to the market that the QCB is in need of additional liquidity, which would increase currency depreciation pressure. Further, it anticipated the Qatari riyal to depreciate by at least 10% to 15% in case authorities liberalize the exchange rate.

Source: Commerzbank

AFRICA

Informal economy equivalent to 38% of GDP

The International Monetary Fund estimated the average size of the informal economy in Sub-Saharan Africa (SSA) at about 38% of GDP during the 2010-14 period. It said that the size of informal economic activity in the region was the second highest in the world, behind only Latin America at 40% of GDP, and relative to South Asia at 34% of GDP, Europe at 23% of GDP and the Organization for Economic Cooperation and Development countries at 17% of GDP. Further, the IMF indicated that the size of the informal economy varies significantly across SSA countries, ranging from a low of 20% to 25% of GDP in Mauritius, South Africa and Namibia, to a high of 50% to 65% of GDP in Benin, Tanzania and Nigeria. In parallel, the Fund pointed out that the size of the informal economy tends to be smaller in higher income countries, reflecting increased government capacity and better incentives to be active in the formal economy of these countries. As such, it estimated the informal economy at about 40% of GDP in SSA's low-income countries and at 35% of GDP in the region's middle-income countries during the 2010-14 period. In comparison, it noted that the informal economy was equivalent to about 40% of GDP in low-income economies worldwide, to 32% of GDP in emerging markets and to 18% of GDP in advanced economies during the covered period. In addition, the IMF indicated that SSA's oil-exporting economies and fragile countries are more likely to have a large informal economy that exceeds 40% of their GDP, irrespective of the level of income.

Source: International Monetary Fund

SYRIA

Economic losses at $226bn in 2011-16 period

The World Bank estimated the cumulative output losses in Syria at $226bn at constant 2010 prices during the 2011-16 period, equivalent to about four times the country's 2010 GDP. It estimated real GDP to have contracted by 61% between 2011 and 2015, with an additional decline of 2% in 2016, bringing the total contraction in GDP to 63% during the 2011-16 period. It noted that economic activity contracted by 29% in 2012 and 32% in 2013 as the crisis spread across the country, constituting the steepest contraction rate since the start of the conflict. Further, the Bank said that the hydrocarbon sector was the most devastated sector from the disruption in economic activity, with hydrocarbon GDP shrinking by 93% over the 2011-16 period due to a steep drop in oil production. It noted that the non-oil sector contracted by 52% due to severe damages to the country's infrastructure, reduced access to fuel and electricity, subdued business and investor confidence, and interruption in trade flows. It added that the agricultural sector registered significant losses in output due to damaged irrigation systems and shortages of labor and inputs, such as seeds, fertilizers and fuel. In parallel, the Bank pointed out that the recovery of the Syrian economy would become more difficult with the persistence of the conflict over a longer period of time. It estimated that, in case the conflict ends in its sixth year, Syria's GDP would recover about 41% of the gap with its pre-conflict level within the following four years, while it would recover 28% of the gap in four years in case the conflict ends in its 10th year.

Source: World Bank

QATAR

Agency takes rating actions on eight government-related entities

Moody's Investors Service affirmed at 'Aa3' the long-term issuer rating of Qatar Petroleum (QP), the country's national oil & gas company, and Qatari Diar Finance, and at 'A1' the ratings of Industries Qatar (IQ), a subsidiary of Qatar Petroleum, and Qatar Electricity & Water Company (QEWC). It also maintained at 'A1' the senior secured debt ratings of Ras Laffan Liquefied Natural Gas II (RasGas II), Ras Laffan Liquefied Natural Gas 3 (RasGas 3) and Nakilat, a state-owned company that operates and manages liquefied natural gas vessels. Further, it downgraded the senior secured debt ratings of Dolphin Energy from 'A1' to 'A2', as it considered that the ongoing rift between Qatar and other GCC countries would reduce inter-governmental cooperation between Qatar and the UAE. It expected the strategic importance of the Dolphin project to decrease over time for Abu Dhabi, which, in turn, would reduce the likelihood of support from its majority shareholder, Abu Dhabi's Mubadala Development Company. Dolphin Energy is an integrated gas production, processing and transport project that delivers gas from Qatar's North Field to customers mainly in Abu Dhabi, Dubai and Oman. In addition, the agency revised the outlook on the ratings of the eight government-related issuers (GRIs) from 'negative' to 'stable'. It attributed the 'negative' outlook on the ratings of Dolphin Energy to increased risks that elevated geopolitical tensions could weigh on the project, while it noted that the outlook's revision on the ratings of the remaining seven GRIs follows a similar action on Qatar's sovereign ratings.

Source: Moody's Investors Service

MOROCCO

Implementation of reforms needed for higher economic growth

The International Monetary Fund considered that the Moroccan authorities' commitment towards implementing fiscal, financial and structural reforms would strengthen the economy's resilience to external shocks and support higher and inclusive growth. It projected economic growth to rebound to 4.8% in 2017, driven by a recovery in the agricultural sector following last year's drought, as well as a modest pick-up in non-agricultural growth. Also, it expected the inflation rate to regress to 0.9% in 2017 and for unemployment to remain high. Further, the Fund projected the current account deficit to narrow to 4% of GDP in 2017 due to continued export growth and despite higher energy imports, while it forecast foreign currency reserves to reach $24bn at the end of 2017, or six months of import cover. It welcomed the authorities' plans to move to a more flexible exchange rate regime, which would allow the economy to absorb external shocks and preserve its competitiveness. In addition, the IMF anticipated the fiscal deficit to narrow to 3.5% of GDP in 2017 due to higher revenues and limited spending. It encouraged the government to continue to implement fiscal reforms and to reduce the public debt level to 60% of GDP by 2021. In parallel, the Fund encouraged authorities to accelerate structural reforms to mainly improve the business climate and governance, as well as to combat corruption and reduce unemployment.

Source: International Monetary Fund

ARMENIA

Banking sector consolidation to accelerate

Fitch Ratings indicated that the capital adequacy ratio of Armenia's banking sector increased from 16.2% at the end of 2015 to 20% at end-March 2017, as banks had to comply with the Central Bank of Armenia's (CBA) decision to increase the minimum capital requirement from AMD5bn to AMD30bn, or about $60m. It noted that the banks' higher capital levels would support lending growth and provide a buffer against asset quality pressure. In addition, the agency noted that the increase in the banks' minimum capital requirement affected mostly small- and mid-sized banks, and triggered consolidation in the sector through mergers & acquisitions (M&A). As such, it pointed out that there were 17 commercial banks operating in Armenia at end-March 2017, down from 21 banks at end-2015, and expected further consolidation in the sector, given the banks' modest returns on equity. In parallel, Fitch indicated that lending grew by 15% in 2016 following a contraction of 4% in 2015, driven by the rapid expansion of two Armenian banks through cash-backed transactions in the fourth quarter of 2016. It anticipated lending growth to be moderate in 2017, as credit demand has yet to match the macroeconomic recovery. Further, it noted that the banks' non-performing loans ratio regressed from 9.7% at the end of September 2016 to 6.8% at end-March 2017 due to rapid lending growth in the fourth quarter of 2016, as well as to the clean-up of banks' balance sheets prior to M&A deals. Also, it said that foreign currency lending remains high at 62% of total loans, which poses significant risks to the banks' asset quality metrics.

Source: Fitch Ratings

EGYPT

Egyptian pound likely to appreciate in coming months

Regional investment bank EFG Hermes anticipated the Egyptian pound to start appreciating in the second half of 2017, given the significant increase in the Central Bank of Egypt's (CBE) foreign currency reserves and the recovery in the balance of payments. It expected the exchange rate to reach EGP17 against the US dollar by mid-2018. It said that the exchange rate has been broadly stable at about EGP18 per dollar since March 2017 despite portfolio inflows of about $8.25bn so far this year. It noted that these inflows did not strengthen the pound because they came through the CBE's repatriation mechanism rather than directly to the market, but they significantly increased the CBE's foreign currency reserve to $31.1bn in May 2017. However, it pointed out that the 200 basis points increase in policy rates raises concerns about the cost and sustainability of the reserve build-up mechanism. In this context, it considered that the CBE could discourage foreign investors from using the repatriation mechanism, which would gradually push foreign capital to the interbank market and, in turn, slightly strengthen the pound. It pointed out that other factors that would potentially strengthen the currency include the recovery in the balance of payments through rising domestic gas output, higher FDI inflows and a rebound in tourism receipts. It cautioned that the full repayment of foreign debt owed to GCC countries in 2018 is a downside risk to the currency outlook.

Source: EFG Hermes

OMAN

Agency takes rating actions on six banks

Fitch Ratings affirmed at 'A-' the long-term Issuer Default Ratings (IDRs) of HSBC Bank Oman (HBON), at 'BBB' those of Bank Muscat and at 'BBB-' the IDRs of National Bank of Oman (NBO), Ahli Bank (ABO), Bank Dhofar and Bank Sohar. It revised the outlook on the IDRs of HBON, Muscat Bank, ABO, Bank Dhofar and Bank Sohar from 'stable' to 'negative', reflecting its similar action on the sovereign ratings. It maintained the 'stable' outlook on NBO's IDRs as it did not expect the bank's ratings to be affected by a potential one-notch sovereign downgrade. It added that all the banks' ratings, expect those of HBON, reflect a high likelihood of support from the Omani government, in case of need, given the importance of the banking system in supporting the local economy. It added that HBON's ratings are underpinned by the extremely high probability of support from its parent company, HSBC Holdings, due to the bank's importance to the group, while the ratings of Bank Muscat and NBO take into account the banks' intrinsic financial strength in addition to sovereign support. In parallel, Fitch affirmed the Viability Rating (VR) of Bank Muscat at 'bbb', that of HBON and NBO at 'bbb-', the VR of ABO and Bank Dhofar at 'bb+' and Bank Sohar's VR at 'bb'. It said that Bank Muscat's VR is capped by the sovereign rating, the challenging operating environment and the bank's risk appetite, while it is supported by its resilient asset quality and its sound liquidity and capitalization levels.

Source: Fitch Ratings

GHANA

New loan impairment guide to support banks

Moody's Investors Service considered that the Bank of Ghana's (BoG) publication of a guide that clarifies the banks' approach to loan reviews, loan impairments and provisioning is credit positive for banks. It noted that the clarifications would provide banks with consistent guidelines to assess, identify and classify their problematic loans amid a deterioration in the banks' asset quality. The agency said that Ghanaian banks' non-performing loans (NPL) ratio rose from 11.3% at end-2014 to 19.8% at end-April 2017 due to the slowdown in economic activity in 2016, as well as to high inflation and lending rates that reduced some borrowers' repayment capacity. It added that the commerce, finance, services, electricity, water and gas sectors accounted for 66% of total NPLs at the end of April 2017. Also, it noted that foreign-currency loans represented 27% of total loans at the end of April 2017, while the Ghanaian cedi has depreciated by about 14% since the end of 2015. Moody's expected the BoG's guidelines to push banks to provide adequate provisions for NPLs, which would improve their loan-loss absorption capacity. It said that the BoG requires banks to individually assess their 50 largest exposures for impairments, such as breach of contract, deterioration in credit quality, probability of bankruptcy, as well as the non-payment of interest, principal or fees. It added that, for the remaining exposures, the guidelines ask banks to mainly assess changes in their ability to meet their obligations. Further, the BoG asked banks to establish a credit risk reserve fund with additional provisions on loans and advances.

Source: Moody's Investors Service

ENERGY / COMMODITIES

Oil prices to average below $50 p/b in coming three months

Crude Oil-Brent dated prices averaged $52.7 p/b in the first half of 2017 and Crude Oil WTI Cushing prices averaged $49.9 p/b during the covered period. Oil prices declined in intra-day trading to around $47 per barrel (p/b) on July 13 on persistent concerns about market oversupply. But strong Chinese imports and signs of decreasing U.S. storage tanks eased concerns about the ongoing supply glut and supported prices. In fact, China imported 8.55 million barrels per day in the first half of 2017, up 13.8% from the same period of 2016, making China the world's largest crude oil importer. The oil market is expected to remain oversupplied in the near term, especially given that OPEC's compliance rate with its production quota has decreased to 78% in June from 95% in May 2017, and there are fears that lower compliance among OPEC members may persist. Brent oil prices are forecast to average $49 p/b in the third quarter and to rise to $54 p/b in the fourth quarter of 2017, while WTI Cushing prices are projected to average $47 p/b in the third quarter and to increase to $51 p/b in the fourth quarter of this year. In parallel, crude oil prices could increase to up to $60 p/b before the end of 2017, driven by accelerating global oil demand and reduced supply from OPEC.
Source: Barclays, Barron's, IEA, Thomson Reuters

Global energy investment down 12% in 2016

The International Energy Agency indicated that global energy investments totaled $1.7 trillion in 2016, constituting a decrease of 12% from 2015, and were equivalent to 2.2% of global GDP. It attributed the decline in energy investments to a continued drop in upstream oil & gas spending, which was partially offset by higher expenditures on energy efficiency and electricity networks. It noted that the Chinese energy sector was driven by investments in energy efficiency, as well as clean electricity generation and networks, which, in turn, resulted in a 25% decline in coal-fired power investments. It projected global investments in upstream oil & gas to stabilize in 2017, following two consecutive years of decline.
Source: International Energy Agency, Byblos Research

OPEC's oil basket price down 8% in June 2017

The oil reference basket price of the Organization of Petroleum Exporting Countries averaged $45.2 per barrel (p/b) in June 2017, constituting a decrease of 8.1% from $49.2 p/b in the preceding month. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at $47.9 p/b, followed by Nigeria's Bonny Light at $46.9 p/b and Angola's Girassol at $46.5 p/b. All 14 prices included in the OPEC reference basket posted monthly decreases of $2.7 p/b to $4.4 p/b in June 2017.
Source: OPEC, Byblos Research

Middle East accounts for 10% of world's oil consumption in 2016

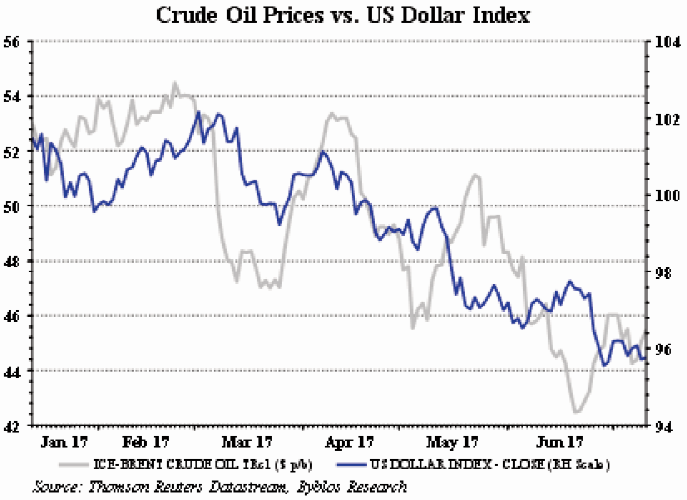
BP estimated the Middle East region's crude oil consumption at 9.43 million barrels per day (b/d) in 2016, up by 1.4% from 9.3 million b/d in the previous year, and equivalent to 9.8% of the world's oil demand. Saudi Arabia's oil consumption averaged 3.91 million b/d, or 41.4% of the region's total demand last year, followed by Iran with 1.85 million b/d (19.6%), the UAE with 987,000 b/d (10.5%) and Kuwait with 499,000 b/d (5.3%).
Source: BP, Byblos Research

Base Metals: Zinc prices to rise in 2017 on wider production deficit

LME zinc 3-month future prices closed at a 15-week high of $2,833 a ton on July 12, 2017, constituting a rise of 10% from $2,576 a ton at the end of 2016, driven by a 50% decline in zinc inventories in the first half of the year. The global production for refined zinc is projected to reach 13.6 million tons in 2017, nearly unchanged from 2016, as a decline in the metal's refined output from Australia, Canada and South Korea would be offset by supply growth in China. In parallel, global demand for refined zinc is forecast to be nearly unchanged at 13.7 million tons this year, supported by a potential increase in the metal's demand in the automotive sector, as zinc would replace aluminum in the shift to lighter vehicles. As such, the production deficit in the zinc market is projected to widen from 51,000 tons in 2016 to 83,000 tons in 2017. In turn, the metal's price is forecast to increase from $2,100 a ton in 2016 to $2,640 a ton in 2017. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index rose by 3.4% in June and by 6.3% in the first half of 2017, while the Zinc Sub-Index increased by 6% last month and by 6.5% from end-2016.
Source: Deutsche Bank, Thomson Reuters, Bloomberg Indexes

Precious Metals: Gold prices to remain nearly unchanged in 2017

Gold prices recovered from a four-month low and jumped by 1% day-to-day to close at $1,221.9 a troy ounce on July 12, 2017 amid expectations of gradual tightening of U.S. monetary policy in the remainder of 2017. Also, the metal's price was supported by political risks surrounding the U.S. Administration, among other factors. Further, gold prices are projected to rise in the remainder of 2017, driven by high seasonal demand in India in September. Overall, the metal's price is expected to increase marginally to $1,250 an ounce in 2017, supported by higher physical demand for the metal in China and India, amid favorable economic growth in these countries. Downside risks to the price outlook for 2017 include stronger-than-expected U.S. economic growth and, in turn, more increases in U.S. interest rates in coming months. In parallel, the Bloomberg Precious Metals Total Return Sub-Index declined by 3.1% in June 2017 and grew by 6.3% in the first half of 2017, while the Gold Sub-Index dropped by 2.5% last month and rose by 7.4% from end-2016.
Source: Deutsche Bank, Bloomberg Indexes



COUNTRY RISK METRICS

Countries	LT Foreign currency rating S&P	Moody's	Fitch	CI	IHS	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Africa													
Algeria	-	-	-	-	BB+								
	-	-	-	-	Negative	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B	B1	B	-	B+								
	Negative	Negative	Negative	-	Negative	-4.1	71.6	43.1	142.7	-	-	-4.3	-3.5
Egypt	B-	B3	B	B-	B-								
	Stable	Stable	Stable	Stable	Stable	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B	B1	B		B+								
	Stable	Stable	Stable	-	Stable	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B-	B3	B	-	B+								
	Stable	Stable	Stable	-	Negative	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3	B+	-	B+								
	-	Stable	Stable	-	Stable	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B	-	B-								
	-	-	Stable	-	Negative	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep	B-	B3	-	-	CCC								
Congo	Negative	Stable	-	-	Stable	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB-	Ba1	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B	B1	B+	-	B+								
	Stable	Negative	Negative	-	Negative	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC								
	-	-	-	-	Negative	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3	B+	-	BB+								
	-	Negative	Stable	-	Stable	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B-	-	-	-	B+								
	Stable	-	-	-	Stable	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B	B2	B	-	B+								
	Stable	Stable	Positive	-	Stable	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB-	Ba2	BB+	BB+	BBB-								
	Negative	Stable	Negative	Stable	Negative	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB-	BB-								
	-	-	-	Stable	Positive	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B-	(P)Caa1	B-	-	CC+								
	Stable	Stable	Stable	-	Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB-	B1	-	BB-	BB+								
	Negative	Stable	-	Negative	Stable	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-								
	Stable	Stable	Stable	Stable	Stable	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B-	B2	B-	B	B-								
	Stable	Negative	Stable	Negative	Stable	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BB+	Baa1	BBB	BBB+	BBB								
	Negative	Stable	Negative	Stable	Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA-	Aa3	AA	AA-	AA-								
	CWN***	Negative	CWN***	Negative	Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A-	A1	A+	A+	AA-								
	Stable	Stable	Stable	Stable	Stable	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C								
	-	-	-	-	Negative	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-								
	-	Stable	-	Stable	Stable	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC								
	-	-	-	-	Negative	-10.0	67.3	17.3	-	-	197.2	-7.0	-0.2

COUNTRY RISK METRICS

Countries	LT Foreign currency rating S&P	Moody's	Fitch	CI	IHS	Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
Asia													
Armenia	-	B1	B+	-	B-								
	-	Stable	Stable	-	Stable	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
China	AA-	A1	A+	-	A								
	Stable	Negative	Stable	-	Stable	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
India	BBB-	Baa3	BBB-	-	BBB								
	Stable	Positive	Stable	-	Stable	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-								
	Negative	CWN***	Stable	-	Negative	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB								
	Negative	Stable	Stable	-	Stable	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Negative	Stable	-	Positive	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
Russia	BB+	Baa3	BBB-	-	BB+								
	Negative	CWN***	Negative	-	Negative	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
Turkey	BB	Ba1	BB+	BB+	BB-								
	Negative	Negative	Stable	Stable	Negative	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
Ukraine	CCC	Caa3	CCC	-	B-								
	Negative	Negative	-	-	Stable	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1

**to official creditors*

*** external debt/current account receipts*

****Credit Watch Negative*

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are estimates for 2016

SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	1.00-1.25	14-Jun-17	Raised 25bps	26-Jul-17
Eurozone	Refi Rate	0.00	08-Jun-17	No change	20-Jul-17
UK	Bank Rate	0.25	15-Jun-17	No change	03-Aug-17
Japan	O/N Call Rate	-0.10	16-Jun-17	No change	20-Jul-17
Australia	Cash Rate	1.5	04-Jul-17	No change	01-Aug-17
New Zealand	Cash Rate	1.75	21-Jun-17	No change	09-Aug-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Jun-17	No change	14-Sep-17
Canada	Overnight rate	0.75	12-Jul-17	Raised 25bps	06-Sep-17
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.50	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	22-Jun-17	No change	29-Sep-17
South Korea	Base Rate	1.25	13-Jul-17	No change	31-Aug-17
Malaysia	O/N Policy Rate	3.00	13-Jul-17	No change	07-Sep-17
Thailand	1D Repo	1.50	05-Jul-17	No change	16-Aug-17
India	Reverse repo rate	6.25	07-Jun-17	No change	02-Aug-17
UAE	Repo rate	1.50	14-Jun-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.00	15-Mar-17	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	06-Jul-17	Raised 200bps	28-Sep-17
Turkey	Base Rate	8.00	15-Jun-17	No change	27-Jul-17
South Africa	Repo rate	7.00	25-May-17	No change	20-Jul-17
Kenya	Central Bank Rate	10.00	29-May-17	No change	25-Jul-17
Nigeria	Monetary Policy Rate	14.00	23-May-17	No change	25-Jul-17
Ghana	Prime Rate	22.50	22-May-17	Cut 100bps	24-Jul-17
Angola	Base rate	16.00	05-Jul-17	No change	31-Jul-17
Mexico	Target Rate	7.00	22-Jun-17	Raised 25bps	10-Aug-17
Brazil	Selic Rate	11.25	31-May-17	Cut 100bps	26-Jul-17
Armenia	Refi Rate	6.00	27-Jun-17	No change	15-Aug-17
Romania	Policy Rate	1.75	03-Jul-17	No change	04-Aug-17
Bulgaria	Base Interest	0.00	30-Jun-17	No change	01-Aug-17
Kazakhstan	Repo Rate	10.50	05-Jun-17	Cut 50bps	17-Jul-17
Ukraine	Discount Rate	12.50	06-Jul-17	No change	03-Aug-17
Russia	Refi Rate	9.00	16-Jun-17	Cut 25bps	28-Jul-17

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