

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

EMERGING MARKETS

Private capital fundraising down 30% to \$24bn in first nine months of 2016

Fund managers raised \$24bn through 137 Emerging Market (EM)-focused private equity, private credit, and private infrastructure & real assets funds in the first nine months of 2016, down by 30% from the first nine months of 2015 and constituting the lowest level since the first nine months of 2010. The decline in capital raised mainly reflects an 80% decrease in fundraising for Emerging Asia regional funds. Also, private capital fundraising in EMs represented about 8% of global capital raised during the first nine months of 2016. EM-focused private equity funds raised \$18bn in the first nine months of 2016, or 74% of total EM fundraising, followed by private credit funds with \$3.6bn (15%) and private infrastructure & real assets funds with \$2.6bn (11%). In parallel, private capital invested in emerging markets totaled \$20bn in the first nine months of 2016, constituting a 19% drop from the same period of 2015, and accounted for 6.2% of global private capital investments. Capital investment declined in all EM regions in the covered period with the exception of Sub-Saharan Africa, due to strong results in the third quarter of 2016. EM private equity investments reached \$17bn in the first nine months of 2016, or 85% of the total, while private infrastructure & real assets funds' investments reached \$2.7bn or 13.5%.

Source: *Emerging Markets Private Equity Association*

MENA

Corruption perception varies across region

Global non-governmental organization Transparency International included 19 Arab countries on its 2016 Corruption Perception Index (CPI), which measures the perceived level of public sector corruption in 176 countries worldwide. The rankings are based on scores that range between zero and 100 points, with lower scores reflecting economies perceived as more corrupt. The UAE was perceived as the least corrupt Arab country and ranked in 24th place globally. It was followed by Qatar (31st), Jordan (57th), Saudi Arabia (62nd) and Oman (64th); while Iraq (166th), Libya, Sudan and Yemen (170th each) and Syria (173rd) were perceived as the most corrupt countries in the region. Arab countries received an average score of 34.4 points in 2016 relative to 37.4 points in the 2015 survey, lower than the global average of 42.9 points. The Arab economies' average score was higher than that of Sub-Saharan Africa (32 points) and of Eastern Europe & Central Asia (34.3 points), but it was lower than the average scores of the European Union & Western Europe (66.4 points), the Americas (44.1 points) and Asia Pacific (43.9 points). Also, GCC countries received an average score of 50.3 points in the 2016 survey compared to 56.3 points in the 2015 survey, while non-GCC Arab countries had an average score of 27 points relative to 28.6 points in the 2015 survey. Transparency International considered that political and public sector corruption are the main challenges for Arab economies.

Source: *Transparency International*

Stock markets up 2% in January 2017

Arab stock markets and Gulf Cooperation Council (GCC) equity markets grew by 1.6% each in January 2017, compared to decreases of 11.3% and 12.4%, respectively, in the same month of 2016. In comparison, global equities rose by 2.7%, while emerging market equities grew by 5.1% in January 2017. Activity on the Damascus Securities Exchange jumped by 42% in January 2017, while the Boursa Kuwait grew by 19%, the Iraq Stock Exchange increased by 16.5%, the Khartoum Stock Exchange rose by 7.2%, the Bahrain Bourse expanded by 6.8%, the Casablanca Stock Exchange improved by 5.3%, the Beirut Stock Exchange grew by 4.2%, the Dubai Financial Market rose by 3.2%, the Egyptian Exchange increased by 2.7%, the Qatar Stock Exchange improved by 1.5% and the Abu Dhabi Securities Exchange and Tunis Bourse appreciated by 0.1% each. In contrast, activity on the Palestine Exchange regressed by 2.3%, the Saudi Stock Exchange decreased by 1.5%, the Amman Stock Exchange dropped by 0.4% and the Muscat Securities Market regressed by 0.1% in the covered month. In parallel, the Tehran Stock Exchange declined by 1.9% in January 2017.

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

AFRICA

Sovereign credit quality in Sub-Saharan Africa deteriorates

S&P Global Ratings indicated that the overall sovereign creditworthiness in Sub-Saharan Africa (SSA) has deteriorated since July 2016. The agency downgraded the ratings of the Republic of Congo, Mozambique, Nigeria and Rwanda in the second half of 2016 due to ongoing fiscal and external pressures. It attributed the downgrade of Mozambique's sovereign ratings from 'B-' to 'CC' to the potential restructuring of the majority of the country's commercial debt obligations, including the bond it issued in April 2016. It also revised the outlook on Angola's sovereign ratings from 'stable' to 'negative', while it revised the outlook on the sovereign ratings of Cape Verde, Kenya, Nigeria, and Rwanda from 'negative' to 'stable'. Further, it indicated that 10 out of the 17 rated SSA countries carry a 'stable' outlook on their sovereign ratings, six countries have a 'negative' outlook, while only Burkina Faso has a 'positive' outlook on its ratings. S&P expected economic conditions for SSA economies to remain challenging in 2017 due to the region's high dependence on commodities and relatively slow growth in key export markets, including China and Europe. It also pointed out that Eurobond issuance in the SSA region was relatively subdued in the second half of 2016 due to investors' demand for higher yield investments. It added that sovereigns with large local debt markets have increased their local issues. S&P said that the average rating of the 17 SSA sovereigns stood at slightly above 'B' as of January 2017 relative to below 'B+' in January 2016, and slightly below 'BB-' in December 2009. It noted that 15 out of the 17 rated sovereigns have a speculative-grade rating, and that all speculative-grade sovereigns are in the 'B' category, except for Mozambique, which is in 'Selective Default'.

Source: *S&P Global Ratings*

OUTLOOK

AFRICA

Risks to economic outlook tilted to the downside

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 and at 2.7% for the global economy in 2017. 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 this year, driven in part by public infrastructure investment and reduced reliance on commodities. 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 of the region's commodity importers. It expected economic activity in South Africa and SSA's oil exporters to improve this year and to be constrained by the 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. Also, it projected Angola's real GDP growth to accelerate from 0.4% in 2016 to 1.2% this year, but it noted that high inflation and tight monetary policy would continue to weigh on domestic demand. Overall, it projected SSA economies to recover gradually by 2019.

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 policy-makers' failure to adjust to low commodity prices and weak global demand.

Source: World Bank

MOROCCO

Favorable medium-term economic prospects

The International Monetary Fund expected Morocco's real GDP to grow from 1.5% in 2016 to 4.4% in 2017, mainly due to strong agricultural output and to improving non-agricultural activity. It forecast agricultural output to grow by 10.8% this year relative to a contraction of 9.8% in 2016, and for non-agricultural activity to expand by 3.5% in 2017 compared to a growth rate of 3% in 2016. It indicated that the medium-term prospects are favorable, as it projected growth to reach about 4.5% by 2021. However, it cautioned that risks to the outlook are substantial and include global economic developments, regional geopolitical tensions, changes in global energy prices, and global financial market volatility. It said that stronger medium-term growth is contingent on the sustained implementation of reforms to improve labor market efficiency, increase access to finance, as well as on public spending efficiency and a better business environment.

Further, the Fund projected the fiscal deficit to narrow from 3.5% of GDP in 2016 to 3% of GDP in 2017, reflecting resilient tax revenues and reduced current spending. It forecast the public debt level to slightly decrease from 64.3% of GDP last year to

63.8% of GDP this year. It noted that the authorities' sound macroeconomic policies and reforms have helped reduce domestic and external vulnerabilities, enhance the fiscal and financial policy frameworks, and increase economic diversification. It encouraged authorities to sustain their reform efforts in order to address the remaining vulnerabilities, and called on the government to further reduce spending on wages and subsidies and to advance with tax and pension reforms.

In parallel, the Fund indicated that Morocco's external position has improved significantly since 2012, mainly due to strong manufacturing and agricultural exports, a rebound in tourism and remittance flows, as well as stronger FDI inflows. As such, it projected the current account deficit to narrow from 2.9% of GDP in 2016 to 2.3% of GDP this year. It anticipated that this would lead to a rise in foreign currency reserves from \$25.7bn, or 6.8 months of imports, in 2016, to \$27.6bn, or 6.9 months in 2017.

Source: International Monetary Fund

EGYPT

Economic recovery dependent on sustained reform momentum

BNP Paribas projected Egypt's real GDP growth to decelerate from an estimated 4.3% in the fiscal year that ended in June 2016 to 3.8% in FY2016/17, mainly due to a sharp decline in household demand, subdued growth in exports and lower investment. It expected the Central Bank of Egypt's (CBE) decision to float the Egyptian pound, and the financial assistance agreement reached with the IMF, to ease the pressure on the CBE's low foreign currency reserves, significantly improve foreign currency liquidity in the market and substantially change the country's short-term prospects. As such, it forecast foreign currency reserves to rise from \$18bn, or 2.9 months of imports at the end of June 2016, to \$28bn, or 4.8 months of imports at end-June 2017. Further, it expected the inflation rate to surge from 10.2% in June 2016 to 20.2% in June 2017 as a result of the currency depreciation, the increase in private-sector wages, the anticipated rise in oil prices, and money supply growth. In parallel, it forecast real GDP growth to accelerate to 4.5% in FY2017/18, supported by the ongoing fiscal reforms, the floating currency, external support and favorable energy prospects. It anticipated the recovery to be slow and vulnerable to external economic and political factors. It considered that the return to strong and sustainable growth will depend on the authorities' capacity to restore investor confidence.

In parallel, BNP Paribas projected Egypt's fiscal deficit to narrow from 12.2% of GDP in FY2015/16 to 10% of GDP in FY2016/17, mainly due to the introduction of the value-added tax and to the reduction of energy subsidies, among other fiscal measures. It forecast the public debt level to regress slightly from 94% of GDP in FY2015/16 to 93% of GDP in FY2016/17. Further, it pointed out that the pressure on the external account continues amid the growing use of high-priced natural gas imports, subdued tourism activity and weak Suez Canal receipts. However, it forecast the current account deficit to narrow from an estimated 5.6% of GDP in FY2015/16 to 4.5% of GDP in FY2016/17, supported by a pickup in Suez Canal receipts, an improvement in private capital inflows and further external support from bilateral and multilateral donor funds.

Source: BNP Paribas

ECONOMY & TRADE

UAE

Agencies take action on three emirates

Fitch Ratings affirmed at 'AA' the Emirate of Abu Dhabi's long-term foreign and local currency Issuer Default Ratings, with a 'stable' outlook. It said that Abu Dhabi's ratings are supported by its strong fiscal and external metrics, and high GDP per capita. But it noted that the ratings are constrained by the emirate's high reliance on the hydrocarbon sector, relatively weak policy framework and limited data availability. It estimated Abu Dhabi Investment Authority's assets at 282% of GDP at the end of 2016, which provide large fiscal buffers amid the low oil price environment. In parallel, S&P Global Ratings affirmed at 'A/A-1' the long- and short-term sovereign credit ratings of the Emirate of Ras Al Khaimah (RAK), with a 'stable' outlook. It noted that the ratings are supported by the emirate's diversified economic structure, limited fiscal risks, low net debt burden, and strong economic prospects. It added that RAK faces limited fiscal risks, mainly due to its strong balance sheet and ongoing financial support from the federal government. But it said that the ratings are constrained by the emirate's centralized policy-making framework. Further, S&P downgraded the long- and short-term ratings of the Emirate of Sharjah from 'A/A-1' to 'BBB+/A-2', with a 'stable' outlook. It said that the downgrade reflects the rapid increase in the emirate's debt burden as a result of persistent fiscal deficits, increased capital spending and delay in implementing revenue-raising measures. It noted that the emirate's ratings are supported by its highly diversified production base, ongoing fiscal consolidation efforts, low external risks and support from the federal government in case of financial stress.

Source: Fitch Ratings, S&P Global Ratings

NIGERIA

Sovereign ratings downgraded

IHS Markit downgraded Nigeria's medium-term sovereign credit risk rating from 50 to 55, equivalent to 'B+' on the generic scale, while it lowered the country's short-term sovereign credit risk rating from 25 to 30, equivalent to 'BBB+' on the generic scale. It noted that Nigeria's medium-term rating moved into the "high payments risk" category following the downgrade, reflecting the risks from the sustained deterioration in the banks' asset quality that increases private debt risks over the medium term. It added that the deterioration in the short-term rating is due to continued transfer payment delays from the shortages in foreign currency. IHS maintained the 'negative' outlook on the ratings, which reflects high risks of another rating downgrade, mainly if the contraction in economic activity persists, the external liquidity gap widens significantly, foreign currency reserves drop substantially, or in the event of a wider-than-anticipated fiscal deficit that increases the public debt level sharply. IHS indicated that Nigeria's sovereign creditworthiness remains vulnerable amid still-moderate global oil prices and elevated disruption risks to domestic oil production. It added that macroeconomic risks are significant with the economy in recession, strong risks of a depreciation of the Nigerian naira, surging inflation rates, a wide fiscal deficit, and a persisting current account deficit. It considered that the increase in global oil prices in 2017 would be insufficient to alleviate the shortages in foreign currency.

Source: IHS Markit

TURKEY

Agencies take rating actions on deteriorating fundamentals

Fitch Ratings downgraded Turkey's long-term foreign currency Issuer Default Rating (IDR) from 'BBB-' to 'BB+', with a 'stable' outlook. Also, it downgraded the short-term foreign currency IDR from 'F3' to 'B', and the Country Ceiling from 'BBB' to 'BBB-'. It attributed the downgrades to the country's heightened political and security risks, large external vulnerabilities and subdued economic activity. Further, it considered that Turkey's strained liquidity position makes it vulnerable to shifts in investor demand. It indicated that Turkey's net external debt reached about 30.4% of GDP at end-2016, significantly higher than the median of 2.3% of GDP among similarly-rated peers. In parallel, it forecast real GDP growth to average 2.3% during the 2016-18 period compared to a growth rate of 7.1% during the 2011-15 period, and to remain constrained by weak domestic demand and currency depreciation. It noted that Turkey's IDRs reflect the country's large and diversified economy, wide current account deficit, weak tourism receipts and high inflation levels. In parallel, S&P Global Ratings affirmed at 'BB/B' Turkey's long- and short-term foreign currency sovereign credit ratings, and revised the outlook from 'stable' to 'negative'. It attributed the outlook revision to Turkey's increased risks from policy constraints, rising inflation, as well as exchange rate and balance-of-payments pressures. It noted that increasing limitations on the government's ability to contain inflationary pressures and control the sharp currency depreciation could negatively impact economic activity.

Source: Fitch Ratings, S&P Global Ratings

CÔTE d'IVOIRE

Strong growth prospects despite political and security risks

Fitch Ratings projected Côte d'Ivoire's real GDP growth at 7.8% in 2017 and 7.5% in 2018, more than double the median GDP growth rate among similarly-rated countries and among African economies. It expected public investment, along with the mining and agro-processing sectors, to support economic activity in coming years. It did not anticipate the Cabinet reshuffle in early January 2017 to adversely impact Côte d'Ivoire's economic policy. It said that political normalization has continued since the 2011 crisis, as reflected by the smooth electoral process over the past 15 months, which included the presidential elections in 2015, the referendum on constitutional change in October 2016, and the legislative elections in December 2016. It considered that the constitutional changes, which introduced the vice-presidential position, would reduce transition risks. In addition, it noted that political normalization since 2011 has supported the country's governance indicators, while other structural and development indicators, such as GDP per capita and the business environment, remain weak. However, it said that political and security risks persist. It pointed out that the entrenched political divisions in the country could lead to political instability. It added that social unrest has continued in January 2017, including strikes by army units for higher wages. It said that the spread of mutiny to several cities highlights continuing security concerns and the challenge of reorganizing the army after the 2011 crisis.

Source: Fitch Ratings



BANKING

MENA

Bank lending conditions improve in fourth quarter of 2016

The Emerging Markets Lending Conditions Index for the MENA region increased to 44 in the fourth quarter of 2016 from 40.1 in the preceding quarter. The five components of the Index remained below the threshold of 50 for the seventh consecutive quarter, which reflects tight lending conditions. As such, the MENA region had the second least favorable lending conditions among emerging markets in the covered quarter, better than only Sub-Saharan Africa (43.5). However, the MENA region posted the second best improvement in lending conditions among emerging markets in the fourth quarter of 2016 behind Emerging Asia. The region's Trade Finance Index increased to 47.8 in the fourth quarter of 2016 from 47.5 in the previous quarter. In addition, the Demand for Loans Index improved to 41.7 in the fourth quarter from 39.8 in the third quarter of 2016, as demand for commercial and industrial loans, commercial real estate loans and consumer loans increased, while demand for residential real estate loans decreased. Further, the Non-Performing Loans (NPLs) Index rose to 40.9 in the fourth quarter of 2016 from 38 in the previous quarter, reflecting a deterioration in the banks' asset quality. In parallel, the Credit Standards Index improved to 44.2 in the fourth quarter of 2016 from 39.5 in the preceding quarter, as credit standards in all lending categories eased at a faster pace. In addition, the Funding Conditions Index significantly improved to 47.8 in the fourth quarter from 36.8 in the preceding quarter, due to an easing of domestic and international funding conditions.

Source: *Institute of International Finance*

TUNISIA

Challenging operating conditions and significant asset risk for banks

Moody's Investors Service indicated that the pressure on Tunisian banks persists amid subdued economic activity, evolving banking regulations and significant asset risk pressure. It estimated the non-performing loans (NPLs) ratio at 17% at the end of 2016, reflecting the challenging economic environment, as well as loose banking regulation that resulted in weak underwriting practices. It projected real GDP growth to remain subdued at 2.1% in 2017 due to a decline in investor and consumer confidence, which would keep the operating conditions for banks challenging. Further, the agency pointed out that Tunisian banks have suffered from significant credit challenges due to the phasing out of regulatory forbearance measures and weak governance at banks. It said that authorities have endorsed new regulatory reforms, which developed Basel II and III prudential frameworks and facilitated the resolution of distressed debt, but it noted that such reforms will take time to materialize and to be fully implemented. In parallel, Moody's forecast the banks' capital ratios to remain at low levels due to subdued economic growth and high NPL ratios. Also, it expected provisioning for NPLs to increase following the lifting of forbearance on problem loans in the tourism sector, which would weigh on the banks' profitability. Further, it forecast liquidity to remain tight this year as credit growth continues to exceed deposit growth.

Source: *Moody's Investors Service*

IRAQ

Central Bank assigns ratings to banks and MTOs

The Central Bank of Iraq (CBI) issued ratings for banks and money transfer operators (MTOs) following the introduction of the electronic system for dollar distribution as well as the principles and standards for foreign currency purchases by the banks and MTOs. The CBI published the ratings of 40 banks and 17 MTOs that have participated in foreign currency auctions since January 2, 2017. It said that the CBI evaluated banks and MTOs based on the standards for foreign currency purchases, and rated them based on seven criteria that have weights ranging from zero to 100 points. The ratings are based on a weighted average of the seven criteria that are the banks' efficiency and ability in fulfilling the CBI standards, dealing with external correspondent banks, fulfilling clients' requests, commitment to foreign currency auction window instructions, disclosure of balances to correspondent banks, the number of lawsuits against the bank, and contracting with international auditing companies. The ratings range from 'A' to 'E', with 'A' representing the bank or MTO with the highest score on these criteria. Banks with less than 17% of the points set for a criteria have to address this issue within three months of the ratings issuance or they will be suspended from participating in the currency auctions, while higher rated banks will receive a higher share in foreign currency auctions. The ratings distribution showed that 40% of banks are rated 'B', 27.5% belong to the 'C' category, 22.5% are in the 'A' range, 5% belong to the 'D' segment and another 5% are in the 'E' category. Also 35.3% of MTOs are rated 'C', 29.4% are in the 'B' segment, 17.6% belong to the 'A' segment and another 17.6% are in the 'D' category.

Source: *Central Bank of Iraq*

DEM REP CONGO

Central Bank takes measures to tackle depreciating currency and rising inflation

Research and analytics provider IHS Markit indicated that the Banque Centrale du Congo (BCC) has decided on a policy mix to mitigate the impact of the challenging economic environment on the inflation rate and the Congolese franc. First, it noted that the BCC increased its key policy rate from 7% to 14% in order to contain the sharp increase in the inflation rate and to control the rapid depreciation of the franc. It considered that the BCC's previous rate reductions to encourage the use of the local currency in economic transactions, instead of foreign currencies, have not been sufficient. Second, it said that the BCC has intervened in the foreign currency market by injecting an additional \$50m, which has supported the franc temporarily. Third, it noted that banks have suffered from significant liquidity shortages recently, which led the BCC to focus on strengthening and regulating the liquidity requirements. Fourth, it indicated that the BCC maintained the mandatory reserve requirements for domestic banks at their current levels of 13% and 12% for short- and long-term foreign currency deposits, respectively, and of 2% for short-term domestic currency deposits. Further, it pointed out that the country's low foreign currency reserves limit the BCC's ability to respond to a sharp depreciation of the franc. It expected the franc to stabilize in case of a recovery in the country's copper exports.

Source: *IHS Markit*



ENERGY / COMMODITIES

Global energy consumption to grow by 1.3% per year between 2015 and 2035

BP projected demand for global energy to increase by an annual average rate of 1.3% during the 2015-35 period, with most of this growth coming from non-members of the Organization for Economic Cooperation and Development economies, mainly China and India. It said that renewable energy, which includes wind and solar energy as well as biomass and biofuel, would account for 10% of global energy demand in 2035 relative to a share of 3% in 2015. BP expected the consumption of renewable energy to grow by an annual average rate of 7.1% during the 2015-35 period, the fastest growth rate among all sources of energy. Further, it projected natural gas consumption to grow by an annual average growth rate of 1.6% during the 2015-35 period, the fastest growth rate among fossil fuels. In contrast, it forecast coal consumption to expand by 0.2% per year during the covered period, which would constitute the slowest growth among fossil fuels, and to account for 24% of global energy demand in 2035 relative to 29% of the total in 2015. It considered that the aggregate share of fossil fuels from total energy consumption would drop from 85% in 2015 to 78% by 2035. Further, BP noted that the rise in energy demand in the power sector during the 2015-35 period would contribute to 61.8% of the increase in global energy consumption during the same period.

Source: BP, Byblos Research

Global steel output up by 1% in 2016

Global steel production reached 1.63 billion tons in 2016, constituting a rise of 0.8% from 2015. Chinese steel production totaled 808.4 million tons in 2016 and accounted for 49.6% of global production. Japan followed with 104.8 million tons or 6.4% of the total, then India with 95.6 million tons (5.9%), the United States with 78.6 million tons (4.8%) and Russia with 70.8 million tons (4.3%). On a regional basis, steel production in Asia reached 1,125.1 million tons and accounted for 69.1% of global steel demand in 2016, followed by the European Union with 162.3 million tons (10%) and North America with 111 million tons (6.8%).

Source: World Steel Association, Byblos Research

ME&A's oil demand to rise by 1.8% in 2017

Crude oil consumption in the Middle East & Africa region is forecast to average 12.3 million barrels per day (b/d) in 2017, which would reflect a growth of 1.8% from 12.1 million b/d in 2016. The region's demand for oil would account for about 13% of global consumption this year. In parallel, the ME&A's non-OPEC oil supply is forecast to average 3.42 million b/d in 2017, up by 0.9% from a year earlier.

Source: OPEC, Byblos Research

Algeria's gas exports to increase by 5.5% in 2017

Algeria's national oil and gas company, Sonatrach, projected gas exports to reach 57 billion cubic meters (bcm) in 2017, which would constitute a 5.5% rise from 54 bcm in 2016. Algeria aims to expand its natural gas exports across Europe in 2017, and to increase its existing trade to Italy, Portugal and Spain. In 2016, Algeria covered 55% of natural gas demand in Spain, 16% of consumption in Italy and 15% of demand in Portugal. Further, Algeria's gas output is projected to rise from 132.2 bcm in 2016 to 141 bcm in 2017.

Source: Thomson Reuters, Byblos Research

Base Metals: Building & construction sector to account for 26% of total aluminum demand in 2017

The LME cash price of aluminum closed at \$1,811 per metric ton on February 1, 2017, constituting an increase of 7% from \$1,613 per ton at the end of 2016. The increase in the metal's prices reflects the Chinese authorities' plan to reduce aluminum production in order to combat air pollution. Overall, aluminum prices posted a gradual increase from \$1,515 per ton in the first quarter of 2016 to \$1,572 per ton in the second quarter of last year, \$1,620 per ton in the third quarter of 2016 and \$1,700 per ton in the fourth quarter of 2016, supported by better-than-anticipated growth of demand in China. Further, the metal's prices are projected to increase by 2.7% to \$1,653 per ton in 2017, driven by expectations of higher infrastructure spending by the new U.S. Administration, as well as an anticipated decline in the metal's production in China amid rising raw material costs. In parallel, global aluminum demand is forecast to reach 42.5 million tons in 2017, constituting a 5.6% rise from 40.2 million tons a year earlier. Demand in the building & construction sector is projected to reach 11 million tons and to account for 26% of the total, followed by the transportation industry with 9.1 million tons (21.5%), the consumer goods sector with 7.1 million tons (16.7%) and the electric power industry with 5.4 million tons (12.7%).

Source: Deutsche Bank, Byblos Research

Precious Metals: Gold prices to decline in 2017 on expectations of US interest rate hikes

Gold prices closed at \$1,203 a troy ounce on February 1, 2017, constituting an increase of 3.9% from \$1,158 an ounce at end-2016, due in part to a weaker US dollar and to the U.S. Federal Reserve's latest decision to keep interest rates unchanged. The increase in prices coincided with a 2.6% decline in the trade-weighted US Dollar Index from end-2016. The rise in the metal's prices so far in 2017 also reflects uncertainties over the U.S. Administration's foreign trade and immigration policies. Further, gold prices are projected to decrease from an average of \$1,249 an ounce in 2016 to \$1,150 an ounce in 2017, due to expectations of US interest rate hikes this year. Upside pressure on gold prices include rising geopolitical risks, uncertainties about the progress of Britain's exit from the European Union, elections in France and the Netherlands, as well as a pick-up in the metal's retail demand in India and China. In parallel, the Bloomberg Precious Metals Total Return Sub-Index declined by 6% in January 2017, while the Gold Sub-Index decreased by 4.7% from end-2016.

Source: Thomson Reuters, Bloomberg Indexes, 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+	-	B+	-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	BB+	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Negative	Stable	Stable	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	01-Feb-17	No change	15-Mar-17
Eurozone	Refi Rate	0.00	01-Feb-17	No change	09-Mar-17
UK	Bank Rate	0.25	15-Dec-16	No change	02-Feb-17
Japan	O/N Call Rate	-0.10	31-Jan-17	No change	16-Mar-17
Australia	Cash Rate	1.5	06-Dec-16	No change	07-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	01-Feb-17	No change	N/A
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	08-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	27-Jan-17	No change	16-Feb-17
Turkey	Base Rate	8.00	24-Jan-17	No change	16-Mar-17
South Africa	Repo rate	7.00	24-Jan-17	No change	30-Mar-17
Kenya	Central Bank Rate	10.00	30-Jan-17	No change	21-Mar-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	31-Jan-17	No change	27-Feb-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	01-Feb-17	No change	01-Mar-17
Kazakhstan	Repo Rate	12.00	09-Jan-16	No change	20-Feb-17
Ukraine	Discount Rate	14.00	26-Jan-17	No change	02-Mar-17
Russia	Refi Rate	10.00	16-Dec-16	No change	03-Feb-17



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