

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

'Stable' outlook on P&C insurance segment

Moody's Investors Service indicated that it has a 'stable' outlook on the property & casualty (P&C) insurance segment for 2017. It anticipated global P&C insurance premiums to continue to expand in line with economic growth, but at a slower pace. It expected P&C insurance premiums in emerging markets to post stronger growth than in advanced economies, especially in Emerging Asia, driven by rising penetration rates. It noted that China, Brazil and other emerging markets have penetration rates of between 1.5% of GDP and 2% of GDP, which are lower than those of North America (4% of GDP) and Europe (3% of GDP). It considered that the growing middle class in emerging economies would improve insurance penetration and support P&C market growth. Further, it expected insurers' capitalization to remain robust, but it anticipated underwriting profitability to deteriorate due to intensified market competition and pricing pressure. It considered that low interest rates would constrain investment income and increase asset risks, even though they promote underlying discipline.

Source: *Moody's Investors Service*

MENA

Companies show high level of optimism about local economies

EY's 2016 MENA Capital Confidence Barometer shows that 74% of executives in the Middle East & North Africa region (MENA) perceive the economy in which they operate as "stable to improving". But the level of optimism varies across countries, as 40% of Saudi executives consider that the local economy is improving, 28% of executives in the UAE believe that the domestic economy is improving, and the majority of executives in Qatar and Egypt see the local economy as "stable to declining". Further, MENA corporates show a lower level of optimism about the global economy relative to peers, as 59% of MENA executives said that the global economy is "stable or improving" relative to 76% of executives worldwide who shared similar views about the economy. In parallel, the survey shows that 31% of executives in the MENA region consider that the slowdown in global trade flows, as a result of economic nationalism, protectionism, and industrial policies, is the greatest economic risk to their core business, compared to 11% of executives worldwide who shared similar views. In addition, 55% of executives in the MENA region view organic growth as the main source of growth within their company over the next 12 months, while 30% of corporates in the region said that product innovation is the biggest disruptor to their core business. Further, 49% of MENA executives are shifting skills and talent within their business to gain efficiencies from greater automation and to adapt to a more technology-driven environment, compared to 71% executives worldwide who are doing the same.

Source: *EY*

Succession planning is most significant challenge for MENA family businesses

A PwC survey about family businesses in the Middle East, which include conglomerates, retail chains and manufacturing firms, shows that 42% of businesses believe that succession planning is the most significant challenge they face, followed by skill shortages (35%) and market conditions (31%). It noted that 9% of family businesses said that they have a robust, documented and communicated succession plan, compared to 15% of family businesses worldwide that have a succession plan. Also, it said that 65% of family businesses in the region consider that they struggle to attract and retain talent, compared to 48% of firms globally that face similar difficulties. In parallel, the survey indicated that 50% of respondents in the Middle East think that increasing the level of professionalism within their institutions is a key priority over the next five years, compared to 43% of participants globally that have the same objective. It also noted that only 53% of respondents believe that there is an alignment between the family and the business strategies, compared to 69% of surveyed participants globally that said the same. It attributed the lack of alignment in the region to the absence of transparency and communication in companies, as those managing the business are reluctant to share information with family shareholders in order to avoid their interference. Further, the survey pointed out that 75% of respondents in the region have at least one procedure in place to deal with a conflict in the company, relative to 82% of participants globally that have similar procedures.

Source: *PwC*

Barriers to trade vary across Arab countries

The World Economic Forum's Enabling Trade Index (ETI) for 2016 shows that the UAE has the lowest barriers to trade among 14 Arab countries and the 23rd lowest barriers among 138 countries worldwide. Bahrain followed in 42nd place, then Qatar (43rd), Jordan (45th), Oman (46th), Morocco (49th), Saudi Arabia (67th), Kuwait (87th), Lebanon (90th), Tunisia (91st), Egypt (116th), Algeria (121st), Mauritania (131st) and Yemen (134th). The ETI measures the extent that individual economies have developed institutions, policies and services that facilitate the free flow of goods across borders and destinations. Countries with the highest rankings and scores have the lowest trade barriers. The average score of Arab countries improved from 4.14 points in the 2014 survey to 4.19 points in the 2016 survey, but it remains below the global average of 4.38 points. The GCC countries' average score regressed from 4.67 points in 2014 to 4.64 points in 2016, while that of non-GCC Arab countries rose from 3.74 points in 2014 to 3.84 points in 2016. In parallel, the average score of Arab countries was higher than that of Sub-Saharan Africa (3.8 points), the Commonwealth of Independent States and Emerging & Developing Asia (4.10 points each), and Latin America & the Caribbean (4.16 points). But it was lower than the average score of 4.57 points in Emerging & Developing Europe and of 5.24 points among advanced economies.

Source: *World Economic Forum, Byblos Research*

POLITICAL RISK OVERVIEW - November 2016

EGYPT

The Islamic State (IS) militant group continued its attacks on the military and civilians in the Sinai Peninsula, which provoked a military response. Suspected militants have reportedly killed 17 soldiers, including one General, during November. The IS-affiliate Sinai Province said that it beheaded Sufi cleric Sheikh Sulaiman Abu Haraz after accusing him of practicing witchcraft. The Army has reportedly killed over 90 suspected militants in North Sinai. An appeals court overturned the death sentence against former President Mohamed Morsi, and ordered a retrial on the charge of conspiring to commit terrorist acts with foreign groups. A Cairo administrative court rejected the Egyptian government's motion to appeal a previous ruling that annulled the transfer of two Red Sea islands to Saudi Arabia.

IRAN

The election of Donald Trump as U.S. President on November 8 raised concerns about the future of the July 2015 multilateral nuclear accord with Iran. The U.S. House of Representatives voted to extend the Iran Sanctions Extension Act for 10 years. The Act still needs the U.S. Senate's approval and President Barack Obama's signature by the end of 2016 before it goes into effect. Iran's Supreme Leader Ayatollah Ali Khamenei warned that Tehran would retaliate if the sanctions are approved, as it would be considered to be a breach of the nuclear deal. The International Atomic Energy Agency said that Iran had 100 kilograms of heavy water in storage in excess of the limit set under the terms of its agreement with the P5+1. The government has reportedly sold the surplus amount of heavy water to Oman.

IRAQ

U.S.-backed government forces and allied militias continued their campaign to retake the city of Mosul from the Islamic State (IS) militant group. The Shiite Popular Mobilization Units (PMU) took control of the Tal Afar airport base west of Mosul and the main road connecting Tal Afar with Mount Sinjar on the border with Syria. Fighting around Mosul displaced 8,000 people in early November, the largest spike in displacements since the start of the offensive on October 17. The Iraqi Parliament passed a bill to recognize the PMU as a government entity operating alongside the military. The law places the PMU under Prime Minister Haider al-Abadi's command, while giving the militiamen salaries and pensions that mirror those of the military and the police. IS militants blew up government buildings in the city of Anah in the Anbar province. Violence and acts of terrorism in Iraq led to 2,885 deaths and 1,380 injuries in November 2016.

DEM REP CONGO

Violence intensified in the North Kivu province as the Army fought local militias to recapture territory. The government continued to crack down on protests and put pressure on the media. Prime Minister Augustin Matata Ponyo and his Cabinet resigned as part of a deal between the ruling coalition and the opposition to delay the presidential vote until 2018. Opposition figure Samy Badibanga was named Prime Minister under the deal to head the new government of national unity. Risks that renewed protests could turn violent increased in the run-up to the official ending of President Joseph Kabila's mandate on December 19, 2016.

LIBYA

The peace process in Libya continued to unravel. Prime Minister-designate Fayez al-Sarraj appointed Osama Saleh as acting Finance Minister without consulting the Tobruk-based House of Representatives. Khalifa Haftar, the commander of the Libyan National Army (LNA), met Russian Foreign Minister Sergey Lavrov to seek help in his fight against Islamist militants at home. The LNA took control of the long-contested Guwarsha district in Benghazi from the Islamist-led militias.

SOUTH SUDAN

Political violence in the Greater Equatoria region continued through November, provoking retaliations by the Sudan People's Liberation Army (SPLA) against rebels and Dinka civilians. Aid workers were denied access to areas outside of Yei town in Central Equatoria and Wau town in Western Bahr El Ghazal, where tens of thousands of people are in need of assistance and protection. The SPLA clashed on November 17 in the Unity state with the rebel Sudan People's Liberation Army – In Opposition (SPLA-IO) loyal to former First Vice President Riek Machar. The U.S. proposed on November 18 a draft UN Security Council resolution to impose an arms embargo on South Sudan and to blacklist opposition figure Riek Machar, South Sudan's Army Chief Paul Malong and Information Minister Michael Makuei.

SUDAN

Rebel leaders who defected from the Darfuri rebel group Sudan Liberation Movement-Abdel Wahid signed a historic peace agreement for western Jebel Marra with the Governor of Central Darfur, Jaafar Abdel Hakam. The armed and unarmed opposition criticized the government's November 3 decision to cut fuel and other subsidies. Deadly demonstrations erupted across greater Khartoum, with some leading to the destruction of public property like buses and gas stations. Sudanese police forces have fired tear gas in late November at about 300 protesters in Omdurman near Khartoum who were demonstrating against a government decision to cut fuel subsidies. Authorities arrested opposition politicians and activists, and cracked down on the media critical of austerity measures.

SYRIA

Pro-regime forces re-escalated attacks on rebel strongholds in east Aleppo, west of the city and across Syria starting mid-November, including full-scale aerial bombardments that caused significant civilian casualties and damage. Pro-regime forces, including Iran-backed militias, supported by Russian airstrikes, made significant gains in Aleppo, taking more than a third of rebel-held territory in the city's besieged east, as tens of thousands of civilians were forced to flee. The humanitarian situation looks increasingly dire, while the UN reiterated its warning that all sides may be committing war crimes. The U.S. election of Donald Trump, who during his campaign voiced skepticism about the U.S. support for Syrian rebels and a desire to intensify efforts against the Islamic State, shed new uncertainty over the conflict's external players. The U.S. House of Representatives passed in mid-November a bill to sanction the regime of Syrian President Bashar al-Assad, as well as its Russian and Iranian backers, for war crimes and crimes against humanity.

TUNISIA

The Islamic State (IS) militant group claimed the killing of a Tunisian soldier at his home near central Mount Mghilla, an area where jihadist fighters operate. Tunisia's national Security Council adopted a new national counter-terrorism strategy to fight terrorism and extremism, two days after the IS said it had killed a soldier. The strategy is built around prevention, protection, judicial proceedings and retaliation. The government said that security forces have killed a prominent figure of the IS-linked group Jund al-Khilafa in a central region of Tunisia. President Beji Caid Essebsi said that the U.S. surveillance drones are flying over the Tunisian-Libyan border to ward off attacks by the Islamic State.

YEMEN

The Saudi-led military coalition fighting in Yemen indicated that it will not renew a two-day ceasefire that took place from November 19 until 21. At least 19 people have been killed in renewed battles between government troops and Houthi rebels, a day after the ceasefire expired without halting the violence.

Source: International Crisis Group, Newswires



OUTLOOK

SAUDI ARABIA

OPEC deal supports near-term outlook

Merrill Lynch anticipated that Saudi Arabia's less aggressive energy policy, the government's ongoing repayment of arrears to private-sector contractors and the recapitalization of the Public Investment Fund (PIF) would ease the pressure on domestic liquidity and would support economic activity in the near term. It considered that the recent OPEC agreement supports Saudi Arabia's near-term outlook as the deal spreads oil production cuts evenly across all OPEC members and prevents the Kingdom from bearing most of the decline in production. It noted that the government has made major efforts to improve domestic liquidity, as it used the proceeds of the \$17.5bn Eurobond issuance and its deposits at the Saudi Arabian Monetary Agency (SAMA) to repay arrears to contractors. However, it expected the ongoing repayment of arrears to widen the Kingdom's fiscal deficit to 20% of GDP in 2016. It anticipated the government to increase debt issuance in 2017 in order to rebuild its fiscal reserves. It said that the government's focus on improving domestic liquidity and on supporting economic activity could slow fiscal reforms in 2017, in the context of large debt issuances to rebuild fiscal reserves and increased spending pressures from the implementation of the National Transformation Plan.

Merrill Lynch estimated foreign assets at SAMA to have declined to \$544bn, or 87% of GDP, at the end of October 2016, mainly due to a drawdown of government deposits at SAMA of \$36.6bn, or 5.9% of GDP, to \$216bn, or 34.6% of GDP. In addition, it noted that government entities have increased their deposits at SAMA by about \$21.7bn in October 2016 in order to offset part of the decline in government deposits at SAMA.

In parallel, Merrill Lynch considered that the government's decision to transfer \$26.7bn, or 4.3% of GDP, from SAMA's foreign currency reserves to the PIF reduces the amount of foreign assets available to meet the balance of payments needs. It expected the PIF to deploy the additional capital into longer-term and less-liquid strategic investments abroad.

Source: Merrill Lynch

TURKEY

Economy to face adverse external environment in 2017

Deutsche Bank projected Turkey's real GDP growth at 2.6% in 2016 and 3% in 2017 compared to a growth rate of 4% in 2015, as it expected economic activity to remain subdued until the first half of 2017. It considered that Turkey's economic prospects for 2017 depend on the stabilization of the domestic political environment, on a rapprochement with the European Union and on the authorities' effort to safeguard the economy. It anticipated Turkey to face two external adverse shocks in 2017, which consist of an expected 25% increase in global oil prices during the year and a shift in global capital flows from emerging markets toward developed markets. It expected the two external factors to result in a wider current account deficit next year and an increase in the cost of financing. As such, it forecast the current account deficit to widen from 4.9% of GDP in 2016 to 5.9% of GDP in 2017. Further, it projected the Turkish lira to further de-

preciate in 2017 due to the adverse external environment, the prevailing geopolitical uncertainty and a wider current account deficit. It anticipated the lira to trade at TRY3.42 against the US dollar at the end of 2016 and at TRY3.67 per dollar at end-2017 compared to about TRY3.37 per dollar currently.

In parallel, Deutsche Bank considered that Turkey's fiscal policy would remain supportive to growth. It projected the fiscal deficit to widen from 1.2% of GDP in 2015 to 1.8% of GDP in 2016 and 2.4% of GDP in 2017 due to higher spending and an over-reliance on one-off non-tax revenues. It did not expect the widening of the deficit to result in a significant deterioration in debt dynamics, as it forecast the public debt level at around 35% of GDP during the 2016-18 period. Further, it projected the average inflation rate to increase from 7.8% in 2016 to 8.4% in 2017, as a result of the depreciation of the Turkish lira and higher global oil prices. It considered that the rise in inflation could encourage the Central Bank of Turkey to increase its policy rate from 8.5% currently to 8.75% in the first quarter and 9.25% in the second quarter of 2017.

Source: Deutsche Bank

ARMENIA

Challenging growth outlook, further fiscal consolidation needed

The International Monetary Fund indicated that adverse external developments have resulted in subdued domestic demand, weak public revenues and deflationary conditions in Armenia. It forecast Armenia's real GDP growth to decelerate from 3% in 2015 to 2.4% in 2016 and 2.7% in 2017, and for the inflation to average -1.4% in 2016 and 1.6% in 2017. It considered that Armenia's outlook remain challenging, which requires continuous policy efforts to maintain macroeconomic and financial stability and to promote sustainable and inclusive growth.

The Fund projected the fiscal deficit to widen from 4.8% of GDP in 2015 to 5.9% of GDP in 2016 due to lower public revenues and higher foreign-financed capital expenditures. But it said that the authorities remain committed to fiscal consolidation and debt sustainability, with the aim to maintain the public debt level at below 60% of GDP over the medium term. It considered that the new tax code that was approved in October 2016 would support the authorities' fiscal consolidation efforts. But it stressed on the importance of implementing measures that would prioritize and monitor foreign-financed capital expenditure and that would further strengthen revenue administration. As such, it projected the fiscal deficit to narrow to 2.8% of GDP in 2017. It forecast the public debt level to rise from 48.8% of GDP in 2015 to 54.7% of GDP in 2016 and 56.4% of GDP in 2017.

Further, it expected the current account deficit to widen from 2.7% of GDP in 2015 to 2.9% of GDP in 2016 and 4% of GDP in 2017. It projected foreign currency reserves to cover five months of imports in each of 2016 and 2017. It noted that the Central Bank of Armenia's monetary policy should continue to target inflation in the context of a flexible exchange rate regime, which would cushion the economy from external shocks and strengthen its competitiveness.

Source: International Monetary Fund



ECONOMY & TRADE

IRAQ

Mixed performance under IMF program

The International Monetary Fund considered that Iraqi authorities have implemented a sizeable fiscal adjustment by reducing inefficient capital spending, and have preserved the dinar's peg to the US dollar. However, it said that Iraq's performance so far under the three-year Stand-By Arrangement (SBA) with the IMF has been mixed, as authorities requested a waiver of four performance criteria, including the floor of foreign currency reserves at the Central Bank of Iraq, as well as a waiver to the ceilings on the stock of outstanding arrears to international oil companies and on the stock of the gross public debt. The Fund noted that it reached an understanding with authorities on sufficient corrective actions to keep the program on course. It considered that the composition of fiscal adjustment should improve over time by increasing non-oil revenues, reducing payroll and pension payments, as well as reforming the electricity sector, state-owned enterprises and subsidies. It said that these measures would make room for more effective and efficient investment expenditures that support economic growth. Further, it called on authorities to assess and pay arrears, and to strengthen their spending commitment and cash management in order to prevent the accumulation of new arrears. In addition, it encouraged the federal government to implement the budget-sharing agreement with the Kurdistan Regional Government, which would allow both governments to better address economic shocks. The IMF disbursed \$617.8m to Iraq following the completion of the SBA's first review.

Source: *International Monetary Fund*

KUWAIT

Volatile economic growth in coming two years

Regional investment bank EFG Hermes projected Kuwait's real GDP growth to decelerate from 4% in 2016 to 0.1% in 2017 and to reach 2.6% in 2018. It attributed the volatility in economic growth in the coming two years to cuts in Kuwait's oil production as per the recently reached OPEC deal. It expected non-hydrocarbon GDP growth to remain strong in the coming two years, supported by the government's robust investment spending. It indicated that the outcome of the recent parliamentary elections, where the opposition recorded big gains, could complicate relations between the new Parliament and Cabinet, and increase uncertainty about the sustainability of public investment plans. It considered that the government's policy to rationalize current spending, especially the public-sector wage bill, would weigh on consumption. In parallel, EFG Hermes forecast Kuwait's fiscal deficit, which includes investment income and excludes transfers to the sovereign wealth fund (SWF), to widen from 1.8% of GDP in the fiscal year that ended in March 2016 to 5.4% of GDP in FY2016/17 due to the low oil price environment and reduced investment income. But it expected the fiscal deficit to shift to a surplus from FY2017/18 onwards, in case oil production and prices recover and as the government further restrains current spending. It projected the fiscal deficit to widen from 17.4% of GDP in FY2015/16 to 19.4% of GDP in FY2016/17 when including transfers to the SWF and excluding income transfers, which would result in \$52bn in funding requirements over the coming three years.

Source: *EFG Hermes*

NIGERIA

Economic activity to contract by 2% in 2016

Standard Chartered Bank projected Nigeria's real GDP to contract by 1.7% in 2016, down from a previous forecast of a 0.4% contraction, due to a steeper-than-expected fall in activity in the third quarter of 2016. It noted that real GDP shrank by 2.2% year-on-year in the third quarter of 2016 following a contraction of 2.1% in the preceding quarter. It added that oil output declined by 22% year-on-year in the third quarter, while the non-oil sector posted a growth of 0.03% following two consecutive quarterly contractions. It forecast real GDP to grow by 2.8% in 2017 from a low base. In parallel, Standard Chartered projected the inflation rate in Nigeria to regress from about 18% toward the end of 2016 to 14% by March 2017, and to reach single digits in the second half of 2017, mainly due to weak economic growth. It estimated that the downward trend in the inflation rate would allow the Central Bank of Nigeria (CBN) to ease its monetary policy. It noted that the CBN has kept its policy rate unchanged at 14% in November in the context of subdued growth. It considered that the CBN's decision to hold interest rates unchanged reflects its plan to stabilize the foreign exchange rate in the near term by using administrative measures. It considered that the country's ability to commit to a fixed exchange rate regime is uncertain, as it expected the country's foreign currency reserves to come under further pressure, given weaker oil earnings and a widening current account deficit.

Source: *Standard Chartered Bank*

ETHIOPIA

Sovereign ratings affirmed, outlook 'stable'

Moody's Investors Service affirmed at 'B1' Ethiopia's long-term issuer and senior unsecured bond ratings, with a 'stable' outlook. It attributed the affirmation of the ratings to Ethiopia's strong growth prospects that are mainly supported by infrastructure spending, as well as to low fiscal deficits and debt levels as a result of a cautious fiscal management, and strong donor inflows and foreign direct investment. It noted that elevated social tensions and anti-government protests have not yet weighed on the sovereign ratings, but could put at risks foreign inflows. In parallel, the agency estimated that growth decelerated from an average of 10.8% over the past decade to at least 7.5% in the fiscal year that ended in July 2016 due to the severe drought. It noted that growth in the construction, manufacturing, trade and telecommunications sectors, as well as improved agricultural practices and the government's timely interventions, have helped reduce the impact of the drought on the economy. Moody's projected real GDP growth to recover to about 8.5% to 9.5% in FY2016/17. Further, the agency indicated that the drought increased the pressure on public spending, but it estimated the fiscal deficit to have widened to only 2.9% of GDP in FY2015/16 from 2.4% of GDP in FY2014/15. Also, it said that the government's debt level stood at 27% of GDP in 2015, which is significantly lower than the median level among 'B'-rated peers of 42% of GDP. It added that the debt level would still be low even when including about 8.8% of GDP in debt from state owned enterprises that is guaranteed by the government.

Source: *Moody's Investors Service*



BANKING

GCC

Pressure on banks' metrics to persist in 2017

Fitch Ratings indicated that 30% of the banks it rates in the Gulf Cooperation Council (GCC) region have a 'negative' outlook due to weaker economic growth and to sustained low oil prices that weaken sovereign ability to provide support for banks in case of need. It expected the low oil price environment to weigh on the GCC banks' liquidity, asset quality and profitability in 2017. It forecast lending growth to decelerate in 2017, which would lead to a slight increase in the banks' impaired loans ratios. Further, it pointed out that credit concentration remains a key risk for GCC banks, as asset quality deterioration has started in corporate segments, such as in contracting and small- and medium-sized enterprises, and is expected to trickle down to other sectors, including retail. In addition, the agency forecast funding costs through customer and inter-bank deposits to remain high. Also, it expected slower deposit growth in 2017 to weigh on the banks' ability to lend, but it said that lower demand for credit would limit the impact of the slowdown in deposit growth on the banks' liquidity. Fitch projected lower real GDP growth, along with insufficient and more expensive funding, to weigh on the banks' lending and revenues. It noted that the expected increase in interest rates would be favorable for the sector, as banks hold high levels of non-remunerated deposits. As such, it anticipated the deterioration in the banks' profitability to be moderate. In parallel, the agency projected the banks' capital levels to remain largely unchanged in 2017 due to lower growth in their lending activity.

Source: Fitch Ratings

JORDAN

Construction and trade account for 23% of overall lending at end-September 2016

Figures released by the Central Bank of Jordan indicate that credit facilities extended by commercial banks in Jordan totaled JD22.4bn, or \$31.7bn, at the end of September 2016, constituting an increase of 6.4% from JD21.1bn at end-2015 and a rise of 7.7% from JD20.8bn at end-September 2015. Credit in foreign currency accounted for 12.7% of the total at the end of September 2016, relative to 14.7% a year earlier. The resident private sector accounted for 86.7% of total credit at end-September 2016 relative to 85.5% at end-September 2015, followed by the central government with 9.5%, down from 10.6% a year earlier; the non-resident private sector with 2.1%; and public entities with 1.6%. The distribution of credit by sector shows that construction represented JD5.2bn or 23.3% of the total at end-September 2016, up from 23.1% a year earlier; while general trade accounted for JD4bn or 17.7% of the total relative to 18% a year earlier. They were followed by public services & utilities with JD3.3bn or 14.9% of the total; industry with JD2.2bn (9.8%); tourism, hotels & restaurants with JD594m (2.6%); financial services with JD557m (2.5%); transportation with JD332.2m (1.5%); agriculture with JD292.2m (1.3%) and mining with JD248.3m (1.1%). Further, other sectors accounted for JD5.7bn, or 25.2% of total credit, of which JD164.1m were extended to buy shares. In parallel, loans & advances reached JD14.7bn at end-September 2016, followed by Islamic banks' receivables with JD5bn, overdrafts with JD2.4bn and discounted bills with JD252.8m.

Source: Central Bank of Jordan, Byblos Research

EGYPT

Banking sector faces significant economic risks

S&P Global Ratings maintained Egypt's Banking Industry Country Risk Assessment (BICRA) in 'Group 10', with an economic risk score of '10' and an industry risk score of '8'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 10' include Belarus, Greece, Nigeria and Ukraine. S&P indicated that Egypt's economic risk score reflects its "extremely high risks" in its economic resilience and credit risks in the economy, as well as "very high risks" in its economic imbalances. It considered that the anticipated fiscal and monetary tightening, sustained shortages of foreign currency and the significant drop in tourism receipts would constrain the gradual recovery of economic activity in the near term. Also, it said that regional and local political tensions remain a threat to economic growth and would increase credit risks for banks. It noted that the trend for the banking sector's economic risk is 'stable'. Further, S&P said that the industry score reflects the country's "very high risks" in its institutional framework and its system wide funding, and "high risks" in its competitive dynamics. It pointed out that Egyptian banks are highly exposed to the sovereign, with their holdings of sovereign debt equivalent to 49% of their aggregate assets at the end of June 2016. It said that the trend of the industry risk is 'negative' as the rapid increase in lending growth over the past two years reflects higher risk appetite from banks.

Source: S&P Global Ratings

MOROCCO

Structural strengths and weaknesses to persist

Fitch Ratings indicated that the strengths of Morocco's banking sector, which include stable funding, reasonable profitability and growth potential, are unlikely to offset structural capital and concentration weaknesses. It said that major banks are profitable, but that their performance is volatile due to high and fluctuating loan impairment charges. It anticipated lending to grow by up to 4% in 2017, supported by higher economic growth, relative to a growth of about 2.5% in the first half of 2016. It noted that mortgages and general consumer lending, which represent about one-third of total credit, would remain the fastest-growing lending segments. However, it expected high loan impairment charges, which were equivalent to 40% of pre-impairment operating profits in the first half of 2016 at large banks, to weigh on profitability and to make it more difficult for banks to increase capital. It noted that domestic impaired loans increased from 7.4% of gross loans at the end of 2015 to 7.7% at end-June 2016, and expected them to reach 8% of gross loans in 2017. It added that portfolios of retail and small- and medium-sized enterprises have the highest impaired loans ratios. It considered that the geographic diversification of the banking sector's assets and deposits poses new market risks, including exchange and interest rate volatility, as well as political and operational risks that are associated with managing international subsidiaries. In parallel, Fitch indicated that the capital buffers at large Moroccan banks are modest amid a volatile operating environment, high borrower concentration and unreserved impaired loans.

Source: Fitch Ratings



ENERGY / COMMODITIES

Oil prices to remain volatile amid speculation over execution of OPEC output cuts

ICE Brent crude oil front-month prices reached their highest level in more than 16 months to close at \$55 per barrel (p/b) on December 5, 2016, few days after members of the Organization of the Petroleum Exporting Countries reached an agreement to cut their oil production in order to reduce the oversupply in the market. However, the increase in oil prices was short-lived as prices dropped by 1.8% day-to-day on December 6 and by another 1.7% on December 7, 2016. This was due to investors' skepticism about the effective implementation of the deal by individual OPEC members, and to uncertainties over an agreement on a coordinated cut by non-OPEC members. The global oil market is expected to shift from an average oversupply of 600,000 b/d in 2016 to a production deficit of 1.6 million b/d in 2017, in case OPEC and non-OPEC production cuts are fully implemented, which, in turn, would place upward pressure on oil prices. In contrast, the oil market would remain oversupplied by 500,000 b/d next year, in case producers fail to fully implement the agreed upon production cuts. Overall, oil prices are expected to remain volatile in coming months, and are forecast to trade at \$50 p/b to \$60 p/b in 2017.

Source: QNB Economics, Jadwa Investment

Jordan leads Arab region in solar energy

Jordan announced that it connected the 23.1 megawatt-peak Falcon Ma'an solar photovoltaic plant, one of the largest in the Middle East, to its national electricity grid. It said that the plant will deliver 147 million kilowatt hours of electricity to the national grid each year, and has made Jordan the leading solar-powered country in the Middle East. The project has been financed under the Seven Sisters renewable program created by the World Bank's International Finance Corporation, along with other lenders.

Source: Enerray

Iran to launch first oil tender in 2017

Iran, OPEC's third largest oil-producer, indicated that it will launch in 2017 its first tender to develop its oil and gas fields since the U.S. and other world powers lifted sanctions related to Tehran's nuclear program. The country expects to attract close to \$50bn per year from international oil companies to improve its oil and gas sector and raise its oil production to 4.28 million b/d by 2020 from 3.67 million b/d currently. In parallel, Iran noted that its national oil company signed a memorandum of understanding with Royal Dutch Shell Plc to evaluate the Azadegan and Yadavaran oil fields near the Iraqi border, and the Kish gas deposit in the Arabian Gulf.

Source: Wall Street Journal, National Iranian Oil Company

Egypt needs to invest \$43bn to raise power capacity

The Arab Petroleum Investments Corporation indicated that Egypt's estimated power capacity of 34 gigawatts (GW) is not sufficient to meet the nation's rising demand for electricity. It said that Egypt's electricity consumption has been rising at an annual rate of 5.6% in the past 10 years. As such, APICORP estimated that Egypt needs to invest \$28bn in power generation and another \$15bn in transmission and distribution in the medium term, which would increase power capacity to 54GW by 2020. It said that financing is the main threat to the government's ability to raise capacity in power generation.

Source: APICORP

Base Metals: Copper prices to increase in first quarter of 2017

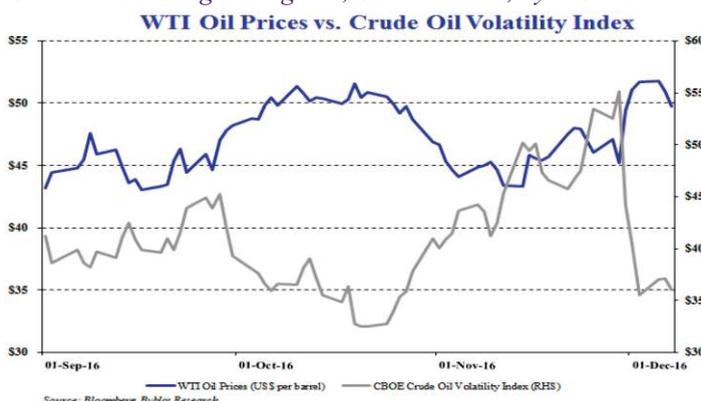
LME copper three-month prices reached \$5,807.5 a metric ton on December 8, 2016, its seventh highest level so far in 2016, as government stimulus in China helps expand demand and as manufacturers increased their inventory for the first quarter of 2017, as part of the end-of-year restocking. Prices were positively affected in early December by news of higher demand for the metal from China, the world's leading copper consumer. China's refined copper imports surged 31% in November 2016 from the previous month to 380,000 tons, the highest level since June 2016, as traders stockpiled more metal amid rising construction demand. In parallel, copper prices surged 20% in November 2016 to close at \$5,825 a ton, driven by hopes that U.S. President-elect Donald Trump would spend more on infrastructure and that China's economic activity would pick up. Copper prices are forecast to average \$5,321 a ton in the fourth quarter of 2016 and to increase to an average of \$5,783 a ton in the first quarter of 2017.

Source: Bloomberg, Byblos Research

Precious Metals: Gold prices to ease in fourth quarter of 2016

The gold Bullion spot price increased by 20.4% from end-2015 to close at \$1,278 a troy ounce on November 9, 2016, the day after the U.S. presidential elections. However, gold's upside prospects have diminished since then as investors in November pulled money out of precious metals at the fastest rate in three years. Exchange-traded funds backed by precious metals saw a net outflow of \$6.31bn in the past 30 days as gold prices decreased to a 10-month low of \$1,170 an ounce on December 6, given that fund managers are seeking better returns with equities surging and the U.S. dollar strengthening. Also, the metal's price has been on a downward trend in the past month, as a result of rising probability for a U.S. interest rate hike in mid-December. In parallel, the gold spot price has slightly increased for the second consecutive day on December 8, 2016 to reach \$1,176 a troy ounce, as the European Central Bank extended its quantitative easing program. Gold prices are forecast to average \$1,250 an ounce in the fourth quarter of 2016 and to drop to \$1,150 a troy ounce in the first quarter of 2017. Upside risks to gold prices include the possibility of a Trump-led trade war with China, uncertainty from the presidential elections in Europe, risks to market stability from the Italian banking sector and complications from Britain's exit from the European Union. Overall, the gold Bullion spot price have closed between a low of \$1,074 an ounce and a high of \$1,366 an ounce so far in 2016.

Source: Bloomberg Intelligence, Commerzbank, Byblos Research



COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. 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 (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B Negative	B1 Negative	B Negative	-	B+ Negative	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B- Stable	B3 Stable	B Stable	B- Stable	B- Stable	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B Stable	B1 Stable	B Stable	-	B+ Stable	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B- Stable	B3 Stable	B Negative	-	B+ Negative	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3 Stable	B+ Stable	-	B+ Stable	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B Stable	-	B- Negative	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B- Negative	B3 Stable	-	-	CCC Stable	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB- Stable	Ba1 Stable	BBB- Stable	-	BBB Stable	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B Stable	B1 Negative	B+ Stable	-	BB- 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 Negative	BB- Negative	-	BB+ Stable	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B- Stable	-	-	-	B+ Stable	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B Stable	B2 Stable	B Positive	-	B+ Stable	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB Stable	Ba2 Stable	BB+ Stable	BB+ Stable	BBB- Negative	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB- Stable	BB- Positive	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B- Stable	(P)Caa1 Stable	B- Negative	-	CC+ Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB- Negative	B1 Stable	-	BB- Stable	BB+ Stable	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	AA- Stable	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B- Stable	B2 Negative	B- Stable	B Negative	B- Stable	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB Negative	Baa1 Stable	-	A- Negative	BBB Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA Stable	Aa2 Negative	AA Stable	AA- Negative	AA- Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A- Stable	A1 Stable	AA- Negative	AA- Negative	AA- Stable	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C Negative	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2 Negative	-	AA- Stable	AA- 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					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 (%)
	S&P	Moody's	Fitch	CI	IHS								
Asia													
Armenia	-	B1	B+	-	B-	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
	-	Stable	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
	Negative	CWN***	Stable	-	Negative								
Central & Eastern Europe													
Bulgaria	BBB	Baa2	BBB-	-	BBB	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
	Negative	CWN***	Negative	-	Negative								
Turkey	BB	Ba1	BBB-	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Negative	Stable	Negative	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1
	Negative	Negative	-	-	Stable								

*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 forecasts for 2016



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.25-0.50	02-Nov-16	No change	14-Dec-16
Eurozone	Refi Rate	0.00	08-Dec-16	No change	19-Jan-17
UK	Bank Rate	0.25	03-Nov-16	No change	15-Dec-16
Japan	O/N Call Rate	-0.10	01-Nov-16	No change	20-Dec-16
Australia	Cash Rate	1.5	06-Dec-16	No change	02-Feb-17
New Zealand	Cash Rate	1.75	09-Nov-16	Cut 25bps	08-Feb-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Sep-16	No change	15-Dec-16
Canada	Overnight rate	0.50	07-Dec-16	No change	20-Jan-17
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	0.75	02-Nov-16	No change	14-Dec-16
Taiwan	Discount Rate	1.375	29-Sep-16	No change	18-Dec-16
South Korea	Base Rate	1.25	11-Nov-16	No change	15-Dec-16
Malaysia	O/N Policy Rate	3.00	23-Nov-16	No change	19-Jan-17
Thailand	1D Repo	1.50	09-Nov-16	No change	21-Dec-16
India	Reverse repo rate	6.25	07-Dec-16	No change	02-Feb-17
UAE	Overnight repo rate	1.25	17-Dec-15	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	0.50	16-Dec-15	Raised 25bps	N/A
Egypt	Overnight Deposit	14.75	17-Nov-16	No change	29-Dec-16
Turkey	Base Rate	8.00	24-Nov-16	Raised 50bps	20-Dec-16
South Africa	Repo rate	7.00	24-Nov-16	No change	24-Jan-17
Kenya	Central Bank Rate	10.00	28-Sep-16	No change	N/A
Nigeria	Monetary Policy Rate	14.00	22-Nov-16	No change	24-Jan-17
Ghana	Prime Rate	25.50	21-Nov-16	Cut 50bps	20-Jan-17
Angola	Base rate	16.00	30-Nov-16	No change	26-Dec-16
Mexico	Target Rate	5.25	17-Nov-16	Raised 50bps	15-Dec-16
Brazil	Selic Rate	13.75	30-Nov-16	Cut 25bps	N/A
Armenia	Refi Rate	6.50	15-Nov-16	Cut 25bps	27-Dec-16
Romania	Policy Rate	1.75	04-Nov-16	No change	06-Jan-17
Bulgaria	Base Interest	0.00	01-Dec-16	No change	04-Jan-17
Kazakhstan	Repo Rate	12.00	14-Nov-16	Cut 50bps	09-Jan-17
Ukraine	Discount Rate	14.00	08-Dec-16	No change	27-Jan-17
Russia	Refi Rate	10.00	28-Oct-16	No change	16-Dec-16



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