

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Upgrades outweigh downgrades in first half of 2018

Fitch Ratings indicated that it upgraded the Issuer Default Ratings (IDRs) of 26 banks worldwide in the first half of 2018, including 16 banks in emerging economies and 10 banks in developed countries. It indicated that banks in Emerging Europe accounted for 31% of total upgrades, followed by banks in Emerging Asia (23%), Developed Europe (19%), Developed Americas (12%), and Developed Asia Pacific and Emerging Americas (8% each). In contrast, it downgraded 21 banks globally in the first half of 2018, including 17 banks in emerging markets and four banks in developed economies. The agency said that banks in Emerging Americas accounted for 48% of downgrades globally, followed by banks in the Middle East & Africa region (29%), Developed Americas and Europe (10% each), as well as banks in Emerging Europe (5%). It noted that upgrades outweighed downgrades for the first time since the first half of 2014. It added that 50% of the banks' upgrades is due to stronger standalone profiles of banks. Further, it attributed its rating actions on banks in emerging markets to similar actions on the sovereign ratings or to a reassessment of the sovereign risk. Also, it noted that some of the banks' downgrades in emerging markets, notably in the Middle East & Africa region, reflect the weak operating environment and the reduced ability of authorities or foreign parent banks to provide support. Further, Fitch said that 15% of the banks' ratings in emerging markets have a 'negative' outlook and 8% have a 'positive' outlook, relative to 5% of banks in developed markets that have a 'negative' outlook on their ratings and 9% with a 'positive' outlook.

Source: Fitch Ratings

MENA

Stock markets up 10% in first seven months of 2018

Arab stock markets improved by 10.4% and Gulf Cooperation Council equity markets grew by 11.9% in the first seven months of 2018, relative to increases of 0.9% and 0.1%, respectively, in the same period of 2017. In comparison, global equities improved by 1.2%, while emerging market equities regressed by 6.7% in the covered period. Activity on the Khartoum Stock Exchange jumped by 2.9 times in the first seven months of 2018, the Tunis Bourse surged by 34.6%, the Qatar Stock Exchange grew by 15.3%, the Saudi Stock Exchange increased by 14.8%, the Abu Dhabi Securities Exchange expanded by 10.5%, the Egyptian Exchange rose by 3.7%, the Boursa Kuwait increased by 2.2%, the Bahrain Bourse improved by 2% and the Iraq Stock Exchange rose by 0.3% in the covered period. In contrast, activity on the Beirut Stock Exchange declined by 15.6% in the first seven months of 2018, the Muscat Securities Market regressed by 15%, the Dubai Financial Market dropped by 12.3%, the Damascus Securities Exchange retreated by 7.6%, the Palestine Exchange decreased by 6.5%, the Amman Stock Exchange declined by 5.6% and the Casablanca Stock Exchange regressed by 5.2% in the covered period. In parallel, activity on the Tehran Stock Exchange increased by 26.8% in the first seven months of 2018.

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

Private wealth per capita to reach \$25,000 by 2022

The Boston Consulting Group (BCG) indicated that private financial wealth in the Middle East region reached \$3.8 trillion at the end of 2017, constituting an increase of 11% from \$3.4 trillion at end-2016. It noted that the region's private financial wealth grew by a compounded annual growth rate (CAGR) of 4.8% between 2012 and 2017. It said that the region's private wealth accounted for 1.9% of global private financial wealth in 2017, higher than the share of Eastern Europe & Central Asia (1.6%) and Africa (0.8%), but lower than the share of North America (42.6%), Western Europe (22.4%), Asia-Pacific excluding Japan (18.1%), Japan (8.3%), Oceania (2.2%) and Latin America (2%). Further, it noted that 82% of the Middle East region's private wealth in 2017 was held in investable assets such as cash and deposits, equity, bonds and investment funds; while 18% was invested in non-investable assets such as life insurance, pensions and unlisted equities. In parallel, BCG estimated the private financial wealth per capita in the Middle East region at \$18,000 in 2017, ranging from less than \$6,000 per capita in Iran and Iraq to more than \$400,000 per capita in Qatar. The region's private wealth per capita was higher than in Asia-Pacific excluding Japan (\$13,000), Eastern Europe & Central Asia (\$12,000), Latin America (\$11,000) and Africa (\$3,000), while it was lower than that in North America (\$312,000), Japan and Oceania (\$179,000) and Western Europe (\$142,000). It forecast the Middle East region's private wealth per capita to increase to about \$25,000 by 2022.

Source: Boston Consulting Group

M&A deals up 17% to \$22bn in first half of 2018

Figures issued by Bureau Van Dijk and Zephyr show that there were 281 merger & acquisition (M&A) deals targeting companies in the MENA region for a total value of \$21.7bn in the first half of 2018. In comparison, there were 314 M&A deals worth a total of \$18.6bn in the first half of 2017. The figures reflect a decline of 10.5% in the volume of deals and an increase of 16.7% in their value year-on-year in the first half of 2018. The value of M&A transactions in the UAE reached \$9.8bn in the first half of the year, which constituted 45.3% of the region's aggregate deal value in the covered period. Egypt followed with M&A deals of \$4.9bn (22.6%), then Saudi Arabia with \$2.5bn (11.4%), Morocco with \$1.4bn (6.6%), Kuwait with \$817m (3.8%), Oman with \$624m (2.9%), Iran with \$591m (2.7%) and Libya with \$450m (2.1%), while the remaining \$890m worth of deals, or 4.1% of the total, targeted other MENA countries. In volume terms, the UAE had 80 M&A deals in the first half of the year, followed by Egypt with 70 transactions, Jordan with 31 deals, Saudi Arabia with 23 transactions, Oman with 21 deals and Morocco with 17 transactions, while the remaining deals were in nine other MENA countries. In addition, the value of M&A deals targeting banks reached \$7.1bn, or 32.5% of total value in the first half of 2018, followed by the primary sector, including agriculture and mining, with \$2.5bn (11.7%), the insurance sector with \$1.2bn (5.7%), the food, beverages & tobacco sector with \$1.1bn (5%), public administration and defense with \$1bn (4.6%), construction with \$979m (4.5%), the education and healthcare sectors with \$751m (3.5%), and the transportation sector with \$630m (2.9%).

Source: Zephyr, Bureau Van Dijk, Byblos Research

OUTLOOK

TURKEY

Growth to slow down as downside risks increase

The Institute of International Finance indicated that Turkey's economic activity in the first half of 2018 was supported by the government's fiscal measures to increase private consumption and investment, and by higher spending ahead of the June 2018 presidential elections. However, it expected the fiscal stimulus to decrease in the second half of the year. As such, it projected real GDP growth to decelerate from 7.4% in 2017 to 5% in 2018 due to lower domestic spending and weaker export growth, and to further regress to 3.5% in 2019 amid tighter policies to reduce persistent macroeconomic imbalances. It said that the government's accommodative fiscal and quasi-fiscal policies ahead of the 2019 local elections would support growth in the near term, but that they would exacerbate the already sizable imbalances. It projected the inflation rate to increase from 11.9% at end-2017 to 14.7% at end-2018 due to the pass-through of the exchange rate depreciation to prices, and to decrease to 10.1% at end-2019.

In parallel, the IIF noted that Turkey's challenging external financing and inflation outlooks require tighter policies, especially that global liquidity conditions are expected to further tighten in the near term. It said that the main short-term risks for Turkey consist of potential capital flow volatility and policy uncertainty. It added that Turkey's heavy reliance on non-resident capital inflows in its growth model exposes the economy to global or regional shifts in market sentiment. In parallel, it projected the central government's deficit to widen from 1.5% of GDP in 2017 to 2.3% of GDP in 2018 and 2019 due to higher spending. Further, it anticipated the current account deficit to widen from 5.6% of GDP in 2017 to 6.8% of GDP in 2018 on the back of higher oil prices, higher borrowing costs and weaker export growth, and to narrow to 5.7% of GDP in 2019. It said that the wide current account deficit and the large short-term external debt repayments would increase Turkey's gross external financing needs from \$218bn in 2017 to about \$240bn in each of 2018 and 2019.

Source: Institute of International Finance

PAKISTAN

New IMF program needed to restore macroeconomic stability

The Institute of International Finance projected Pakistan's real GDP growth to decelerate from 5.4% in the fiscal year that ended in June 2018 to 4.9% in FY2018/19 and 4.6% in FY2019/20, due to heightened risks to macroeconomic stability, increased fiscal and external vulnerabilities and declining foreign currency reserves. It noted that the progress that authorities made in achieving macroeconomic stability under the program supported by the International Monetary Fund during the 2013-16 period has started to erode, amid the slowdown in the implementation of fiscal and structural reforms and the increase in global oil prices. It added that growing political and security tensions represent significant risks to the country's macroeconomic stability.

Further, the IIF indicated that the widening of fiscal and current account deficits led to a substantial decrease in foreign currency reserves in FY2017/18. It noted that foreign currency reserves declined from a peak of \$20bn in late 2016 to about \$10bn in June 2018, and expected them to further decline in coming years

despite the government's external bond issuance and borrowing from Chinese banks. In parallel, it anticipated Pakistani authorities to approach the IMF for another program following the parliamentary elections and the formation of a new Cabinet. It considered that a new IMF-supported program would help Pakistan cover its rising external financing needs and restore macroeconomic stability in the medium term.

In parallel, the IIF anticipated the new government to implement fiscal consolidation measures that focus on generating additional revenues and containing the growth in public spending. In this context, it projected the fiscal deficit to narrow from 6.7% of GDP in FY2017/18 to 6.1% of GDP in FY2018/19 and 5.8% of GDP in FY2019/20. It forecast the general government debt level to remain unchanged at 71.2% of GDP at the end of June 2019 and to reach 70.5% of GDP at end-June 2020. Further, it forecast the current account deficit to slightly widen from 5.8% of GDP in FY2017/18 to 6% of GDP in FY2018/19. But it expected the deficit to narrow to 4.9% of GDP in FY2019/20, due to an increase in exports and a moderation in import growth, as much of the machinery and equipment imports for investments under the China-Pakistan Economic Corridor have been front-loaded.

Source: Institute of International Finance

ANGOLA

Medium-term growth to remain below average trend growth rate

Fitch Ratings indicated that the Angolan government's adoption of monetary, fiscal and structural reforms aims to reduce the country's external vulnerabilities and improve its public finances in coming years. It projected real GDP growth to accelerate from 1.4% in 2017 to 2.3% in 2018 and 2.5% in 2019, amid rising oil receipts and improving operating conditions, which would support growth in the non-hydrocarbon sector. Still, it anticipated Angola's medium-term growth to remain well below the average growth rate of 8.7% registered in the 10 years prior to the oil price shock. It said that the Banco Nacional de Angola introduced adjustments in January 2018 that narrowed the spread between the parallel and official market exchange rates and eased tight foreign-currency liquidity. It anticipated the exchange rate adjustments to support non-oil growth and help rebuild foreign currency reserves. In parallel, it projected the average inflation rate at 25% in 2018 and at 15% in 2019.

Further, Fitch expected Angola's fiscal deficit to narrow from 6.8% of GDP in 2017 to 5.4% of GDP in 2018, but to miss the government's 2018 deficit target of 3.5% of GDP due to a sustained rise in spending. It added that the government's plan to introduce a new value-added tax in 2019 could generate about 1.6% of GDP in revenues and help reduce the deficit to 3.3% of GDP next year. It forecast the public debt level to peak at 67.5% of GDP at end-2018 and to decline to 63.1% of GDP at end-2019, mainly due to the government's fiscal adjustment. It considered that risks to debt sustainability include a failure to reduce the primary budget deficit or an increase in borrowing costs. Further, it expected the current account deficit to narrow from 0.8% of GDP in 2017 to 0.6% of GDP in 2018 due to higher oil export receipts, but to widen to 1.2% of GDP in 2019 on upward pressure on imports. It forecast foreign currency reserves to grow from \$18bn at end-2017 to \$20.5bn at end-2018 and \$22.7bn at end-2019.

Source: Fitch Ratings



ECONOMY & TRADE

EMERGING MARKETS

Capital flows affected by U.S. monetary tightening

Goldman Sachs indicated that the monetary tightening in the United States has an impact on emerging markets (EMs) through different channels such as capital flows, current account balances, foreign currency reserves, and currency mismatch from borrowing in US dollars. It considered that capital flows to EMs are the most affected by tighter monetary policies, while the other channels have become less vulnerable because current accounts of EMs are more balanced than in previous tightening cycles, their foreign currency reserves are larger, and their currency mismatch risk from dollar debt is lower. It considered that Chile and Argentina are the most affected countries from higher U.S. interest rates, given the high share of capital inflows to their respective GDP. It added that Argentina and Turkey, whose current account deficits are the widest across EMs, are the most exposed through the current account channel to higher U.S. interest rates. In parallel, it noted that higher foreign currency reserves improved the EM central banks' ability to stabilize their exchange rates when needed or to help local banks and non-financial firms hedge their exchange rate risk. In addition, it said that corporates that borrowed the most in U.S. dollars are commodity producers or other large exporters that are originally hedged against exchange rate risk by their dollar revenues or assets, which reduces their currency mismatch risks.

Source: *Goldman Sachs*

QATAR

Sovereign ratings affirmed, outlook 'negative'

S&P Global Ratings affirmed at 'AA-/A-1+' Qatar's long- and short-term foreign and local currency sovereign ratings, with a 'negative' outlook. It noted that the 'negative' outlook reflects the geopolitical risks and potential consequences of the ongoing diplomatic tensions with neighboring states on Qatar's economic, fiscal and external metrics, especially if these tensions are prolonged. Still, it expected that authorities will continue to manage the rift while preserving Qatar's rating strengths, including its strong public sector balance sheet. It added that the 2015-2024 infrastructure plan will continue to support economic growth. Further, it said that the decline in non-resident deposits and interbank placements has been offset by liquidity injections from the Qatar Central Bank and by the repatriation of public sector assets to the domestic banking sector. In parallel, it expected the current account surplus to average 4.1% of GDP annually during the 2018-21 period, and for the government's fiscal deficit to average 2% of GDP annually in the covered period, supported by higher hydrocarbon receipts. In parallel, Capital Intelligence Ratings affirmed at 'AA-' Qatar's long-term foreign- and local-currency ratings, with a 'negative' outlook. It indicated that the ratings and 'negative' outlook reflect Qatar's high gross external financing requirements, the central government's large contingent liabilities, and heightened geopolitical risks. But it said that the ratings are supported by the moderate level of central government debt, very large hydrocarbon reserves, and the sizeable government assets at the Qatar Investment Authority. It expected Qatar's external financing requirements to remain elevated at 51.6% of GDP in 2018 and 51.7% of GDP in 2019, driven by the high gross external debt rollover needs of domestic banks.

Source: *S&P Global Ratings, Capital Intelligence Ratings*

IRAQ

Ratings affirmed at 'B-', outlook 'stable'

Fitch Ratings affirmed at 'B-' Iraq's long-term foreign currency Issuer Default Rating (IDR), with a 'stable' outlook. It noted that the ratings are supported by Iraq's high GDP per capita, elevated level of foreign currency reserves, low debt servicing costs, and international financial support. But it said that the ratings are constrained by the country's exposure to the volatile oil sector, weak governance, elevated political risks and an underdeveloped banking sector. It noted that the fiscal and external positions remain at risk of another drop in oil prices, given that the hydrocarbon sector accounts for 90% of Iraq's public revenues and for almost all of its export receipts. It expected the fiscal balance to post a surplus of 3% of GDP in 2018 due to higher oil receipts, following five years of budget deficits. But it anticipated a budget deficit of about 2% of GDP in 2020, as it forecast oil prices to drop from about \$70 p/b in 2018 to \$57.5 p/b in 2020, and due to increases in investment and current spending. It added that a rise in reconstruction spending could put additional pressure on the budget. In parallel, it forecast the public debt level to decrease from 50% of GDP at the end of 2018 to 48.7% of GDP at end-2019, supported by the expected budget surplus and higher nominal GDP. But it forecast the debt level to increase to 50.4% of GDP at end-2020, as oil prices decline again and a budget deficit re-emerges. Further, it projected the Central Bank of Iraq's foreign currency reserves to average \$54bn during the 2018-19 period.

Source: *Fitch Ratings*

SAUDI ARABIA

New solvency rules to drive insurance sector consolidation

Fitch Ratings indicated that insurance premiums in Saudi Arabia decreased by 1.1% to SAR36.5bn, \$9.7bn, in 2017, in line with the contraction in economic activity, and compared to strong increases in premiums over the past decade. Health insurance premiums amounted to SAR19bn and accounted for 52% of total premiums last year, followed by motor insurance premiums with SAR11.1bn (30.5%), and other premiums with SAR6.3bn (17.3%). Fitch indicated that the profitability of the health insurance segment is declining mainly due to higher claims, with the segment's loss ratio rising from 78% in 2016 to 88% in 2017. It expected health claims to further increase following the implementation of the value-added tax on consultation fees, diagnostic and other clinical procedures. In addition, the agency said that motor insurance premiums declined by 8% in 2017 due to a slowdown in car sales. But it anticipated motor premiums to recover in 2018, supported by Saudi Arabia's decision to allow women to drive, as well as by the fact that 55% of vehicles in the country are uninsured. Further, it pointed out that insurance penetration in Saudi Arabia is low at about 1.4% of GDP in 2017, nearly unchanged from 1.5% of GDP in 2016. In parallel, Fitch expected the new solvency regulations, which increase the minimum capital requirements for insurers in Saudi Arabia, to strengthen the country's insurance market and drive consolidation among smaller insurance companies. It also projected foreign participation in the insurance sector to increase, as the Saudi Arabian Monetary Authority, the sector's regulator, is actively encouraging foreign investment in the sector.

Source: *Fitch Ratings, Saudi Arabian Monetary Authority*



BANKING

TURKEY

Sustained currency depreciation is main credit risk

Fitch Ratings indicated that the depreciation of the Turkish lira, higher interest rates and slowing economic growth pose significant risks to the performance of Turkish banks, as well as to their asset quality, capitalization, funding and liquidity. It noted that risks to the banks' asset quality arise from exchange and interest rate pressures, single-name risks, and exposure to risky sectors such as the construction and energy. It said that a stronger US dollar and higher global interest rates would accelerate capital outflows from Turkey and increase external borrowing costs for Turkish issuers. As such, it indicated that currency depreciation is the main source of credit risk for Turkish banks, given the high level of foreign-currency borrowing that is not effectively hedged or matched by foreign-currency revenues, as well as by the elevated dollarization rate of the banking sector. But it considered that the impact of the depreciation of the Turkish lira would depend on the composition of the banks' assets and liabilities by currency. Further, it said that the banks' capital ratios are vulnerable to currency depreciation. It added that weaker asset quality, as well as higher interest rates that reduce the value of bond portfolios, pose additional risks to the banks' capitalization. In parallel, it indicated that foreign-currency wholesale funding accounts for 28% of the sector's total funding at end-May 2018, which increases the banks' exposure to investor sentiment and country risk. But it noted that most banks have sufficient foreign-currency liquid assets to cover foreign-currency wholesale funding liabilities that are due within a year.

Source: Fitch Ratings

UAE

Banks' earnings up 18% in second quarter of 2018

The net profits of eight listed banks in the UAE totaled AED9.5bn, or \$2.6bn, in the second quarter of 2018, constituting an increase of 2.8% from AED9.3bn in the previous quarter and a rise of 17.6% from AED8.1bn in the second quarter of 2017. The year-on-year rise in net profits is mainly due to an annual 8.2% growth in net interest income and a 1.1% rise in non-interest income. In parallel, the banks' total assets reached AED2,000bn, or \$545bn, at end-June 2018, up by 6.9% from end-June 2017. Net loans grew by 4.6% from end-June 2017 to AED1,193bn, or \$325bn, at the end of June 2018. Further, customer deposits reached AED1,343bn, or \$365.8bn, at the end of June 2018 and increased by 7.3% from a year earlier. The loans-to-deposits ratio was 88.8% at end-June 2018, relative to 91.2% a year earlier. The loans-to-deposits ratio has gradually declined from the recent peak of 91.8% at the end of September 2017. Further, total financial investments by the eight banks reached AED271.6bn, or \$74bn, at end-June 2018 and grew by 21% from a year earlier. EFG Hermes indicated that the challenges in the real estate sector, the impact of the value added tax on consumer demand, slow employment growth and subdued occupancy rates at hotels, have all weighed on the performance of UAE banks. However, it said that authorities are taking steps to address the macroeconomic challenges, including a AED50bn stimulus program for Abu Dhabi, reduction in fees for businesses, as well as the relaxation of foreign ownership limits and procedures for long-term visas, which would support credit demand in 2019.

Source: EFG Hermes

NIGERIA

Banks' capitalization still weak despite IFRS 9 requirements

Fitch Ratings indicated that Nigerian banks were able to absorb the first-time application of international accounting standard IFRS 9 on their regulatory capital ratios. It noted that there were no breaches of regulatory capital ratios at the end of the first quarter of 2018, following the creation of expected credit loss (ECL) provisions required under IFRS 9. It said that under the ECL provisioning, banks will have to set aside ECL provisions in anticipation of losses rather than making provisions for incurred credit losses. It indicated that the impact of IFRS 9 on equity varied significantly across Nigerian banks, with Guaranty Trust Bank being the most affected with a decrease of 22% in its equity, while other banks were slightly affected, such as Diamond Bank whose equity declined by 1.1%. Further, it pointed out that Nigerian banks had to charge IFRS 9 provisions directly to their regulatory risk reserve or to their retained earnings. It said that banks that had sufficient regulatory risk reserves to absorb additional provisions were better positioned to make IFRS 9 provisions without affecting their regulatory capital ratios. It added that banks that charged IFRS 9 provisions to their retained earnings, and which were unable to offset these provisions from their first-quarter earnings, registered a decline in their regulatory capital ratios. Overall, Fitch said that despite the limited initial impact of IFRS 9 on Nigerian banks, the banks' capitalization remains weak, reflecting the low coverage of impaired loans and sizeable credit concentrations that expose banks to large losses. It noted that IFRS 9 will provide greater clarity about loss expectations and will force Nigerian banks to take more provisions, which could put further pressure on their regulatory capital buffers.

Source: Fitch Ratings

MOROCCO

Tier One capital of top seven banks at \$13bn

In its 2018 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included seven banks operating in Morocco on the list, with four banks ranked among the top 25 banks in Africa. The rankings are based on the banks' Tier One capital at year-end 2017. *The Banker* indicated that the rankings are based on Basel's Bank of International Settlements' definition of Tier One capital. The aggregate Tier One capital of Moroccan banks totaled \$13bn at the end of 2017 relative to about \$11.7bn in 2016, and accounted for 17.2% of the Tier One capital of banks in Africa. Also, the aggregate assets of the seven banks reached \$158.3bn at the end of 2017 and accounted for 16.8% of the aggregate assets of banks in Africa. As such, Moroccan banks' combined Tier One capital-to-assets ratio was 8.2% at end-2017, higher than the ratio of 8.05% of banks in Africa and the Top 1000 banks' aggregate ratio of 6.7%. Also, the cumulative pre-tax profits of the seven banks reached \$2.37bn in 2017. The ratio of pre-tax profits-to-Tier One capital of Moroccan banks reached 18.2% in 2017, higher than the Top 1000 banks' ratio of 13.5%. The Tier One capital of Attijariwafa Bank was \$3.82bn in 2017, the highest among Moroccan banks, followed by Groupe Banques Populaire (\$3.75bn), BMCE Bank Group (\$2.3bn), Société Générale Morocco (\$1.1bn) and Banque Marocaine pour le Commerce et l'Industrie (\$862m).

Source: The Banker



ENERGY / COMMODITIES

Oil prices to reach \$72 p/b in third quarter of 2018

ICE Brent crude oil front-month prices averaged \$75 per barrel (p/b) in July 2018, constituting a decrease of 1.3% from an average of \$75.9 p/b in June. Also, oil prices dropped by 2.1% from a week earlier to close at \$72.4 p/b on August 1, 2018, mainly due to an unexpected increase in U.S. crude oil inventories, which reignited investors' concerns about oversupply in the market. However, Barclays Capital expected the oil market balance to post sustained surpluses in 2019, as non-OPEC supply would outpace the anticipated growth in global oil demand. It projected oil demand to increase by 1.5 million b/d in 2018 and by 1.4 million b/d in 2019. It noted that higher oil prices could weigh on demand growth, mainly for gasoline, which has been slowing. It considered that downside risks to the price outlook include higher-than-expected oil output from the U.S. and non-OPEC producers, lower global demand, an intensification of trade tensions and the risk of a global recession. In contrast, it said that upside risks to the price outlook include lower U.S. shale oil output, a stronger-than-anticipated demand for oil, and supply disruptions in Libya, Iran and Venezuela. Barclays forecast Brent oil prices at an average of \$72 p/b in the third quarter of 2018, \$74 p/b in the fourth quarter of the year, and \$72 p/b in full year 2018.

Source: Barclays Capital, Thomson Reuters, Byblos Research

U.S. holds largest gold reserves in the world

The U.S. Federal Reserve held about 8,133.5 tons of official gold reserves at the end of March 2018, equivalent to 24.1% of global gold reserves. Germany's Deutsche Bundesbank followed with 3,372.2 tons (10% of the total), then the International Monetary Fund with 2,814 tons (8.3%), Bank of Italy with 2,451.8 tons (7.3%), Banque de France with 2,436 tons (7.2%), the Central Bank of the Russian Federation with 1,890.8 tons (5.8%) and the Peoples' Bank of China with 1,842.6 tons (5.5%). In parallel, Venezuela has been the largest official seller of gold in 2017, as it sold 25 tons to help pay off its debt.

Source: World Gold Council, Forbes

OPEC's compliance at 111% in July 2018

Oil output by members of the Organization of Petroleum Exporting Countries (OPEC) reached 32.3 million barrels per day (b/d) in July 2018, compared to 32.2 million b/d in the previous month. OPEC's total production reached 32.6 million b/d when including the Republic of Congo, which joined OPEC members in June 2018, increasing the number of members to 15. OPEC members with supply reduction targets increased their output by 60,000 b/d in July from the previous month. As such, the compliance rate of OPEC members with their production quota decreased from 116% in June 2018 to 111% in July.

Source: Thomson Reuters

Upstream investments to grow by 5% in 2018

Global upstream oil & gas investments grew by 4% to \$450bn in 2017, compared to declines of 26% in 2016 and 25% in 2015. The growth in such investments was due to improved investor confidence amid rising global oil prices and sustained oil demand growth. Also, investments in the upstream oil & gas sector are expected to grow by 5% to \$472bn in 2018. In parallel, the share of national oil companies in total upstream spending is anticipated to reach a record high of 44% of global upstream oil & gas investments in 2018, up from a 36% share in 2014.

Source: International Energy Agency, Byblos Research

Base Metals: Zinc prices to grow by 5% in 2018

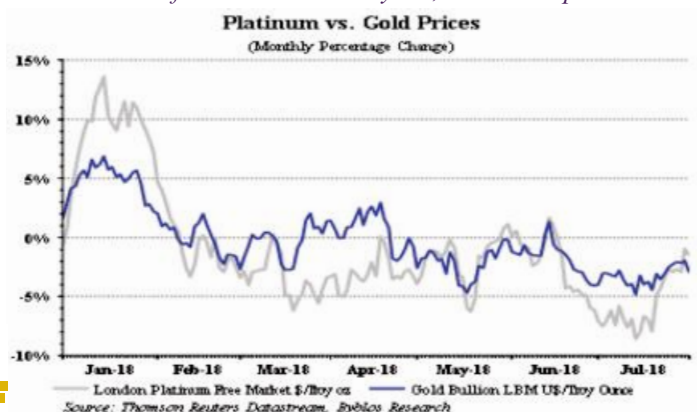
LME zinc cash price averaged \$2,656 per ton in July 2018, which constitutes a decline of 14% from an average of \$3,089 per ton in the previous month amid increasing mine production. However, global zinc consumption is expected to rebound in coming years, and to expand by an annual average of 2% per year in the 2018-19 period relative to a stagnation in growth in 2017, which would support the metal's price. In fact, prices are forecast to rise by 5.1% from \$2,887 per ton in 2017 to \$3,034 per ton in 2018. On the demand side, high levels of urbanization and ongoing investment in infrastructure are expected to support China's use of zinc, as it accounts for nearly 50% of global zinc consumption. Also, upside pressure on demand includes efforts to re-stock zinc worldwide, as global economic growth remains strong. However, downside risks to the metal's demand outlook include strict environmental reforms in China that could put pressure on zinc consumption in the 2018-19 period. On the supply side, global refined zinc output is projected to expand by an annual average of 3.9% in the 2018-19 period, compared to a drop of 2.4% in 2017. Downside risks to the supply outlook persist, as stricter safety and environmental inspections in China could limit the miners' ability to produce more.

Source: Bank of America Merrill Lynch, Economist Intelligence Unit, Thomson Reuters

Precious Metals: Platinum market to continue to post production surplus on subdued demand

Platinum prices averaged \$924.8 per troy ounce in the first seven months of 2018, constituting a decline of 3% from \$953 an ounce in the same period of 2017. Also, the metal's price decreased from an average of \$988 per ounce in each of January and February 2018 to \$953.7 an ounce in March, \$924.1 per ounce in April, \$904.3 an ounce in May, \$884.9 per ounce in June and \$832.1 per ounce in July 2018. The drop in prices so far this year is due to the continued production surplus in the platinum market amid limited demand for the metal. However, prices are expected to recover in the remainder of 2018, as a lack of capital expenditures in platinum mining, especially in South Africa, would limit mine supply. As such, the metal's prices are anticipated to remain nearly unchanged at an average of \$946 per ounce in 2018. In addition, the metal's global demand is forecast to reach 7.4 million ounces in 2018, which would constitute a decline of 6% from 7.8 million ounces in 2017. In parallel, the metal's global output is projected to drop by 3% to 7.9 million ounces this year. In turn, the production surplus in the platinum market is expected to widen from 286,000 ounces in 2017 to 503,000 ounces in 2018.

Source: Bank of America Merrill Lynch, CPM Group



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-2.5	17.3	2.5	-	-	-	-12.3	
	-	-	-	-	Negative								
Angola	B-Stable	B3 Stable	B Stable	-	B-Stable	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B	B3	B	B	B+	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
	Stable	Stable	Positive	Positive	Positive								
Ethiopia	B	B1	B		B+	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
	Stable	Stable	Stable	-	Stable								
Ghana	B-	B3	B	-	BB-	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
	Positive	Stable	Stable	-	Stable								
Ivory Coast	-	Ba3	B+	-	B+	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-16.4	78.2	-	-	-	-	-10.6	-
	-	-	Stable	-	Stable								
Dem Rep Congo	CCC+ Stable	B3 Negative	-	-	CCC Stable	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
Morocco	BBB- Stable	Ba1 Positive	BBB- Stable	-	BBB Stable	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
Nigeria	B	B2	B+	-	BB-	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
	Stable	Stable	Negative	-	Stable								
Sudan	-	-	-	-	CC	-2.5	55.2	47.5	-	-	-	-4.7	-
	-	-	-	-	Negative								
Tunisia	-	B2	B+	-	BB-	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
	-	Stable	Negative	-	Negative								
Burkina Faso	B	-	-	-	B+	-3.6*	33.3	23.1**	-	-	-	-7.2	-
	Stable	-	-	-	Stable								
Rwanda	B	B2	B+	-	B+	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
	Stable	Stable	Stable	-	Stable								
Middle East													
Bahrain	B+	B1	BB-	BB	BB+	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
	Stable	Negative	Stable	Stable	Negative								
Iran	-	-	-	BB-	BB-	0.7	29.2	2.0	-	-	-	5.3	-
	-	-	-	Negative	Positive								
Iraq	B-	Caa1	B-	-	CC+	-4.2	60.0	38.8	-	-	-	-4.4	-
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B3	B-	B	B-	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
	Stable	Stable	Stable	Stable	Stable								
Oman	BB	Baa3	BBB-	BBB	BBB-	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
	Stable	Negative	Negative	Stable	Positive								
Qatar	AA-	Aa3	AA-	AA-	A+	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
	Negative	Stable	Stable	Negative	Negative								
Saudi Arabia	A-	A1	A+	A+	AA-	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-6.0	77.4	20.3	-	-	-	-4.2	
	-	-	-	-	Negative								



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-								
	-	Positive	Positive	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Negative	Stable	Stable	-	Stable	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
Central & Eastern Europe													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB-	Ba2	BB	BB+	BB-								
	Stable	Stable	Negative	Negative	Stable	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-3.0	89.8	144.5	226.4	32.1	827.4	-3.6	1.7

* including grants for Sub-Saharan African countries

** to official creditors

***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 2017



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	1.75-2.00	01-Aug-18	No change	26-Sep-18
Eurozone	Refi Rate	0.00	26-Jul-18	No change	13-Sep-18
UK	Bank Rate	0.75	02-Aug-18	Raised 25bps	13-Sep-18
Japan	O/N Call Rate	-0.10	15-Jun-18	No change	31-Jul-18
Australia	Cash Rate	1.50	03-Jul-18	No change	07-Aug-18
New Zealand	Cash Rate	1.75	28-Jun-18	No change	08-Aug-18
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Jun-18	No change	20-Sep-18
Canada	Overnight rate	1.50	11-Jul-18	Raised 25bps	05-Sep-18
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.75	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	21-Jun-18	No change	27-Sep-18
South Korea	Base Rate	1.50	12-Jul-18	No change	31-Aug-18
Malaysia	O/N Policy Rate	3.25	11-Jul-18	No change	05-Sep-18
Thailand	1D Repo	1.50	20-Jun-18	No change	08-Aug-18
India	Reverse repo rate	6.50	01-Aug-18	Raised 25bps	05-Oct-18
UAE	Repo rate	2.25	14-Jun-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	2.50	14-Jun-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	28-Jun-18	No change	16-Aug-18
Turkey	Repo Rate	17.75	24-Jul-18	No change	25-Sep-18
South Africa	Repo rate	6.50	19-Jul-18	No change	20-Sep-18
Kenya	Central Bank Rate	9.50	28-May-18	No change	N/A
Nigeria	Monetary Policy Rate	14.00	24-Jul-18	No change	25-Sep-18
Ghana	Prime Rate	17.00	23-Jul-18	Cut 100bps	24-Sep-18
Angola	Base rate	16.50	17-Jul-18	Cut 150bps	24-Sep-18
Mexico	Target Rate	7.75	21-Jun-18	Raised 25bps	02-Aug-18
Brazil	Selic Rate	6.50	01-Aug-18	No change	19-Sep-18
Armenia	Refi Rate	6.00	26-Jun-18	No change	14-Aug-18
Romania	Policy Rate	2.50	04-Jul-18	No change	06-Aug-18
Bulgaria	Base Interest	0.00	31-Jul-18	No change	31-Aug-18
Kazakhstan	Repo Rate	9.00	09-Jul-18	No change	03-Sep-18
Ukraine	Discount Rate	17.50	12-Jul-18	Raised 50bps	06-Sep-18
Russia	Refi Rate	7.25	27-Jul-18	No change	14-Sep-18



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

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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

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island – Sky Tower – Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@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
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
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

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

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

