

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

External debt issuance at \$463bn in 2017

Merrill Lynch forecast emerging markets (EM) to issue \$463bn in external sovereign and corporate bonds in 2017, with 31% in external sovereign bonds and 69% in corporate bonds. It projected EM sovereigns to issue \$143bn in external sovereign bonds in 2017, constituting a 2% rise from 2016. It expected the Middle East & Africa region to issue \$64bn or 44.8% of external sovereign issuance in 2017, followed by Latin America with \$33bn (23.1%), Emerging Europe with \$20bn (14%), Frontier Markets with \$19bn (13.3%) and Asia-Pacific with \$8bn (5.6%). In addition, it forecast sovereign issuance in the ME&A region to grow by 36.2% and those in Frontier Markets to increase by 26.7% year-on-year in 2017, while it projected issuance in the Asia-Pacific region to decline by 38% year-on-year and in Latin America to decrease by 26.7%. It also expected issuance in EM Europe to remain unchanged in 2017. Further, it anticipated Saudi Arabia, Argentina, Qatar and Kuwait to issue each \$10bn or more in external sovereign debt in 2017, with the aggregate issuance of the four sovereigns accounting for 37% of total external sovereign debt issuance. In parallel, Merrill Lynch forecast EM corporate issuance to rise by 7% to \$320bn in 2017, driven by maturities and increased liability management over the next three years. It projected corporate issuance in Asia to grow by 22% to \$185bn and in Latin America to increase by 17% to \$74bn year-on-year, while it expected corporate issuance in Eastern Europe, the Middle East & Africa (EEMEA) to decline by 14% to \$60bn in 2017.

Source: Merrill Lynch

MENA

Cost of living varies among Arab cities

The 2017 Cost of Living survey, produced by crowd-sourced global database Numbeo, ranked Kuwait City as the most expensive location among 20 Arab cities and the 24th most expensive among 484 cities worldwide. It was followed by Dubai (190th), Dammam (211th), Doha (222nd), and Abu Dhabi (252nd) as the five most expensive Arab cities. The least costly Arab cities were Tunis (443rd), Algiers (410th), Casablanca (408th), Rabat (378th) and Cairo (482nd). Numbeo assesses the cost of living in each city based on a global Consumer Price Index that covers groceries, restaurants, transportation and utilities, as well as on a Rent Index that is an estimate of the rent for apartments in a given city, and benchmarks both indices against New York City. Based on the same cities included in the mid-2016 and 2017 surveys, the rankings of 14 out of 18 Arab cities rose, reflecting a year-on-year increase in the cost of living relative to other cities in the region, while the rankings of four cities regressed from the mid-2016 survey. The ranking of Tripoli in Libya increased by 23 spots, constituting the highest rise in rank among Arab cities; while Cairo's rank regressed by 43 spots, registering the steepest decline in the region. Further, the Rent Index showed that Dubai had the highest apartment rents regionally, while rents in Cairo were the lowest. Numbeo uses data from official sources and uses residents' input to compute the indices.

Source: Numbeo, Byblos Research

GCC

Private sector companies lag government and consumers in terms of digitization

A survey by Siemens and Strategy& of 300 companies in the Gulf Cooperation Council (GCC) countries shows that 60% of surveyed participants consider that digitization has the potential to create new business models or lead to innovation. However, it said that GCC companies are lagging behind their government and consumers when it comes to using digital technologies. It pointed out that one-third of companies in the GCC are in the early stages of digital development, while only 3% of organizations are at an advanced stage of their digital transformation process. It noted that the government, mining, and utilities sectors are the most advanced in the implementation of digital transformation. It indicated that the delay in implementing digital initiatives reflects budget constraints or other business priorities. Further, the survey said that 77% of GCC executives have a narrow view of digitization, which involves the adoption of a specific technology rather than a transformation path. It noted that 37% of respondents have developed a comprehensive digital strategy within their business, while 46% of companies do not have a digital strategy. It added that 40% of companies in the GCC region have allocated less than 5% of their total investments to digitization activities. The survey considered that companies mainly need to have a digital business strategy, to identify the business areas where digitization is beneficial, and to develop digital skills across their organization, in order to fully realize the benefits of digital technologies,

Source: Siemens, Strategy&

Equity issuance down 55% to \$2.6bn in 2016

Equity Capital Markets' (ECM) issuance in the Middle East region, which includes equity and equity-related issuances, totaled \$2.6bn in 2016, down by 54.7% from \$5.7bn in 2015, and constituting the lowest annual issuance in the region since 2004. Issuance in the healthcare sector totaled \$832m and accounted for 32.2% of ECM activity, followed by the financial sector with \$752m (29.1%), the media & entertainment sector with \$457m (17.7%) and the material goods sector with \$201m (7.8%). Also, there were eight initial public offerings in 2016 that raised \$891.7m and accounted for 35% of ECM activity. In parallel, debt issuance in the region reached \$77.8bn in 2016, up 2.5 times from \$31.7bn in 2015, the highest annual debt issuance on record. Further, Islamic debt issuance grew by 24.3% year-on-year to \$37.9bn in 2016. Moreover, the value of announced mergers and acquisitions (M&A) in the Middle East, which includes inbound, outbound and inter-regional deals, totaled \$46.9bn in 2016, down by 16.4% year-on-year. In parallel, investment banking fees in the region stood at \$820.8m in the covered period, up by 18.1% from 2015. Also, syndicated lending fees totaled \$444m in 2016, a nine-year high, and accounted for 54.1% of the overall fee pool, followed by fees from M&A deals at \$200.9m (24.5%), debt capital market fees at \$134.1m (16.3%) and fees from equity capital markets at \$41.8m (5.1%), which constitutes a 12-year low.

Source: Thomson Reuters

OUTLOOK

EMERGING MARKETS

Growth projected at 4.5% for 2017, outlook varies across regions

The International Monetary Fund projected real GDP growth in emerging markets and developing economies at 4.5% in 2017, nearly unchanged from its October forecast of 4.6%, and relative to growth rates of 1.9% for advanced economies and 3.4% for the global economy. It noted that growth prospects have marginally worsened for emerging markets and developing economies due to tighter global financial conditions.

The IMF projected economic growth in Emerging & Developing Asia at 6.4% in 2017 relative to its October forecast of 6.3%, while it revised upwards its growth forecast for China to 6.5% in 2017 from 6.2% previously due to sustained policy support. Also, it maintained its growth forecast for Emerging & Developing Europe at 3.1% in 2017. In contrast, it lowered its growth projection for the MENA region plus Afghanistan and Pakistan to 3.1% in 2017 from 3.4% previously, reflecting lower oil production in Saudi Arabia and the ongoing conflicts in other countries. Further, it revised downwards its growth forecast for Sub-Saharan Africa to 2.8% from its October forecast of 2.9%, even though it raised its growth projection for Nigeria to 0.8% this year from 0.6% previously on the back of higher oil production. In parallel, the IMF anticipated economic activity in the Commonwealth of Independent States at 1.5% in 2017, up from its October forecast of 1.4%; while it lowered its growth projection for Latin America & the Caribbean to 1.2% this year from 1.6% previously.

The IMF indicated that risks to the outlook include tighter global financial conditions, capital flow reversals, sharp currency depreciation, as well as heightened geopolitical tensions. It considered that enhancing financial resilience in emerging markets can reduce their vulnerability to the previously mentioned risks.

Source: International Monetary Fund

MENA

Outlook still 'negative' on GCC in 2017, 'stable' for other Arab economies

Moody's Investors Service indicated that the 'negative' outlook on the credit profiles of Gulf Cooperation Council (GCC) economies in 2017 reflects sustained challenges from the implementation of additional fiscal and structural reforms amid subdued domestic economic activity. It expected real GDP growth in the GCC to average 1.6% during the 2017-18 period, with a low of 0.7% in Saudi Arabia and a high of 3.3% in Qatar. Further, it projected the GCC economies' aggregate fiscal deficit to narrow from 8.8% of GDP in 2016 to 7.5% of GDP in 2017 and 4.9% of GDP in 2018, mainly due to higher global oil prices. It noted that risks to the fiscal outlook include fiscal slippage due to social pressure. It anticipated Saudi Arabia, Bahrain and Oman to post sizeable fiscal deficits in 2017, while it expected the UAE, Qatar and Kuwait to register low deficits of about 3% to 4% of GDP this year. It forecast debt issuance to be lower in 2017 and 2018 than in 2016, due to narrower fiscal deficits. But it expected the GCC's debt level to rise from 10.5% of GDP in 2014 to 31.6% of GDP of GDP by 2018. It estimated that Qatar and

Bahrain would continue to rely on market funding to finance their deficits, while Saudi Arabia, the UAE, Kuwait and Oman would finance their deficits through debt issuance and the drawing down of government assets. It projected the GCC governments' financial assets to decline from \$2.4 trillion at end-2014 to \$2.1 trillion at end-2017, which would weaken their net asset position.

In parallel, Moody's indicated that the 'stable' credit outlook on rated countries in the Levant and North Africa region in 2017 reflects the low oil price environment and the ongoing reforms in the region, despite sustained political and security challenges. It added that the outlook is supported by improving growth momentum and access to external funding under the IMF programs in most countries in the region. It said that the low oil price environment has supported the region's gradual external rebalancing and has helped offset subdued tourism activity and FDI, as well as lower financial transfers from GCC countries. But it noted that risks to the implementation of reforms remain high in countries that have weak government effectiveness, such as Lebanon and Egypt. Also, it considered that the persistent domestic and geopolitical tensions are the main source of risk facing the sovereigns' credit profiles, especially in Lebanon, Egypt and Tunisia.

Source: Moody's Investors Service

AFRICA

Growth in SSA to improve to 3% in 2017

The World Bank projected economic growth in Sub-Saharan Africa (SSA) to accelerate from 1.5% in 2016 to 2.9% in 2017, as policies in the region's economies continue to adjust to low global commodity prices. In comparison, it forecast real GDP growth at 4.2% for emerging and developing economies in 2017 and at 2.7% for the global economy. It expected economic growth to vary significantly across SSA countries. It projected SSA's non-intensive resource countries, such as agricultural exporters and commodity importers, to post the highest growth rates in SSA in 2017, driven in part by public infrastructure investment. Also, it expected consumer spending in these economies to be strong amid stable currencies, low inflation rates and improved agricultural production. But it noted that domestic political instability and heightened uncertainty in Europe would weigh on economic activity in some commodity importers. In parallel, it expected economic activity in South Africa and SSA's oil exporters to improve this year and to be constrained by sustained adjustment to lower commodity prices. Further, it forecast Nigeria's real GDP to grow by 1% this year following a contraction of 1.7% in 2016, supported by the gradual stabilization in global oil prices and an increase in domestic oil production. It projected Angola's real GDP growth to accelerate from 0.4% in 2016 to 1.2% this year.

The Bank indicated that risks to the outlook are tilted to the downside and include heightened policy uncertainty in the U.S. and Europe, tighter global financing conditions, a sharper-than-expected slowdown in China, slower-than-anticipated improvement in commodity prices, as well as policymakers' failure to adjust to low commodity prices and weak global demand. It pointed out that key policy challenges consist of addressing fiscal vulnerabilities and developing new sources of sustainable and inclusive growth while maintaining macroeconomic stability.

Source: World Bank



ECONOMY & TRADE

SAUDI ARABIA

Financial outflows continuing

Merrill Lynch considered that financial outflows from Saudi Arabia have continued due to private sector hedging and official outflows, which has contributed to the decline in foreign currency reserves. It indicated that the restructuring of the Public Investment Fund (PIF) into a sovereign wealth fund that has a mandate of increasing overseas assets would increase investment outflows and, in turn, weigh on foreign currency reserves. As such, it noted that the PIF's outward investment mandate should be carefully managed in order to avoid additional pressure on foreign reserves. It considered that authorities could resort to administrative measures if financial outflows persist, given that an open capital account is key to attract foreign investment under the economic reform program. In parallel, Merrill Lynch expected Saudi Arabia's current account deficit to narrow and to approach balance in the medium-term due to fiscal reforms and higher global oil prices. It pointed out that the Kingdom's current account deficit narrowed from 8.7% of GDP in 2015 to 5.2% of GDP in the first nine months of 2016 due to the implementation of fiscal consolidation measures and to a sharp slowdown in non-hydrocarbon growth. Further it noted that imports declined by 32% year-on-year in the third quarter of 2016, but are expected to recover in the medium term. It also considered that higher oil prices would offset the adverse impact on exports from the reduction in crude oil production.

Source: Merrill Lynch

QATAR

Fiscal deficit to narrow in 2017 on reduced current spending

Qatar National Bank indicated that Qatar's 2017 budget aims to reduce the country's fiscal deficit, while supporting economic growth through higher capital spending. It noted that authorities plan to reduce the fiscal deficit from QAR46.5bn, or 7.9% of GDP, in 2016 to QAR28.4bn, or 4.4% of GDP, in 2017, mainly by rationalizing current expenditures. It said that the government aims to reduce total expenditures to QAR198.5bn in 2017 relative to spending of QAR202.5bn in the 2016 budget. It added that the government intends to reduce current spending from QAR108bn, or 53.3% of total spending, in 2016, to QAR100.9bn, or 50.8% of spending, in 2017. It added that authorities would continue to increase the efficiency of public spending and to reap the benefits of cost savings from the consolidation of ministries in previous years. In parallel, it pointed out that the government seeks to raise capital spending from QAR94.5bn, or 46.7% of total spending last year, to QAR97.5bn, or 49.1% of total spending this year, mainly to support Qatar's preparations for the 2022 World Cup, and to meet other economic diversification objectives. It added that capital spending would mainly be allocated to the transportation, infrastructure, health and education sectors. Further, it pointed out that authorities would continue to finance their fiscal deficit through domestic and external debt issuance rather than by drawing down accumulated reserves.

Source: Qatar National Bank

EGYPT

Growth outlook dependent on structural reforms

The International Monetary Fund projected Egypt's real GDP growth to gradually accelerate from 4% in the fiscal year that ends in June 2017 to 5.5% in FY2018/19 in case authorities address near-term challenges, as well as implement structural reforms and growth-friendly policies. It considered that the liberalization of the Egyptian pound would improve the balance of payments and help accumulate foreign currency reserves. It expected the current account deficit to narrow from 5.2% of GDP in FY2016/17 to 3% of GDP in FY2018/19, mainly due to an improvement in the services balance. As such, it forecast foreign currency reserves to rise from \$22bn, or 3.7 months of imports cover in FY2016/17, to \$33bn, or five months of imports cover in FY2018/19. It noted that authorities would lift the remaining capital control measures by the end of June 2017, and that the Central Bank of Egypt could occasionally intervene on the foreign currency market in order to prevent excessive exchange rate fluctuations. In parallel, the Fund indicated that fiscal consolidation would be supported mainly by the new value-added tax, subsidy reductions and a controlled wage bill. It forecast tax receipts to increase from 13.8% of GDP in FY2016/17 to 14.7% of GDP in FY2018/19. As such, it projected the fiscal deficit to narrow from 10% of GDP in FY2016/17 to 5.9% of GDP in FY2018/19, which would reduce the debt level from 93.8% of GDP in FY2016/17 to 85.8% of GDP in FY2018/19. It said that risks to the outlook mainly include fiscal slippage, failure to tighten monetary policy, delays in the implementation of reforms, as well as an adverse external environment.

Source: International Monetary Fund

SUDAN

U.S. lifts sanctions on Khartoum

Research and analytics provider IHS Markit indicated that the United States' decision to lift economic sanctions on Sudan for a period of six months ending on July 12, 2017 would improve the country's weak fiscal position, encourage inward investment, ease inflationary pressures and reduce social discontent in Sudan. It noted that the U.S. has granted a general license that would allow trade flows and financial transactions between the United States and Sudan, investment in property in Sudan, as well as all transactions made by U.S. entities in petroleum and petrochemical industries in Sudan. But it said that the removal of sanctions would not incorporate the Darfur Sanctions Regulations imposed in May 2007 that relate to the property and interests of designated persons in connection with the Darfur conflict. It considered that the U.S. decision to remove the sanctions was induced by Sudan's progressive policy realignment, as the latter has reprioritized economic and security cooperation with the U.S. and GCC economies. Further, it said that the upcoming U.S. Administration will determine whether to permanently remove all the sanctions in case Sudan achieves key objectives, including sustained progress on security cooperation and steps to facilitate humanitarian access in areas occupied by anti-government forces.

Source: IHS Markit



BANKING

WORLD

Three quarters of consumers still prefer traditional banks over FinTech firms

EY's 2016 Global Consumer Banking Survey shows that 40% of surveyed respondents have reduced their dependence on retail banks as their primary financial services provider, and increased their interest in the products of alternative companies. But the survey showed that 75% of consumers still consider a traditional bank with branches to be their primary financial services provider. EY noted that financial technology (FinTech) firms are changing consumer behaviors and expectations. It said that new customer expectations include a simple banking experience, easy to understand products, transparency of products and pricing, and round-the-clock access to products and information, which is what FinTech companies are currently delivering. It added that 42% of polled consumers have used non-bank financial service providers in the past 12 months, and 21% of the remaining respondents intend to do so in the future. EY noted that emerging markets are ahead of developed economies in adopting non-bank providers, mainly driven by the rise of FinTech companies. It said that most incumbent banks are burdened by old technology and operations that make it difficult to deliver change rapidly. It expected digital companies to become the core of consumer banking in the future, though it pointed out the need for human interaction as well. The survey showed that 44% of customers would not trust a bank without branches, and 60% of them would want to visit a branch or call a real person to purchase a new financial product or get advice. The survey was based on interviews with more than 55,000 consumers in 32 countries around the world.

Source: EY

NIGERIA

Banking sector risks increase

Research and analytics provider IHS Markit downgraded Nigeria's banking sector risk rating from 55 points to 65 points and maintained the 'negative' outlook on the sector. The current rating reflects a "very high risk" that the banking sector would face a crisis in the coming three years. Also, the new rating is equivalent to a rating between 'B-' and 'CCC-' on the generic credit rating scale, down from a rating between 'B+' and 'B'. It attributed the downgrade to the impact of low oil prices and the drop in oil production on Nigerian banks, which has squeezed foreign currency supply to the banking sector, increased non-performing loans (NPLs) and reduced capital buffers. It said that the banking sector's NPL ratio rose from 5% at the end of June 2015 to 11.7% at end-June 2016, which, along with the depreciation of the Nigerian naira, has weighed on the banks' capital buffers. It considered that the restructuring and forbearance of loans could mask loan impairment on the banks' balance sheets. It added that the NPL ratio at the First Bank of Nigeria, the largest bank in the country, reached 25% of total loans at the end of September 2016 due to its exposure to the oil & gas sector. In addition, it said that the banks' capital adequacy ratio regressed from 16.1% at the end of 2015 to 14.7% at the end of June 2016. It noted that a rise in NPLs could limit the banks' ability to lend to the private sector.

Source: IHS Markit

ANGOLA

Tier One capital of top banks at \$4bn at end-2015

In its 2017 survey of the Top 100 commercial banks in Africa, *The Banker* magazine included seven banks operating in Angola on the list, based on their Tier One capital at year-end 2015. The survey shows that the banks' aggregate Tier One capital totaled \$3.9bn at the end of 2015, down by 6% from end-2014, and accounted for 4.4% of the Tier One capital of the Top 100 African banks. Banco de Poupanca e Credito had a Tier One capital of \$940m at the end of 2015, equivalent to 24% of the aggregate Tier One capital of the seven banks. It was followed by Banco de Fomento Angola with \$919m (23.5%), Banco Angolano de Investimentos with \$750m (19.2%), Banco BIC with \$551m (14.1%), Caixa Totta Angola with \$314m (8%), Banco Millenium Angola with \$277m (7.1%) and BNI with \$161m (4.1%). In parallel, the aggregate assets of the seven banks reached \$41bn at the end of 2015 and accounted for 3.7% of the aggregate assets of the African banks included in the survey. As such, the combined Tier One capital-to-assets ratio of the seven banks was 9.5% at end-2015 and outperformed the Top 100 African banks' aggregate ratio of 8% and the Top 1000 global banks' ratio of 6.4%. Caixa Totta Angola had a Tier One capital-to-assets ratio of 13.41% at end-2015, followed by Banco Millenium Angola with 10.91%, Banco de Fomento Angola with 10.12%, Banco de Poupanca e Credito with 9.49%, Banco Angolano de Investimentos with 9.25%, BNI with 8.71% and Banco BIC with 7.63%.

Source: *The Banker*

TURKEY

Future increase in interest rates to limit currency depreciation

The Institute of International Finance indicated that the depreciation of the Turkish lira has accelerated in early 2017 due to a higher-than-expected inflation rate in December 2016 and to heightened political and security risks. As a result, it said that the Central Bank of Turkey (CBT) reduced the reserve requirement ratios for foreign-currency liabilities by 50 basis points and slightly tightened the lira liquidity in the interbank market on January 10. It expected the cut in reserve requirements to inject \$1.5bn in foreign currency liquidity in the market. It added that the CBT introduced a cap of TRY22bn on its overnight lending in the interbank market. However, it considered that these adjustments failed to ease the pressure on the lira, as the latter has depreciated significantly since December 2016 to trade at a record low of TRY3.78 against the US dollar, amid ongoing political pressure on the CBT and commercial banks to reduce borrowing costs in order to revive the subdued economy. Further, it expected the Turkish lira to further depreciate in the near term in case the CBT does not increase interest rates significantly. It added that any further depreciation of the lira could weaken corporate balance sheets and threaten financial stability, given the corporate sector's large foreign currency position. Further, it considered that the country needs to attract foreign capital inflows to finance its large external financing needs, which it forecast at 25% of GDP in 2017. It considered that an interest rate hike by the CBT is unavoidable and would help restore investor confidence and attract foreign capital inflows.

Source: *Institute of International Finance*



ENERGY / COMMODITIES

Direction of U.S. monetary policy to affect oil price movements in near term

ICE Brent crude oil front-month prices reached their lowest level in a week to close at \$53.9 per barrel (p/b) on January 18, 2017, constituting a drop of 5.1% from the end of 2015. The decline in crude oil prices was due to a stronger US dollar and to rising concerns that a rebound in U.S. shale oil production would offset the OPEC and non-OPEC members' coordinated efforts to cut their oil production. However, oil prices increased in intra-day trading on January 19 to more than \$54 p/b, following the International Energy Agency's projection that global oil markets would tighten in 2017. In parallel, the Organization of Petroleum Exporting Countries expected the global oil market to be highly sensitive to developments in U.S. monetary policy. First, it said that a rise in U.S. interest rates could result in increased capital outflows from emerging economies, which would weaken economic activity in these markets and limit oil demand growth. Second, it noted that an increase in U.S. interest rates could negatively impact investments in the oil industry by making them costlier, especially highly-leveraged oil developments. Third, it indicated that the strengthening the US dollar against other major currencies would also weigh on oil prices. Finally, it noted that the historic deal between OPEC and non-OPEC producers to reduce oil output would help restore stability in the oil market over the near term. ICE Brent oil prices are forecast to average between \$55 p/b to \$60 p/b in 2017.

Source: Thomson Reuters, International Energy Agency, OPEC

Global oil and gas discoveries at 70-year low

Global oil and gas discoveries, excluding North American shale resources, reached about 6 billion barrels of oil equivalent in 2016, the lowest level since the 1940s, with 60% of new discoveries being gas. International oil companies are expected to struggle to offset the natural depletion of existing fields, as they are able to only replace about 10% of their oil and liquid gas reserves, compared with a reserve replacement ratio of 30% in 2013. In parallel, global spending on exploration dropped in 2016 to about \$40bn and is anticipated to decline further in 2017.

Source: Rystad Energy, WoodMackenzie, Thomson Reuters

OPEC's oil basket price up 20% in December 2016

The oil reference basket price of the Organization of the Petroleum Exporting Countries (OPEC) reached \$51.7 per barrel (p/b) in December 2016, up by 19.6% from \$43.2 p/b in the preceding month. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at \$54.93 p/b in December 2016, followed by Nigeria's Bonny Light at \$53.91 p/b and Algeria's Saharan Blend at \$53.82 p/b. Overall, OPEC's basket price averaged \$40.76 p/b in 2016 and decreased by 0.7% from 2015.

Source: OPEC, Byblos Research

Libya's oil output to increase by March 2017

Libya's oil production is currently estimated at about 700,000 barrels per day (b/d) after it dropped to 655,000 b/d temporarily due to power outages that disrupted operations at some oil fields. The country's oil output remains about 44% below the 1.6 million b/d level produced prior to the 2011 uprising. Libya forecast oil output to increase to 900,000 b/d by March 2017.

Source: National Oil Corporation, Bloomberg, Byblos Research

Base Metals: Zinc market to continue to post a production deficit in 2017

LME zinc cash price closed at \$2,701 a ton on January 18, 2016, constituting an increase of 5.6% from \$2,557 a ton at end-2016, driven by an improving Chinese manufacturing industry and further supply cuts in China, the leading consumer and producer of the metal. Overall, the metal's prices averaged \$2,093 a ton in 2016, up by 8.5% from \$1,929 a ton from a year earlier. Zinc prices are forecast to rise to \$2,825 a ton in 2017, driven by higher spending in the manufacturing and automotive sectors. But prices are expected to decline in 2018 to \$2,400 a ton as China's demand for the metal decelerates. In parallel, global production for the metal is projected to reach 14.56 million tons in 2017, up by 6.4% from 2015, with mine production representing 93.5% of the total. China's zinc production would account for 39.6% of global mine production in 2017, followed by North America (14.7%), Peru (11.7%), and Australia, Europe and India (6.6% each). On the demand side, global refined consumption for the metal is projected to reach 14.73 million tons, up by 2.7% from 2016. China's consumption for the metal in 2017 would account for 48.2% of global demand, followed by Europe (13%) and the U.S. (11%).

Source: Deutsche Bank, Byblos Research

Precious Metals: Gold prices to pick up in 2017 on stronger demand and geopolitical risks

Gold prices closed at an eight-week high of \$1,215 a troy ounce on January 18, 2016, constituting an increase of 5% from end-2016, driven by uncertainties over U.S. President-elect Donald Trump's economic plans ahead of his inauguration on January 20, 2016. The rise in the metal's price also comes after the British Prime Minister confirmed that Britain would exit the European Union's single market and would not remain a full member of the European Union Customs Union. Gold prices are forecast to increase from an average of \$1,249 an ounce in 2016 to \$1,350 an ounce in 2017, supported by geopolitical risks and rising global inflation expectations. Further, demand for the metal is projected to be mainly driven by stronger economic growth in China. In addition, the opening of new markets following the release of the Shari'ah Standard on Gold by the Accounting and Auditing Organization for Islamic Financial Institutions in late 2016, would allow additional investments in gold and support demand. The standard sets out specific rules for the use of gold as an investment in the Islamic finance industry.

Source: World Gold Council, UBS, Byblos Research



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								
Africa													
Algeria	-	-	-	-	BB+	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B	B1	B	-	B+	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B-	B3	B	B-	B-	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B	B1	B	-	B+	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B-	B3	B	-	B+	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3	B+	-	B+	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B	-	B-	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B-	B3	-	-	CCC	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B	B1	B+	-	BB-	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3	BB-	-	BB+	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B-	-	-	-	B+	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B	B2	B	-	B+	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
Middle East													
Bahrain	BB-	Ba2	BB+	BB+	BBB-	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB-	BB-	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B-	(P)Caa1	B-	-	CC+	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB-	B1	-	BB-	BB+	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B-	B2	B-	B	B-	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB	Baa1	BBB	A-	BBB	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA	Aa2	AA	AA-	AA-	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A-	A1	AA-	A+	AA-	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC	-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 estimates for 2016



SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.50-0.75	14-Dec-16	Raised 25bps	01-Feb-17
Eurozone	Refi Rate	0.00	19-Jan-17	No change	01-Feb-17
UK	Bank Rate	0.25	15-Dec-16	No change	02-Feb-17
Japan	O/N Call Rate	-0.10	20-Dec-16	No change	31-Jan-17
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-Dec-16	No change	17-Mar-17
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	1.00	14-Dec-16	Raised 25bps	01-Feb-17
Taiwan	Discount Rate	1.375	22-Dec-16	No change	24-Mar-17
South Korea	Base Rate	1.25	14-Jan-17	No change	23-Feb-17
Malaysia	O/N Policy Rate	3.00	19-Jan-17	No change	02-Mar-17
Thailand	1D Repo	1.50	21-Dec-16	No change	08-Feb-17
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	0.75	15-Dec-16	Raised 25bps	N/A
Egypt	Overnight Deposit	14.75	29-Dec-16	No change	27-Jan-17
Turkey	Base Rate	8.00	20-Dec-16	No change	24-Jan-17
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	24-Jan-17
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	26-Dec-16	No change	30-Jan-17
Mexico	Target Rate	5.75	15-Dec-16	Raised 50bps	09-Feb-17
Brazil	Selic Rate	13.75	30-Nov-16	Cut 25bps	20-Jan-17
Armenia	Refi Rate	6.25	27-Dec-16	Cut 25bps	14-Feb-17
Romania	Policy Rate	1.75	06-Jan-17	No change	07-Feb-17
Bulgaria	Base Interest	0.00	30-Dec-16	No change	01-Feb-17
Kazakhstan	Repo Rate	12.00	09-Jan-16	No change	20-Feb-17
Ukraine	Discount Rate	14.00	08-Dec-16	No change	27-Jan-17
Russia	Refi Rate	10.00	16-Dec-16	No change	03-Feb-17



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