

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Private equity funds raise \$89bn in first quarter of 2017

Research provider Preqin indicated that dry powder held by private equity (PE) funds globally, or the amount of capital available for investment in portfolio companies, reached a record-high of \$842.1bn at the end of March 2017, up by 2.6% from \$820.7bn at end-2016. It noted that buyout funds accounted for 63% of dry powder, followed by venture capital (VC) funds (19%), growth funds (12%) and other PE funds such as balanced and co-investment funds (7%). It said that 175 PE funds held a final close during the first quarter of 2017 and secured a total of \$89.4bn in capital commitments worldwide. It pointed out that 44 buyout funds raised \$54.4bn during the first quarter of the year, or 60.8% of total capital commitments, followed by five secondaries funds with \$13.2bn in raised capital (14.7%), 86 VC funds with \$10.1bn in capital commitments (11.2%), 26 growth funds with \$5.4bn in raised capital (6.1%), and nine fund of funds with \$3.4bn in commitments (3.8%). Preqin indicated that 1,908 PE funds are currently seeking to raise an aggregate of \$635bn in capital worldwide. It said that the majority of Limited Partners are very liquid, supported by continued high net distributions from General Partners, and are looking to maintain or increase their exposure to the PE asset class. It added that about \$1.5 trillion have been returned to investors since 2013 and expected the PE asset class to continue to appeal to investors seeking high absolute returns and portfolio diversification in a low interest rate environment.

Source: Preqin

EMERGING MARKETS

Trading in Credit Default Swaps up 11% to \$404bn in first quarter of 2017

Trading in emerging markets Credit Default Swaps (CDS) reached \$404bn in the first quarter of 2017, constituting a rise of 32% from \$306bn in the fourth quarter of 2016 and an increase of 11.3% from \$363bn in the same quarter last year. The volume of traded CDS in the covered quarter was the highest since the first quarter of 2014, when CDS trading stood at \$409bn. The most frequently traded sovereign CDS contracts in the first quarter of 2017 were those of Brazil at \$51bn, followed by Turkey at \$48bn and Mexico at \$40bn. As such, traded sovereign CDS contracts on Brazil accounted for 12.6% of total trading in emerging market CDS in the covered quarter, followed by CDS contracts on Turkey (11.9%) and Mexico (9.9%). The most frequently traded corporate CDS contracts in the first quarter of 2017 were those of Venezuela's PDVSA and Brazil's Petrobras at \$1.7bn each, which accounted for 0.4% of total trading in emerging markets CDS each. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers, as well as from 13 major international banks and broker-dealers.

Source: EMTA

Number of upgrades surpasses downgrades in first quarter of 2017

S&P Global Ratings indicated that it upgraded 12 corporate and sovereign issuers in emerging markets (EM) that represent \$71bn in rated debt in the first quarter of 2017, while it downgraded 10 EM issuers with \$9bn in rated debt. It noted that the downgrade ratio, which is the proportion of downgrades to total rating actions, stood at 45% in the first quarter of 2017, well below the historical average of 55% since 1995. But it said that the negative bias in EMs increased in the first quarter of 2017, as it reached 33% in the covered quarter, significantly higher than the historical average of 20%. S&P defines negative bias as the proportion of issuers that either have a 'negative' outlook or whose ratings are on CreditWatch Negative. S&P upgraded 12 corporate issuers, representing \$71bn in rated debt in the first quarter of 2017; while it downgraded six corporate issuers with \$5bn in debt. Latin America had eight corporate upgrades with total debt of \$68bn and one downgrade of \$1bn in the covered period; followed by Emerging Asia with three upgrades (\$1bn) and two downgrades (\$3bn); and Eastern Europe, the Middle East & Africa (EEMEA) with one upgrade (\$2bn) and three downgrades (\$1bn). Also, S&P downgraded four sovereigns representing \$4bn in rated debt in the first quarter of 2017, while it did not upgrade any sovereign issuer. There were two sovereign downgrades in the EEMEA region with a total of \$3bn in debt, and two downgrades in Latin America with \$1bn in debt. The agency expected downgrades in EM to continue, especially in Latin America and the EEMEA region, due to low commodity prices and high geopolitical uncertainties.

Source: S&P Global Ratings

MENA

Progress in development of renewable energy

The 2016 Arab Future Energy Index ranked Morocco in first place among 20 Arab countries in terms of progress made in the development of renewable energy last year. Jordan, Egypt, the UAE and Palestine followed as the top ranked countries on the index, while the lowest ranked countries were Oman, Iraq, Yemen, Syria and Libya. The Index measures the commitment of Arab countries to develop financially, socially, and environmentally-sustainable energy systems through the wider deployment of renewable energy solutions. It is based on 28 quantitative and qualitative indicators grouped in four categories that are Market Structure, Policy Framework, Institutional Capacity, and Finance & Investment. The average score of the 20 Arab countries was 37.3%, while that of Gulf Cooperation Council (GCC) countries stood at 31.8% and the average score of non-GCC Arab countries was 39.6%. The rankings of six Arab countries regressed, four improved and seven were unchanged from the 2015 survey, based on the same set of countries, while the scores of all Arab countries improved. The survey noted that Arab countries have made progress towards creating a better environment for renewable energy investments in the past year and that many countries have implemented energy subsidy reforms. Morocco ranked first on each of the Market Structure, Institutional Capacity and Finance & Investment categories, while Jordan came first on the Policy Framework category.

Source: Regional Center for Renewable Energy and Energy Efficiency, Byblos Research

OUTLOOK

MENA

Economic growth of oil importers to reach 3.5% in 2017, risks persist

The International Monetary Fund projected real GDP growth in the oil-importing economies of the Middle East & North Africa region to accelerate from 3.3% in 2016 to 3.5% in 2017, supported by the implementation of reforms, an improvement in consumer and business confidence, strong external demand and the low oil price environment. But it said that economic activity continues to be constrained by ongoing security concerns and regional conflicts, as well as by high unemployment rates. It forecast Djibouti's real GDP growth rate at 7% in 2017, the highest in the region, supported by foreign-financed infrastructure spending, while it expected Lebanon and Jordan to post the lowest rates at 2% and 2.3%, respectively, due mainly to spillovers from ongoing regional conflicts. The IMF pointed out that the region's economic outlook remains vulnerable to fluctuations in oil prices, global policy uncertainty, changes in global financial conditions, and worsening security conditions. It called on authorities to implement structural reforms to promote private-sector activity and increase productivity, which, in turn, would support economic growth and address the high unemployment level. In parallel, it forecast the average inflation rate in oil-importers to increase from 10.3% in 2016 to 17.5% this year due to higher oil prices, lower energy subsidies, rising food prices in Djibouti, Egypt and Somalia, and currency depreciation in Sudan and Egypt.

In parallel, the Fund forecast the aggregate fiscal deficit of oil-importers to narrow from \$59.6bn, or 8.9% of GDP, in 2016 to \$29.4bn, or 8.1% of GDP, in 2017, due to the ongoing fiscal consolidation efforts; while it expected their aggregate current account deficit to slightly narrow from \$45.2bn, or 6.7% of GDP, in 2016 to \$24.7bn, or 6.2% of GDP, this year. It anticipated the region's public debt level to reach 90.3% of GDP at the end of 2017 relative to 88.7% of GDP in the previous year. It considered that oil importers would face challenges in 2017 to maintain the same pace of fiscal consolidation as in the past two years because oil prices are expected to increase and public revenues could be lower than anticipated. As such, it called on authorities to complete the planned subsidy reforms in Egypt, Sudan and Tunisia, and to contain losses from state-owned electricity enterprises in Jordan and Lebanon.

Source: International Monetary Fund

AFRICA

Subdued short-term growth prospects, further policy action needed

The International Monetary Fund expected Sub-Saharan Africa's (SSA) growth outlook to remain subdued amid delayed and limited policy adjustments, rising public debt levels, declining foreign currency reserves, increased pressure on the region's financial sectors, as well as global policy uncertainties. It added that political tensions and security issues continue to have a significant humanitarian impact and weigh on economic activity in several countries in the region. It projected the region's economic growth to accelerate from a two-decade low of 1.4% in 2016 to 2.6% in 2017, and to be largely driven by one-off factors such

as a recovery in Nigeria's oil production, higher public spending ahead of Angola's upcoming presidential elections and the fading drought effects in South Africa.

The Fund said that economic performance varies significantly across SSA economies. It forecast real GDP to grow by only 0.9% in SSA's oil exporters this year following a contraction of 1.4% in 2016. Also, it projected growth to slightly accelerate from 2% in 2016 to 2.8% in 2017 in the region's other resource-intensive economies, mainly due to improved terms of trade in these countries. Further, it forecast growth at 5.7% in SSA's non-resource-intensive economies, as these countries would continue to benefit from domestic demand, infrastructure investment and high levels of public spending. Further, the Fund forecast the SSA region's average inflation rate at 10.7% in 2017 relative to an average of 11.4% last year, and to vary widely across the region.

In parallel, the IMF expected the SSA region's current account deficit to narrow slightly from 4% of GDP in 2016 to 3.8% of GDP in 2017. It considered that an increase in commodity prices would not be sufficient to address tight liquidity conditions and large fiscal, monetary and external imbalances in oil-exporters. As such, it called on authorities to urgently take policy actions to address macroeconomic imbalances and stop the decline in foreign currency reserves, such as limiting the financing of the deficit from central banks in some central african countries and liberalizing the exchange rate in Nigeria and Angola.

Source: International Monetary Fund

ARMENIA

Real GDP to grow by 2.9%, current account deficit at 3.1% of GDP in 2017-18

The International Monetary Fund projected Armenia's real GDP to grow by 2.9% in each of 2017 and 2018, compared to a growth rate of 0.2% in 2016. It forecast the nominal GDP at \$10.7bn in 2017 and at \$11.2bn in 2018. It expected the average inflation rate to shift from -1.4% in 2016 to 2% in 2017 and 3.5% in 2018. Also, it anticipated broad money to grow by 11.2% in 2017 and by 10.2% in 2018, compared to a growth rate of 16.6% in 2016.

In parallel, the Fund projected Armenia's fiscal deficit to narrow from 5.6% of GDP in 2016 to 3.8% of GDP in 2017 and 2.4% of GDP in 2018. It forecast government revenues, excluding grants, at 21.3% of GDP in 2017 and 21.7% of GDP in 2018, and total expenditures at 26.5% of GDP in 2017 and 25.9% of GDP in 2018. It expected Armenia's gross public debt level at 53.1% of GDP at end-2017 and 54.3% of GDP at end-2018. It also anticipated the gross external debt to reach 92.7% of GDP at the end of 2017 and 89.4% of GDP at end-2018.

Further, the IMF forecast Armenia's exports of goods & services at \$3.9bn this year and at \$4.1bn in 2018 compared to \$3.5bn in 2016; and for its imports of goods & services to reach \$4.9bn in 2017 and \$5bn next year, relative to \$4.4bn in 2016. It projected the country's current account to post deficits of 3.2% of GDP in 2017 and 2.9% of GDP in 2018. It forecast the country's gross official reserves to reach \$2.2bn at end-2017, unchanged from a year earlier, and expected it to reach \$2.4bn at end-2018.

Source: International Monetary Fund



ECONOMY & TRADE

UAE

Non-hydrocarbon sector activity to pick up in 2017

Merrill Lynch projected the UAE's real GDP growth to decelerate from 2.2% in 2016 to 0.9% in 2017, mainly due to a drop in oil production under the OPEC agreement. But it expected non-hydrocarbon sector activity to pick up from 2.3% last year to 2.7% in 2017 and to grow by 3% to 3.5% annually over the medium term due to increased capital spending ahead of Dubai's World Expo 2020. It noted that Dubai's real GDP growth decelerated from 4.1% in 2015 to 2.5% in the first nine months of 2016, but it expected activity to be supported in coming years by higher consumption and tourism flows related to the Expo 2020. It noted that Abu Dhabi's real GDP growth slowed down from 5% in 2015 to 2.8% in 2016 amid low global oil prices and the ongoing fiscal consolidation. In parallel, it forecast Dubai's fiscal balance to shift from a small surplus in 2016 to a deficit of about 1% to 2% of GDP from 2017 onwards due to increased capital spending. It said that Dubai's total public debt level has stabilized at about \$138bn, or 125% of its GDP. Further, it expected Abu Dhabi's fiscal balance to shift from a deficit of \$7.9bn, or 4% of GDP, in 2016 to a surplus in 2017 in case oil prices average \$50 p/b during the year. It added that authorities are planning to further increase administered utility and energy prices this year. It considered that major infrastructure projects in Abu Dhabi are near completion, which would limit the increase in the Emirate's capital spending during the 2017-18 period.

Source: Merrill Lynch

BAHRAIN

Significant fiscal reforms needed

The Institute of International Finance projected Bahrain's real GDP growth at 2.5% in 2017, driven by infrastructure spending that is financed through development funds from GCC peers. However, it noted that Bahrain needs to implement a significant fiscal adjustment in order to restore fiscal sustainability and reduce vulnerabilities. It expected the fiscal deficit to narrow from 18% of GDP in 2016 to 12% of GDP in 2017, in case oil prices increase and fiscal consolidation measures are implemented. Still, it forecast the public debt level to grow from 82% of GDP in 2016 to 90% of GDP in 2017, as planned fiscal measures would not prevent an increase in the debt ratio. Further, the IIF indicated that Bahrain's foreign currency reserves declined from 1.6 months of import cover at end-2015 to around one month of import cover at end-2016. It projected the current account deficit to narrow from 4.7% of GDP in 2016 to 1.3% of GDP in 2017, which would ease the pressure on foreign reserves. It did not expect the weak external position to affect the currency peg due to strong support from GCC countries. In parallel, Moody's Investors Service indicated that Bahrain's 'Ba2' credit rating is supported by the country's elevated wealth level, diversified economy and positive net international investment position. It noted that the 'negative' outlook on the rating reflects risks to fiscal and external liquidity, as well as the authorities' slow response to reduced hydrocarbon revenues. It projected the fiscal deficit to remain wide in coming years and for the public debt level to reach 85% of GDP by 2020 in the absence of significant fiscal reforms.

Source: Institute of International Finance, Moody's Investors Service

NIGERIA

Dollar liquidity shortages to persist despite recent easing

Moody's Investors Service anticipated that Nigeria would continue to face foreign currency shortages in coming months, even though the government's foreign currency receipts have recently increased following the rise in hydrocarbon exports. It said that the Central Bank of Nigeria (CBN) has started to increase the supply of foreign currency in the market in the first quarter of 2017 through two new exchange rate windows and interventions in the interbank market. It indicated that the change in the CBN's policy has narrowed the spread between the parallel and official exchange rates. However, it considered the improvement in the availability of foreign currency to be cyclical rather than structural, as it reflects the recent international debt issuance of \$1.5bn, the recovery in oil production and higher global oil prices. In parallel, Moody's estimated that the significant narrowing of the spread between the parallel and official exchange rates, along with the creation of an investor exchange rate window, could help increase portfolio investment inflows to the country. It projected the CBN's foreign currency reserves at about \$30bn at the end of 2017 despite some volatility during the year, and it expected Nigeria's balance of payments to have a positive outlook in 2017.

Source: Moody's Investors Service

TURKEY

Sovereign ratings affirmed, outlook 'negative'

S&P Global Ratings affirmed at 'BB/B' Turkey's long- and short-term foreign currency sovereign credit ratings, with a 'negative' outlook. It noted that the ratings are supported by the country's low debt burden, expectations of only modest accumulation of additional liabilities on the government's balance sheet, as well as a flexible exchange rate system that would enable the economy to adjust to external shocks. But it said that the ratings are constrained by Turkey's persistent current account deficit, high external financing needs and weak institutional framework. It noted that rising unemployment and modest economic growth could delay the implementation of further structural reforms. Further, it projected real GDP growth to decelerate from an average of 5.7% during the 2013-16 period to 2.9% in the 2017-20 period, mainly due to lower investment and subdued net exports. In parallel, S&P noted that Turkey's external position remains weak, given its substantial net external liability position and elevated external financing needs. It estimated that Turkey has to roll over about \$165bn, or 40% of its total external debt, in 2017. It added that a marked deterioration in the availability of external financing for Turkey could result in financial sector stress, increased governmental contingent liabilities and a sharp economic slowdown. It projected the current account deficit to average 4.3% of GDP annually during the 2017-20 period. It forecast Turkey's external financing needs to average 170% of its current account receipts plus usable reserves during the 2017-20 period. It also projected the country's net foreign currency reserves at \$39bn at the end of 2017, equivalent to about two months of current account payments, reflecting limited buffers to offset external pressures.

Source: S&P Global Ratings



BANKING

GCC

Consolidation among banks unlikely to pick up

Fitch Ratings did not anticipate a significant increase in mergers & acquisitions (M&A) among banks in Gulf Cooperation Council (GCC) countries, despite favorable market conditions and rumors of potential deals. It noted that GCC banks are facing pressure on their profitability and tighter liquidity conditions, especially in GCC countries where governments withdrew public-sector deposits to support their public finances. It added that banks in the UAE, Bahrain and Oman could benefit from consolidation, as some banks in these countries lack sufficient scale. However, the agency considered that shareholders' appetite for M&A deals is limited as banks continue to post solid profitability. It considered that the ownership structure at some GCC banks is a barrier to M&A approvals, given that local private shareholders hold sizable stakes at banks and have short-term objectives. Fitch noted that M&A deals would be more likely to materialize in case the resulting entity is large enough to be among domestic market leaders. It added that bigger banks would benefit from strengthened ties with the government through more business flows. It said that shareholders are often attracted by the stronger resilience of a new entity to credit and liquidity risks. It noted that the National Bank of Abu Dhabi and First Gulf Bank merged to create the largest bank in the UAE. It added that the potential merger of two Saudi banks would form the third-largest bank in Saudi Arabia, while the planned merger of three Qatari banks would establish the largest Islamic bank in the country.

Source: Fitch Ratings

QATAR

Profits of five listed banks up 4% in first quarter

Regional investment bank EFG Hermes indicated that the aggregate earnings of five listed Qatari banks reached QAR4.72bn, or \$1.3bn, in the first quarter of 2017, up by 4.1% from the same quarter of 2016. Excluding earnings from Qatar National Bank's (QNB) foreign subsidiaries, the five banks' earnings rose by 6% year-on-year in the first quarter of 2017. Also, the banks' net interest income grew by 18% year-on-year in the first quarter of 2017, driven by a growth in net interest income from QNB's foreign subsidiaries, which include its Turkish subsidiary Finansbank. Excluding QNB's foreign subsidiaries, the five banks' net interest income grew by only 1% from the same period last year. In parallel, the banks' aggregate assets reached QAR1,206.4bn, or \$331.44bn at the end of March 2017, up by 23.5% from a year earlier. Also, the aggregate lending of the five banks was QAR844.29bn, or \$231.95bn, at the end of March 2017, which constitutes a rise of 22.2% from the end of March 2016, driven by QNB's strong domestic lending growth and by the bank's consolidation with Finansbank. In parallel, deposits reached QAR833.81bn, or \$229.07bn, at end-March 2017, up by 6% from end-2016 and by 24.1% from end-March 2016, supported by a pick-up in public sector deposits. As such, the loan-to-deposit ratio regressed from 103% at the end of March 2016 to 101% at end-March 2017. In parallel, the non-performing loans ratio stood at 1.9% at the end of March 2017, nearly unchanged from 2% at end-2016 and compared to 1.7% a year earlier.

Source: EFG Hermes

JORDAN

Lending to resident private sector up 3% in first quarter of 2017

The consolidated balance sheet of commercial banks in Jordan indicates that total assets reached JD47.7bn, or \$67.2bn at the end of March 2017, constituting a decrease of 1.5% from the end of 2016 and an increase of 0.6% from end-March 2016. Resident private sector claims grew by 3% from end-2016 to JD21.2bn, while credit facilities to the non-resident private sector expanded by 4% to JD499.2m, leading to an increase of 3% in overall private sector credit facilities in the first quarter of 2017. Lending to the resident private sector accounted for 44.5% of total assets at end-March 2017 compared to 40.4% a year earlier. In parallel, resident private sector deposits reached JD26.1bn at the end of March 2017, down by 3.1% from JD27bn at end-2016 and up by 0.7% from JD25.9bn a year earlier; while non-resident private sector deposits grew by 10.2% from the end of 2016 and declined by 7.8% from end-March 2016 to JD3.4bn. The government's deposits totaled JD1.1bn, down by 2.3% from end-2016, and those of public non-financial institutions decreased by 10.6% to JD288.9m. In parallel, claims on the public sector accounted for 23.5% of total assets at end-March 2017 compared to 24.6% a year earlier. Further, the banks' reserves at the Central Bank of Jordan totaled JD5.3bn, or \$7.4bn, down by 12.7% from JD6bn at end-2016; while capital accounts and allowances regressed by 0.4% from the end of 2016 to JD7.2bn. Also, deposits with foreign banks reached JD3.7bn, or \$5.25bn, at end-March 2017, down by 5.4% from end-2016; while the sector's foreign liabilities grew by 2.9% from the end of 2016 to JD6.6bn.

Source: Central Bank of Jordan, Byblos Research

MOROCCO

Stable banking sector performance in 2016

Fitch Ratings indicated that the key financial metrics of Morocco's leading banks were nearly unchanged in 2016 from 2015 despite the slowdown in economic activity last year. It noted that the banks' net interest margin was around 3.6%, while their operating profitability metrics improved in 2016. But it said that the cost-to-income ratio at rated Moroccan banks is elevated and ranges between 46% and 59%. Further, the agency pointed out that the banks' asset quality slightly deteriorated in 2016, which reflects weaknesses in the domestic operating environment and the continued expansion of some banks in Sub-Saharan Africa. It indicated that discrepancies in the classification policies of non-performing loans (NPLs) persist among Moroccan banks. As a result, the NPL ratio at locally-owned banks was 7.4% in 2016 relative to a ratio of 13.7% at French-owned peers. Further, it noted that the loans-to-deposits ratio averaged 112% at the end of 2016, nearly unchanged from a year earlier. In parallel, it considered the banks' capital buffers to be modest amid concentration risks and the increased credit risk for banks that are expanding internationally. Fitch noted that Moroccan banks are required to provide greater disclosure, meet tougher liquidity standards under the Basel III capital standards, and prepare for increased currency volatility as authorities move towards a more flexible exchange rate regime.

Source: Fitch Ratings



ENERGY / COMMODITIES

Oil prices to increase in second half of 2017

ICE-Brent crude oil futures prices have averaged around \$54 p/b so far in 2017, closing at a low of \$48 p/b and a high of \$57 p/b in the covered period. Oil prices fell below the \$50 p/b mark in early May 2017, mainly due to investors' increasing doubts over OPEC's attempts to reduce the oversupply in the global oil market and support oil prices. However, prices picked-up to over \$50 p/b in intra-day trading on May 11 due to a drop in U.S. crude inventories and a larger than expected cut in Saudi oil supplies to Asia. In parallel, Barclays Capital expected OPEC's output to further decline in the second half of 2017 due to an anticipated renewal of the oil agreement to cut production that was reached in November 2016, which would put upward pressure on prices in the short term. As such, it forecast Brent oil prices to average \$56 p/b in the second quarter, \$57 p/b in the third quarter and \$54 p/b in the fourth quarter of 2017. However, it said that the price increase following the OPEC deal last November has resulted in a significant increase in U.S. shale oil production, which poses a threat to the rebalancing process in the global oil market. It expected oil prices to remain under pressure, given a deeper geopolitical divide between Saudi Arabia and Iran, and a rebound in Libya's oil output. In addition, faster recoveries in Libyan and Nigerian oil production could weigh on oil prices, as both countries are exempt from the OPEC agreement.

Source: Barclays Capital, Byblos Research

Libya's oil output at highest level in three years

Libya's National Oil Corporation (NOC) indicated that the country's crude oil production is currently at more than 800,000 barrels per day (b/d) for the first time since 2014. It said that production averaged 564,000 b/d in April 2017, relative to 641,000 b/d in March, 688,000 b/d in February, and 678,000 b/d in January. The NOC pointed out that Libya's oil output could reach between 1.1 million b/d and 1.2 million b/d during the remainder of 2017 in case commercial disputes and political obstacles are resolved.

Source: National Oil Corporation

MENA's crude oil exports to remain nearly unchanged in 2017

The Middle East & North Africa region's crude oil exports are forecast to average 20.42 million barrels per day (b/d) in 2017, nearly unchanged from 20.49 b/d in 2016. The Gulf Cooperation Council (GCC) countries' crude oil exports would account for 62.7% of the region's oil exports in 2017, while non-GCC oil exporters would represent the remaining 37.3%. Saudi Arabia's crude oil exports are projected at 7.01 million b/d in 2017, equivalent to 34.3% of the region's oil exports, followed by Iraq at 3.62 million b/d (17.7%) and Iran at 2.5 million b/d (12.2%).

Source: International Monetary Fund, Byblos Research

Middle East's demand for gold bars and coins up 48% in first quarter of 2017

The Middle East region's net demand for gold bars and coins totaled 9.9 tons in the first quarter of 2017, constituting an increase of 47.6% from 6.7 tons in the same quarter of 2016, and representing 3.4% of global demand for bars and coins. Demand for gold bars and coins from Iran reached 3.7 tons and represented 37% of the region's total demand. It was followed by Saudi Arabia with 2.9 tons (29.4%) and the UAE with 2 tons (19.8%).

Source: World Gold Council, Byblos Research

Base Metals: Copper prices to rise by 15% in 2017

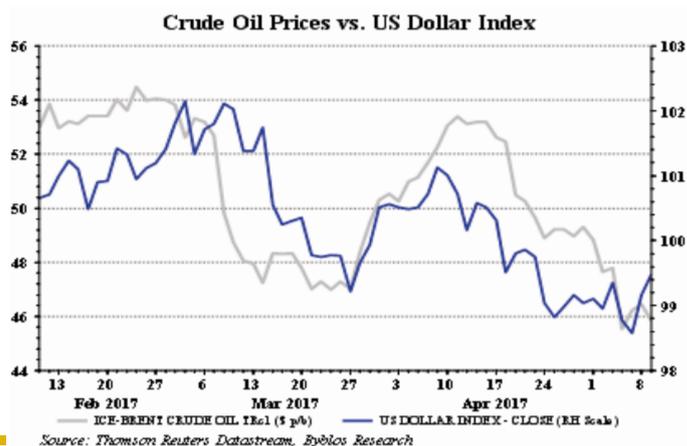
LME copper cash price closed at \$5,475.3 per metric ton on May 10, 2017, constituting a decrease of 0.9% from the end of 2016, partly due to weaker Chinese demand for the metal and to increased copper inventories in LME warehouses. Further, global demand for refined copper is forecast to grow by 2.2% to 23.73 million tons in 2017 following a growth rate of 2.6% in 2016, driven by a slowdown in Chinese demand for the metal. On a regional basis, copper demand is anticipated to grow by 2.3% in Asia, by 1% in North America and by 0.7% in Europe, while it is expected to decline by 0.6% in Latin America. On the supply side, the metal's global refined production is forecast to rise by 1.5% to 23.66 million tons in 2017. As such, the production deficit in the copper market is expected to narrow from 190,000 in 2016 to 70,000 tons in 2017. In turn, copper prices are projected to increase by 15.4% to an average of \$5,616 per ton in 2017. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index regressed by 3.4% in April and grew by 4% in the first four months of 2017, while the Copper Sub-Index declined by 2.2% last month and rose by 3.1% from end-2016.

Source: Barclays Capital, Thomson Reuters, Bloomberg Indexes

Precious Metals: Gold prices up 6% year-to-date on heightened geopolitical tensions

The gold bullion spot price closed at \$1,217.8 an ounce on May 9, 2017, dropping to its lowest level since mid-March 2017, as concerns about the French presidential elections and North Korea's nuclear program receded. However, gold prices recovered to \$1,221.2 on May 10, driven by a weaker US dollar amid the dismissal of the director of the U.S. Federal Bureau of Investigation. Further, the metal's price increased by 5.5% from end-2016, reflecting higher investor demand for the metal amid heightened tensions between the U.S. and North Korea. In parallel, the World Bank projected gold prices to regress from \$1,249 an ounce in 2016 to \$1,225 an ounce in 2017 and \$1,206 an ounce in 2018, as it anticipated investors to reduce their holdings of the safe-haven asset, given expectations of further U.S. interest rate hikes. Upside risks to the price forecast include heightening geopolitical tensions, stronger-than-anticipated Chinese demand for the metal, a decrease in mine output supply and delays in U.S. interest rate hikes. In contrast, downside risks to the price outlook include weakening global physical demand for the metal, as well as stronger U.S. economic growth and additional increases in U.S. interest rates in coming months.

Source: World Bank, Thomson Reuters, 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	B+	-	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	BBB+	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	A+	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	Negative	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	0.75-1.00	03-May-17	No change	14-Jun-17
Eurozone	Refi Rate	0.00	27-Apr-17	No change	08-Jun-17
UK	Bank Rate	0.25	11-May-17	No change	15-Jun-17
Japan	O/N Call Rate	-0.10	27-Apr-17	No change	16-Jun-17
Australia	Cash Rate	1.5	02-May-17	No change	06-Jun-17
New Zealand	Cash Rate	1.75	10-May-17	No change	21-Jun-17
Switzerland	3 month Libor target	-1.25-(-0.25)	17-Mar-17	No change	15-Jun-17
Canada	Overnight rate	0.50	12-Apr-17	No change	24-May-17
Emerging Markets					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.25	15-Mar-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	24-Mar-17	No change	29-Jun-17
South Korea	Base Rate	1.25	13-Apr-17	No change	25-May-17
Malaysia	O/N Policy Rate	3.00	02-Mar-17	No change	12-May-17
Thailand	1D Repo	1.50	29-Mar-17	No change	24-May-17
India	Reverse repo rate	6.25	06-Apr-17	No change	07-Jun-17
UAE	Overnight repo rate	1.75	15-Mar-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.00	15-Mar-17	Raised 25bps	N/A
Egypt	Overnight Deposit	14.75	30-Mar-17	No change	18-May-17
Turkey	Base Rate	8.00	26-Apr-17	No change	15-Jun-17
South Africa	Repo rate	7.00	30-Mar-17	No change	25-May-17
Kenya	Central Bank Rate	10.00	27-Mar-17	No change	23-May-17
Nigeria	Monetary Policy Rate	14.00	21-Mar-17	No change	23-May-17
Ghana	Prime Rate	23.50	27-Mar-17	Cut 200bps	22-May-17
Angola	Base rate	16.00	31-Jan-17	No change	12-May-17
Mexico	Target Rate	6.50	30-Mar-17	Raised 25bps	18-May-17
Brazil	Selic Rate	12.25	12-Apr-17	Cut 100bps	31-May-17
Armenia	Refi Rate	6.00	28-Mar-17	No change	16-May-17
Romania	Policy Rate	1.75	05-May-17	No change	30-Jun-17
Bulgaria	Base Interest	0.00	02-May-17	No change	01-Jun-17
Kazakhstan	Repo Rate	11.00	10-Apr-17	No change	05-Jun-17
Ukraine	Discount Rate	14.00	13-Apr-17	Cut 100bps	25-May-17
Russia	Refi Rate	9.25	28-Apr-17	Cut 50bps	16-Jun-17



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