

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

MENA

Higher country risk level in fourth quarter of 2016

The Euromoney Group's quarterly survey on global country risk shows that the risk level in the Arab world increased slightly in the fourth quarter of 2016, as the average score of 19 Arab economies reached 38.4 points in the covered quarter compared to 39.4 points in the third quarter of 2016. The region's risk level was higher than the global risk level of 42.5 points in the fourth quarter of the year. It was also higher than the risk levels of North America (79.2 points), Western Europe (71.4 points), Asia (47.7 points), Central & Eastern Europe (47.5 points) and Latin America (44.7 points), while it was lower than the risk levels of the Caribbean (36.8 points), Sub-Saharan Africa (30.3 points) and Australasia (27.1 points). The GCC countries' average score deteriorated to 60.5 points from 62.9 points in the preceding quarter, while the average score of non-GCC Arab countries regressed to 28.2 points in covered quarter from 28.6 points in the third quarter of 2016. The Arab world's Political Risks level stood at 11.74 points, which was riskier than the global average of 13.74 points; while the Economic Performance score of 12.82 points was below the global average of 13.39 points. Further, the region's Credit Ratings averaged 2.78 points relative to the global average of 3.07 points; while the Access to Bank Finance & Capital Markets score was 3.61 points, lower than the global average of 3.82 points. Qatar had the lowest country risk level in the Arab world and the 22nd lowest globally, followed by Kuwait (31st), the UAE (34th), Oman (45th) and Saudi Arabia (49th).

Source: Euromoney Group, Byblos Research

Fixed income issuance up 64% to \$82bn in 2016

The total value of fixed income issuance in the Middle East & North Africa (MENA) region reached \$81.7bn in 2016, constituting a rise of 64.1% from \$49.8bn in 2015, of which 92.8% were bond issues and the remaining 7.2% were Sukuk issuances. Bond issuance in the MENA region stood at \$75.8bn in 2016, up by 81% from \$41.9bn in the previous year, with \$53bn or 70% in corporate bonds and \$22.8bn or 30% in sovereign issuance. Bond issues in each of Saudi Arabia and the UAE stood at \$18.3bn, or 24.1% of total MENA bond issuance, followed by Qatar with \$11.1bn (14.6%), Morocco with \$7bn (9.2%) and Oman with \$5.4bn (7.1%). Further, international bond issuance in the MENA region accounted for 77% of total bond issuance in the region, while the remaining 23% was domestic. In parallel, MENA Sukuk issuance reached \$5.9bn in 2016, constituting a decline of 25.3% from \$7.9bn a year earlier, of which 69% were corporate Sukuk and the remaining 28% were Sukuk issued by governments, treasuries and central banks. Also, Sukuk issuance in Bahrain stood at \$2bn, or 34% of total Sukuk issuance in the region, followed by Qatar with \$1.6bn (27.1%), Saudi Arabia with \$1.3bn (22%), Oman with \$600m (10.2%) and Kuwait and Jordan with \$200m each (3.4% each). In addition, 44% of Sukuk issued in the MENA region were in US dollars, followed by 27% in Qatari riyals, 23% in Saudi riyals, 3% in the Malaysian ringgit, 2% in Jordanian dinars and 1% in Omani rials.

Source: KAMCO

Average sovereign rating at 'BBB'

S&P Global Ratings indicated that the Middle East & North Africa (MENA) region's average sovereign rating is currently close to 'BBB', with eight out of the 13 rated sovereigns in the region having a rating in the 'BBB' category or above; while the ratings of Bahrain, Egypt, Iraq, Jordan and Lebanon are below investment grade. It said that the average sovereign rating becomes closer to 'BBB+' when the ratings are weighted by nominal GDP. But it noted that the weighted average sovereign rating has decreased at a faster rate than the unweighted average over the past 12 months due to the downgrade of Saudi Arabia, the region's largest economy. Further, S&P pointed out that the average rating for the region differs between hydrocarbon- and non-hydrocarbon economies. It noted that the average sovereign rating of the region's hydrocarbon exporters is currently close to 'BBB+', while the average rating of sovereigns with more limited hydrocarbon resources is below investment grade and stands close to 'BB+'. In addition, S&P noted that it downgraded the sovereign ratings of Bahrain in December 2016, while it revised the outlook on the sovereign ratings of Egypt and Lebanon from 'negative' to 'stable' and the outlook on Oman and Sharjah from 'stable' to 'negative'. Overall, the ratings of 10 MENA countries have a 'stable' outlook and three have a 'negative' outlook.

Source: S&P Global Ratings

Value of M&As up 100% to \$49.4bn in 2016

The value of merger & acquisition (M&A) deals in the Middle East & North Africa (MENA) region totaled \$49.4bn in 2016 relative to \$24.7bn in 2015, and constituting the highest level since 2008. The increase in the value of M&A deals in the MENA region is due to seven M&A deals, each with a value exceeding \$1bn. The UAE attracted \$20.9bn or 42.4% of the region's total, followed by Iran with \$8.8bn (17.8%), Kuwait with \$6.6bn (13.4%), Morocco with \$4.4bn (8.9%) and Egypt with \$2bn (4.1%). Further, the Gulf Cooperation Council region attracted \$31.3bn or 63.3% of the MENA region's aggregate deal value. Further, M&A deals in the banking sector totaled \$19.4bn, or 39.3% of the region's aggregate deal value, up 9.9 times from the preceding year. The chemicals, rubber and plastics industry followed with \$4.4bn (8.9%), then the hotels & restaurants sector with \$3.8bn (7.7%), the insurance industry with \$2.6bn (5.3%) and the metals & metal products sector with \$2.4bn (4.9%). In parallel, there were 682 M&A deals in the MENA region in 2016, down 1% from 689 transactions in 2015. Egypt had 132 deals, followed by Jordan with 119 transactions, the UAE with 112 deals, Iran with 110 transactions and Saudi Arabia with 47 deals. In addition, there were 88 deals in the chemicals, rubber and plastics industry, followed by the construction sector with 68 transactions, the machinery equipment, furniture and recycling industry with 28 deals, and the transportation and education & health sectors with 27 transactions each.

Source: Bureau Van Dijk, Zephyr

OUTLOOK

SAUDI ARABIA

Economic outlook to improve by 2018

Samba Financial Group projected Saudi Arabia's real GDP to contract by 0.7% in 2017, following an estimated growth rate of 1.4% in 2016 due to lower oil production and reduced government spending, as authorities continue to implement fiscal consolidation measures. It forecast hydrocarbon output to shrink by 0.1% this year compared to a growth rate of 2.4% in 2016, and for non-hydrocarbon sector activity to contract by 1.1% in 2017 relative to a growth rate of 0.7% in 2016. It said that the increase in the unemployment rate, the cut in public sector allowances, the delays in the payment of arrears and the likely rise in domestic interest rates, would constrain private consumption and investment growth in 2017. But it expected the Kingdom's growth prospects to improve from 2018 onwards, as government spending would pick up in line with the recovery in oil prices. It added that the construction sector would benefit the most from the moderate rise in capital spending in the second half of 2017. Overall, it projected real GDP growth at 1.7% in 2018 and to reach 3% by 2020, with hydrocarbon output rising by 1.5% in 2018 and 2.5% in 2020, and non-hydrocarbon sector activity to grow by 1.8% in 2018 and 3.4% in 2020.

In parallel, Samba forecast Saudi Arabia's fiscal deficit to narrow from 16.7% of GDP in 2016 to 11.9% of GDP in 2017 due to the implementation of fiscal adjustment measures. It estimated the government's fiscal financing requirements at SAR258bn, or about \$69bn, in 2017. It noted that authorities would continue to cover the funding gap in 2017 from drawing down government savings (52%), as well as through domestic debt issuance (26%) and external debt issuance (22%). It projected the fiscal deficit to gradually narrow to 7.8% of GDP in 2018 and 2.8% of GDP in 2020. It expected the government's debt level to reach 13.3% of GDP and for the external debt level to be at 11.4% of GDP by 2020. In parallel, Samba projected the current account balance to shift from a deficit of 3.9% of GDP in 2016 to a surplus of 4.2% of GDP in 2017 due to the gradual recovery in oil prices, as well as lower import spending. It projected SAMA's net foreign assets to stabilize at about \$545bn, or 94.1% of GDP, this year, and to increase to \$751.6bn, or 110.4% of GDP, by 2020.

Source: Samba Financial Group

KUWAIT

Non-hydrocarbon growth at 3.5% in 2017

The International Monetary Fund projected Kuwait's real GDP growth to decelerate from 3.6% in 2016 to 2.6% in 2017, and to pick up to 3% in the medium term, supported by the government's robust investment spending. It considered that the country is well positioned to mitigate the impact of low oil prices, as its substantial fiscal and external buffers and low debt level would facilitate the fiscal adjustment process and support growth. It forecast hydrocarbon output growth at 2% and non-hydrocarbon real GDP growth at 3.5% in 2017, driven by continued improvement in project implementation under the five-year Development Plan. It projected the inflation rate to average 4.5% in 2017 due to the increase in domestic energy prices.

In parallel, the IMF forecast Kuwait's fiscal deficit, excluding investment income and after the transfers to the Future Genera-

tions Fund, to narrow from 17.3% of GDP in the fiscal year that ends in March 2017 to 12.6% of GDP in FY2017/18, in case oil prices average \$52 p/b. However, it expected the government's financing needs to remain high and to be covered by the continued drawdown of assets from the General Reserve Fund (GRF), and through domestic and international borrowing. In parallel, it projected Kuwait's current account surplus to increase from 4.5% of GDP in 2016 to 9.3% of GDP in 2017 as a result of higher hydrocarbon export receipts. It forecast total assets managed by the Kuwait Investment Authority at 433% of GDP in FY2017/18, of which GRF assets would account for 125% of GDP.

Further, the IMF pointed out that the main risk to the outlook stems from a sustained drop in oil prices, which could widen the fiscal deficit, increase the government's financing needs, as well as weigh on economic activity and the external balance. Also, it noted that slower project implementation, more volatile global financial conditions and heightened regional security risks could negatively impact growth prospects.

Source: International Monetary Fund

ANGOLA

Fiscal and monetary measures needed in 2017

The International Monetary Fund indicated that the drop in global oil prices has weighed on economic activity in Angola, reduced its exports and fiscal revenues, and increased inflationary pressure. It estimated Angola's real GDP to have posted no growth in 2016, due to the impact of low oil prices on the industrial, construction and services sectors. But it expected real GDP growth to recover to 1.3% in 2017 as authorities would continue to implement further fiscal adjustment measures and address the shortages in foreign currency. Also, it noted that the inflation rate reached 45% at the end of 2016, its highest level in more than 10 years, due to higher domestic fuel prices, a weaker Angolan kwanza, and loose monetary conditions. But it expected the inflation rate to regress to 20% by the end of 2017 as a result of the recent measures taken by the Banco Nacional de Angola (BNA) to tighten monetary conditions. It considered that greater exchange rate flexibility, along with supportive monetary and fiscal policies, would be vital to address the imbalances in the foreign currency market and contain inflationary pressures. It projected the current account deficit to narrow from 10% of GDP in 2015 to an average of 5.2% of GDP in the 2016-17 period, as imports would continue to adjust to the limited availability of foreign currency. It expected Angola's foreign currency reserves to decline from \$22.4bn, or 8.1 months of imports, at end-2016, to \$19.4bn, or 6.8 months of imports at end-2017, but to remain at relatively comfortable levels.

In parallel, the Fund projected Angola's fiscal deficit at 6.7% of GDP in 2017 compared to 4.1% of GDP in 2016. It called on authorities to contain the growth of the public-sector wage bill, improve the quality of public investment, streamline subsidies, strengthen non-hydrocarbon revenues and clear domestic payments arrears. Further, it pointed out that a wide spread persists between the parallel and primary market exchange rates, which reflects a significant imbalance in the foreign exchange market. It encouraged authorities to gradually phase out the existing restrictions on foreign currency.

Source: International Monetary Fund

ECONOMY & TRADE

UAE

Sovereign ratings affirmed, outlook 'stable'

Capital Intelligence Ratings affirmed the United Arab Emirates' long-term foreign and local currency sovereign ratings at 'AA-', with a 'stable' outlook. It noted that the affirmation of the rating and of the 'stable' outlook reflects the country's strong external position, solid financial assets base, as well as its structural and institutional weaknesses, high reliance on hydrocarbon revenues, and vulnerability to external shocks. It forecast real GDP growth at 2.4% in 2017, unchanged from the preceding year, with non-hydrocarbon sector activity expanding by 2.7%. It estimated the consolidated budget deficit to have narrowed from 4% of GDP in 2015 to 1.7% of GDP in 2016 due to limited transfers to government-related entities, prioritizing capital projects and the lifting of water and electricity subsidies. But it noted that public finances remain vulnerable to oil prices amid limited non-hydrocarbon revenues and delays in the introduction of the value-added tax. Also, it pointed out that the government's consolidated debt level is low and is largely matched by government deposits in the banking system. It considered that Abu Dhabi would be willing to support federal institutions and the Central Bank in the event of financial distress, given that the assets managed by the Abu Dhabi Investment Authority are at about \$770bn. The agency estimated the UAE's external current account surplus to have narrowed from 5.8% of GDP in 2015 to about 1.1% of GDP in 2016. It said that foreign currency reserves at the Central Bank declined from \$94bn at end-2015 to \$78.3bn at end-November 2016, but it noted that they would continue to provide adequate support to the currency peg and act as a buffer against external liquidity shocks over the medium term.

Source: Capital Intelligence Ratings

EGYPT

Foreign inflows are key to meet funding gap

Merrill Lynch estimated Egypt's external needs at \$47.7bn in the fiscal year that ends in June 2017, at \$50.6bn in FY2017/18 and at \$50.3bn in FY2018/19. It noted that authorities have already covered the funding gap for FY2016/17 under the International Monetary Fund's Extended Fund Facility, while it estimated funding gaps of \$12.7bn in FY2017/18 and \$6.1bn in FY2018/19. It considered that authorities need to attract substantial portfolio inflows to the bond and equity markets, as well as to increase foreign direct investment inflows, in order to cover the external funding gap. It said that authorities have to continue implementing reforms, as well as control inflation and debt dynamics in order to help attract these inflows. It cautioned that large fiscal consolidation and the increase in the inflation rate could weigh on economic activity and on the private sector's capacity to adjust to the challenging operating environment. In parallel, Merrill Lynch indicated that authorities need to clear unmet foreign currency demand and attract foreign inflows to support the Egyptian pound. It said that the pound has weakened in recent weeks due to foreign currency hoarding and improved access to foreign currency from non-essential importers. It anticipated a rise in the policy rate in case the exchange rate moves closer or exceeds EGP20 per US dollar.

Source: Merrill Lynch

NIGERIA

Outlook on ratings revised to 'negative'

Fitch Ratings affirmed at 'B+/B' Nigeria's long- and short-term foreign and local currency issuer default ratings (IDRs), and revised the outlook from 'stable' to 'negative'. It attributed the outlook revision to weak economic activity, foreign currency shortages, a rising public debt level, low public revenues and deteriorating asset quality at banks. It said that the country's tight foreign currency liquidity and low oil production caused real GDP to shrink by 1.5% in 2016, the first such contraction since 1994. It forecast real GDP to grow by 1.5% in 2017 but to remain well below the average annual growth rate of 4.8% during the 2011-15 period, due to tight foreign currency liquidity and high inflationary pressures. It expected access to foreign currency to remain severely restricted until the Central Bank of Nigeria improves the credibility of the Interbank Foreign Exchange Market and narrows the spread between the official and parallel market rates. Further, Fitch forecast Nigeria's fiscal deficit to remain broadly stable at around 3.9% of GDP in 2017. It estimated the public debt level to have increased from 13% of GDP at end-2015 to 17% of GDP at end-2016, and added that the country's low public revenues pose a risk to debt sustainability. It indicated that 77% of Nigeria's public debt is denominated in local currency, which makes the country less vulnerable to exchange rate risk, but it noted that foreign currency debt is increasing. Further, the agency estimated Nigeria's current account deficit to have narrowed from 3.1% of GDP in 2015 to 1% of GDP in 2016, due to the government's import substitution policy.

Source: Fitch Ratings

ARMENIA

Sovereign ratings affirmed, outlook 'stable'

Fitch Ratings affirmed Armenia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'B+', its short-term foreign and local currency IDRs at 'B' and the Country Ceiling at 'BB-', with a 'stable' outlook on the long-term ratings. It said that the IDRs are mainly supported by a reliable monetary policy framework and the extended maturity profile of the public debt, but are constrained by the high net external debt level, a rising public debt burden, wide fiscal deficits, a highly dollarized banking sector and geopolitical tensions. The agency projected economic growth at 2.1% in 2017 and 3.1% in 2018, supported by the expected recovery in Russia's economy and by a moderate rebound in commodity prices. It noted that risks to the outlook this year include higher public debt levels due to a failure to implement fiscal consolidation measures. Further, it said that the fiscal deficit widened from 4.8% of GDP in 2015 to 5.6% of GDP in 2016 and exceeded the budget target of 3.5% of GDP, due to weaker-than-anticipated revenues and better execution of capital projects. It noted that the public debt level reached 56.8% of GDP in 2016, similar to the median level of similarly-rated countries. But it indicated that currency risk is high because 80% of the government's debt is denominated in foreign currency. It forecast the fiscal deficit to narrow to 3.7% of GDP in 2017 but to exceed the 2.8% of GDP target set in the 2017 budget. Further, Fitch forecast Armenia's current account deficit to average 4% of GDP during the 2017-18 period, due to a slow recovery in domestic demand, a rebound in the Russian economy, and higher oil prices.

Source: Fitch Ratings



BANKING

GCC

Challenging operating environment to persist

S&P Global Ratings anticipated the challenging operating environment in the Gulf Cooperation Council (GCC) countries to continue to weigh on the financial profiles of GCC banks in 2017 and 2018. It noted that the low oil price environment has reduced growth opportunities for GCC banks, squeezed their liquidity and increased the pressure on their asset quality and profitability. However, it considered that GCC banks will weather the negative impact on their financial profiles due to their sufficient capital buffers. S&P expected private sector lending growth across GCC banks to remain at between 5% and 7% during the 2017-18 period, relative to about 5% in 2016 and 10% in 2015, as a result of spending cuts and postponements of infrastructure projects. Further, it anticipated the banks' asset quality to continue to deteriorate in the next two years, mainly due to the exposure of their loan portfolio to contractors, sub-contractors, small- and mid-sized enterprises, and highly-leveraged retail clients, as well as to the real estate sector. It projected the banks' non-performing loans ratio to increase to between 4% and 5% and for their credit losses to double over the next two years, while it expected their cost of risk to increase due to the banks' adoption of the IFRS9 requirements. In parallel, S&P expected the banks' liquidity to stabilize, as some GCC governments have tapped the international capital markets and injected liquidity locally in order to ease the pressure on their banking systems. Further, the agency anticipated the GCC banks' profitability to continue to decline in 2017 and 2018 due to reduced growth opportunities in the region, higher cost of funding and increased credit losses.

Source: S&P Global Ratings

JORDAN

Banking sector to remain resilient

Moody's Investors Service anticipated Jordanian banks to maintain sound capital and liquidity levels, which would provide a solid buffer against unexpected losses arising from the challenging operating conditions in 2017. It considered that a further rise in U.S. interest rates would increase domestic interest rates, given the Jordanian dinar's peg to the US dollar, which would weigh on demand for credit, especially from households. As such, it anticipated domestic credit growth to slow down from 8% in 2016 to about 6% to 7% in 2017. Further, it noted that asset risks remain high for the banks due to credit concentration, including the high exposure to government securities and rising household indebtedness. It added that the banking system's large size, with assets equivalent to 278% of GDP in 2015, as well as the banks' substantial cross-border operations, increase systemic and contagion risks. In addition, Moody's expected the banks' return on assets to remain stable at between 1.4% to 1.5% in 2017. It noted that higher provisions against new non-performing loans would be largely offset by improving net interest margins and operating efficiency. In parallel, it considered that the banks' capital-to-assets ratio, which stood at 12.7% at end-2015, provides a solid buffer against unexpected losses. It added that banks have a stable deposit base with liquid assets equivalent to about 42% of total assets.

Source: Moody's Investors Service

ANGOLA

Difficult operating conditions force banks to request bailout

Research and analytics provider IHS Markit considered that the Angolan banks' request for a bailout from the government to protect depositors reflects liquidity challenges in the banking sector, a deterioration in the banks' asset quality, and foreign-currency shortages. It noted that smaller banks have been more affected by the challenging operating environment than their larger counterparts. It said that the potential bailout would constitute the second bailout in less than two years, following the government's capital injection in state-owned banks in September 2015. It indicated that the sector's non-performing loans ratio rose from 13.2% at end-September 2015 to 15.2% at end-September 2016 and is weighing on the banks' capital buffers. It added that the depreciation of the Angolan kwanza by 36.2% against the US dollar in 2016, as well as foreign currency shortages, had an adverse impact on the banks' asset quality, as borrowers faced difficulties to repay their debt. As such, it anticipated indirect foreign exchange risks for the banking sector to materialize, as the sector is heavily exposed to foreign currency-denominated loans, which were equivalent to 36% of assets at the end of September 2016. Further, it pointed out that the worsening macro-economic environment, the deterioration in the banks' asset quality and weakening investor confidence have weighed on the banks' ability to raise additional capital and restore their capital positions. It considered that the banks' increasing capital needs, along with the shareholders' limited capacity to inject new funds would lead to further consolidation in the banking sector.

Source: IHS Markit

SAUDI ARABIA

Net profits of listed banks down 5.5% in 2016

The net profits of 12 listed banks in Saudi Arabia totaled SAR41.3bn, or \$11bn, in 2016, constituting a drop of 5.5% from net profits of SAR43.7bn, or \$11.7bn, in 2015. Also, the net profits of the listed banks reached SAR8.1bn, or \$2.2bn, in the fourth quarter of 2016, down by 18.4% from SAR9.9bn in the third quarter of 2016 and by 20% from SAR10.1bn in the fourth quarter of 2015. The banks' aggregate net interest income totaled SAR14.7bn in the fourth quarter of 2016, down by 2.9% from the third quarter of 2016 due to a decline in the net interest spreads at 10 of the 12 listed banks, and as a result of higher funding costs; while non-interest income reached SAR5.6bn and regressed by 1.7% from the previous quarter. Further, provision costs surged by 36% quarter-on-quarter to SAR4.4bn in the fourth quarter of 2016. In parallel, the banks' total assets reached SAR2,213.8bn, or \$590.4bn, at the end of 2016, nearly unchanged from end-September 2016 and up by 2% from end-2015. Net loans totaled SAR1,394.2bn, or \$371.8bn, at the end of 2016 and regressed by 2.6% from end-September 2016, while they increased by 1.8% from end-2015. Further, the sector's customer deposits reached SAR1,675.4bn, or \$446.9bn, at the end of 2016, constituting a 1.1% increase from end-September 2016 and a 0.9% rise from end-2015. Also, the sector's loans-to-deposits ratio regressed from 83.7% at end-September 2016 to 80.7% at the end of 2016.

Source: EFG Hermes



Global oil market to gradually rebalance within six months

ICE Brent crude oil prices have traded at a narrow range around the \$55 per barrel (p/b) level so far in 2017, driven in part by a weakening US dollar and by expectations related to the impact of production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries. Samba Financial Group indicated that there is widespread optimism that a substantial amount of the overhang of stocks will be reduced in the first half of 2017 and would lead the oil market toward rebalancing. However, it said that rising U.S. inventories and output are countering efforts by OPEC members and other producers, including Russia, to cut supplies by about 1.8 million b/d during the first half of 2017. Samba pointed out that the oil market outlook is mainly contingent on the compliance of OPEC members with the agreed production targets. It added that the market will be supported in the longer term by the substantial investment cuts made by international oil companies in the past two years. It forecast Brent oil prices to average \$57 p/b in 2017 and to gradually rise to \$75 p/b by 2020. Downside risks to the price outlook include faster recoveries in Libyan or Nigerian oil production, as both countries are exempted from the current agreement.

Source: Samba Financial Group, Byblos Research

Libya requires \$19bn in investments to meet oil production target by 2021

The National Oil Corporation (NOC) expected Libya to need \$19bn in investments over the next five years, in order to meet an oil production target of 2.1 million barrels per day (b/d) by 2021. Libya's oil output is currently estimated at about 700,000 b/d and remains about 56% below the 1.6 million b/d level produced prior to the 2011 uprising. The NOC expected the country's output to reach 1.25 million b/d by the end of 2017, contingent on Libya's security situation and the government's willingness to provide funding for the energy sector.

Source: National Oil Corporation, Thomson Reuters

OPEC's oil output down 1% in December, up 3% in 2016

Crude oil production of the Organization of Petroleum Exporting Countries averaged 33.1 million barrels per day (b/d) in December 2016, down by 0.7% from 33.31 million b/d in the preceding month. Saudi Arabia produced 10.5 million b/d in December 2016, equivalent to 31.7% of OPEC's total oil production. It was followed by Iraq with 4.6 million b/d (14%) and Iran with 3.7 million b/d (11.2%). Overall, OPEC's oil production averaged 32.4 million b/d in full year 2016, up by 3% from 31.5 million b/d in 2015.

Source: OPEC, Byblos Research

Armenia's gold exports up 18% in 2015

Armenia's gold exports reached 2,833 kilograms (kg) in 2015, constituting a decrease of 22% from 3,620.4 kg in 2014. Gold export receipts totaled \$97m in 2015 and rose by 18.3% from \$82m in 2014. Canada was the only export destination of Armenian gold in 2015. In parallel, Armenia imported a total of 635.4 kg of gold worth \$23.3m in 2015, down 82.1% from 3,552 kg in 2014.

Source: Customs Service of Armenia, Byblos Research

Base Metals: Copper prices to rise in coming years due to infrastructure spending in the U.S.

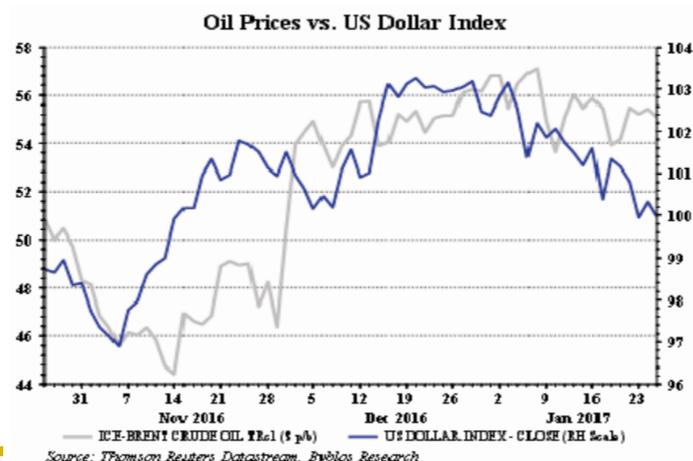
LME copper three-month future prices traded at a two-month high of more than \$5,900 per metric ton on January 26, 2017, nearly unchanged from a seven-week high of \$5,943 a day earlier. The rise in the metal's price reflects the prolonged power blackout at a large Australian mine, worries over potential supply disruptions in Indonesia and Chile and stronger demand for the metal in China. Copper prices are projected to increase from an average of \$4,872 per ton in 2016 to \$5,234 per ton in 2017, due to expectations of a substantial pick-up in infrastructure spending by the new U.S. Administration over the coming years. In parallel, global demand for refined copper increased by 2.7% to 19.5 million tons year-on-year in the first 10 months of 2016, mainly due to a 7% rise in Chinese demand for the metal. Demand for refined copper grew by 4% in Asia and by 1.5% in Europe, while it declined by 3.5% in the Americas. On the supply side, the metal's global refined production rose by 3% to 19.4 million tons in the first 10 months of 2016, with China representing the main contributor to supply growth.

Source: International Copper Study Group, Byblos Research

Precious Metals: Palladium prices to increase due to stronger demand in automotive sector

Palladium prices surged by 13.7% from \$670 per troy ounce at the end of 2016 to close at \$762 an ounce on January 25, 2017, reflecting stronger demand and a decline in production by South Africa, the metal's largest producer. Overall, palladium prices are projected to rise from an average of \$614 an ounce in 2016 to \$695 an ounce in 2017 due to stronger demand for the metal in the automotive sector, as China, the largest consumer of palladium, has extended its tax breaks that were due to expire at the end of 2016 for the purchase of small vehicles. In parallel, global palladium production is projected to average 8.9 million ounces in 2017, which would constitute a rise of 4.6% from 8.5 million ounces in 2016. The increase in supply is mainly due to a rise of 8% in Russian production. In parallel, global demand for the metal is projected to reach 9.4 million ounces in 2017, which would constitute a marginal increase of 0.2% from 2016, mainly due to a 0.8% rise in demand by the autocatalyst sector. Further, the global autocatalyst sector is expected to account for 84.8% of total palladium demand in 2017, followed by the electronics sector (5%) and the chemicals industry (4.9%).

Source: Deutsche bank, 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 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+ Negative	-	B+ 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	BBB 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	A+ Stable	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 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								
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	20-Jan-17	No change	01-Mar-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	24-Jan-17	No change	N/A
South Africa	Repo rate	7.00	24-Jan-17	No change	30-Mar-17
Kenya	Central Bank Rate	10.00	28-Nov-16	No change	30-Jan-17
Nigeria	Monetary Policy Rate	14.00	24-Jan-17	No change	21-Mar-17
Ghana	Prime Rate	25.50	20-Jan-17	No change	27-Mar-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	13.00	20-Jan-17	Cut 75bps	22-Feb-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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