

COUNTRY RISK WEEKLY BULLETIN

NEWS HEADLINES

WORLD

Gold holdings at \$1.21 trillion at end-March 2017

Figures released by the World Gold Council show that global gold holdings reached 33,374.9 tons at the end of March 2017, nearly unchanged from 33,292.8 tons at end-2016 and up by 1.9% from 32,742.5 tons at end-March 2016. Global gold holdings include those held by more than 100 countries, the International Monetary Fund, the West African Economic Monetary Union, the European Central Bank and the Bank for International Settlements. On a country basis, the United States held 8,133.5 tons at the end of March 2017 and accounted for 24.9% of global gold holdings, followed by Germany with 3,377.9 tons (10.3%), Italy with 2,451.8 tons (7.5%), France with 2,435.9 tons (7.4%) and China with 1,842.6 tons (5.6%). Further, the value of gold reserves worldwide was equivalent to \$1.21 trillion at the end of March 2017, based on a price of \$1,244.85 per troy ounce published by the London Bullion Market Association. In parallel, Tajikistan's gold holdings were equivalent to 84.5% of the country's total foreign currency reserves at the end of March 2017, the highest such ratio in the world. The United States followed with gold accounting for 75.1% of total reserves, then Germany (69.4% of total reserves), Italy (68.3% of total reserves) and Venezuela (65.4% of total reserves) as the top five countries in terms of gold as a percentage of total foreign currency reserves.

Source: World Gold Council, International Monetary Fund, Byblos Research

Private equity investments in real estate down 30% to \$38bn in first quarter of 2017

Research provider Preqin indicated that 568 private equity (PE) real estate deals were completed globally in the first quarter of 2017, down by 33.4% from 853 deals in the fourth quarter of 2016 and by 42.3% from 984 deals in the same quarter last year. It added that the aggregate value of deals reached \$38.3bn in the first quarter, reflecting a decline of 33.2% from \$57.3bn in the previous quarter and a drop of 30.3% from \$54.9bn in the first quarter of 2016. Further, the value of deals in the covered quarter was the lowest since the first quarter of 2014. It pointed out that closed-end PE real estate funds invested 39.2% of their capital in office properties, followed by investments in retail assets with 16.7%, industrial properties with 14.5% and residential assets with 9.7% of total deals. In parallel, Preqin noted that dry powder held by closed-end PE real estate investment funds worldwide, or the amount of capital available for investment, reached a record-high of \$247bn at the end of March 2017, up by 4.2% from \$237bn at end-2016. It said that opportunistic real estate funds accounted for 41.7% of dry powder at the end of March 2017, followed by value added closed-end funds with 24.3% of the total, debt funds with 15.8%, core funds with 7.7%, and distressed and core-plus funds with 5.3% each. It pointed out that PE real estate funds continue to perform strongly for investors, with annualized returns of 14.9% for the three years to June 2016, according to the latest available figures.

Source: Preqin, Byblos Research

MENA

Facebook penetration rate at 39% in Arab world

Figures compiled by the Dubai-based Mohammed bin Rashid School of Government indicate that the penetration rate of Facebook accounts in 22 Arab countries, or the ratio of Facebook accounts to the total population, reached 39% as at January 2017, up from 28% a year earlier. Qatar has the highest penetration rate in the Arab region at 95%, followed by the UAE (94%), Bahrain (73%), Kuwait (71%) and Jordan (66%). In contrast, Somalia, Sudan and Yemen have the lowest Facebook penetration rates regionally at 8% each. In addition, the penetration rate of Facebook accounts in Arab countries grew by 11.4 percentage points between June 2014 and January 2017, with Qatar posting the largest increase of 24.1 percentage points and Yemen registering the lowest growth of 1.5 percentage points during the covered period. Further, the number of Facebook users in Egypt accounted for 23% of the total number of Facebook users in the Arab world as at January 2017, followed by the number of users in Saudi Arabia (13%), Algeria (12%), Iraq (10%) and Morocco (9%). In addition, 64.3% of Facebook users in Arab countries are between 15 and 29 years old, while 35.7% of users in the region are above 30 years old. Further, 53% of Facebook users in the Arab region are daily active users. The demographic data of users in Arab countries was collected periodically between October 2015 and January 2017.

Source: Mohammed bin Rashid School of Government, Byblos Research

Illicit financial flows at between \$167bn and \$335bn annually in 2005-14 period

Global Financial Integrity, a non-profit research and advocacy organization, estimated the cumulative illicit financial flows (IFFs) in 19 Arab countries at between \$1,665bn and \$3,353bn during the 2005-14 period, equivalent to an average of \$166.5bn to \$335.3bn per year. It estimated total illicit inflows to Arab countries at between \$1,167bn and \$2,403bn, and aggregate illicit outflows from Arab countries at between \$498bn and \$949.8bn during the 10-year period. It noted that the Arab countries' cumulative IFFs accounted for between 10.6% and 12.5% of global cumulative IFFs during the 10-year period. The survey defines IFFs as illegal movements of money or capital from one country to another, or funds that are illegally earned, transferred or utilized. It calculates the IFFs of each country by adding illicit inflows and illicit outflows. Each of the two components is the sum of deliberate mis-invoicing in merchandise trade and the leakages in the balance of payments, known as hot money flows (HMN). In parallel, the Arab region's cumulative illicit flows from trade mis-invoicing, or those transferred through the deliberate mis-invoicing of external trade, stood at between \$1,451bn and \$3,139bn during the 2005-14 period and accounted for between 9.3% and 12.6% of global trade mis-invoicing flows. Further, the region's aggregate illicit flows on HMN basis totaled \$214.4bn between 2005 and 2014 and accounted for 11.5% of global HMN flows during the covered period. Overall, the Arab countries' IFFs were equivalent to between 10.5% and 21.1% of the region's total trade during the 2005-14 period.

Source: Global Financial Integrity

OUTLOOK

GCC

Challenges from low oil prices vary across region

Deutsche Bank indicated that the exposure of Gulf Cooperation Council countries to the adverse impact of the low oil price environment varies from one economy to the other. It noted that Bahrain is the most vulnerable GCC country, followed by Oman, Saudi Arabia, Qatar, Kuwait and the UAE. It ranked the GCC economies' exposure based on their current fiscal breakeven oil price, the potential to improve their fiscal balance in the future, economic sensitivity to fluctuations in oil prices, and existing buffers to support the economy during the adjustment process.

It considered that Bahrain and Oman have high fiscal breakeven oil prices with a limited ability to reduce them. It added that Bahrain has negligible assets in its sovereign wealth fund (SWF), which means that it has limited buffers to support the economy. Further, it pointed out that the assets of Oman's SWFs, which are equivalent to 49% of the country's GDP, would allow it to absorb only short term losses in revenues. It added that Oman is highly sensitive to changes in oil prices, given that the hydrocarbon sector generates 75% of government revenues. In addition, it indicated that Saudi Arabia's fiscal breakeven level remains elevated despite aggressive measures for revenue diversification. But it considered that the Kingdom has high potential to reduce its fiscal breakeven oil price.

Further, Deutsche Bank noted that Qatar, Kuwait and the UAE have low fiscal breakeven oil prices and substantial assets in their respective SWFs, which would help support their economies during the adjustment process. It said that the assets of Kuwait's SWFs are equivalent to 539% of its GDP, but it noted that authorities have yet to build the required infrastructure for economic diversification. Finally, it said that the UAE is the best positioned country to deal with the low oil price environment, given its low fiscal breakeven oil price, assets in SWFs equivalent to at least 213% of GDP, and low sensitivity to fluctuation in oil prices due to its relatively diversified economy.

Source: Deutsche Bank

EGYPT

Outlook improves, but remains dependent on security conditions and implementation of reforms

The Institute of International Finance projected Egypt's real GDP growth rate to decelerate from 4.3% in the fiscal year that ended in June 2016 to 3.5% in FY2016/17, mainly due to a slowdown in private consumption. But it anticipated economic activity to accelerate to 4.8% in FY2017/18, supported by an increase in net exports and a pickup in private investment. It indicated that the sharp depreciation of the Egyptian pound and the tight monetary and fiscal policies have weighed on economic activity, but they have helped restore competitiveness and macroeconomic stability, place the government's debt level on a declining path, rebuild foreign currency reserves and ease investor uncertainty. It said that downside risks to the outlook include a deterioration in security conditions and a slowdown in reforms. Also, it considered that Egypt's real GDP should grow by at least 5% annually on a sustained basis in order to significantly reduce the unemployment rate of 12.7%.

Further, the IIF projected the average inflation rate to regress from 23.7% in FY2016/17 to 17.2% in FY2017/18, in case the exchange rate continues to be stable at about EGP18 per dollar or if it appreciates modestly. It considered that authorities may need to increase policy rates, maintain a tight fiscal stance and address supply constraints to further ease inflationary pressures.

In parallel, the IIF projected Egypt's fiscal deficit to narrow from 12.5% of GDP in FY2015/16 to 9.7% of GDP in FY2016/17 and 8.1% of GDP in FY2017/18, mainly due to the introduction of the value-added tax and the containment of the public-sector wage bill. As such, it forecast the public debt level to regress from 94.8% of GDP in FY2015/16 to 93.4% of GDP in FY2016/17 and 88.9% of GDP in FY2017/18. Further, it projected the current account deficit to narrow from \$18.6bn in FY2015/16 to \$15.9bn in FY2016/17 and \$15bn in FY2017/18, as import demand moderates, exports rise and capital inflows pick up. It anticipated Egypt's foreign currency reserves to grow from \$17.6bn, or three months of import cover at the end of June 2016, to \$28.2bn, or 4.8 months of imports at end-June 2017.

Source: Institute of International Finance

IRAQ

Non-oil economy to grow by 2.7% in 2017, fiscal deficit to narrow to 4.2% of GDP

The International Monetary Fund projected Iraq's real GDP to contract by 3.1% in 2017 and to grow by 2.6% in 2018, compared to growth rates of 1.9% in 2017 and 2.9% in 2018 for oil-exporters in the Middle East & North Africa region. It forecast the country's non-oil GDP to expand by 2.7% in 2017 and by 2% next year following a contraction of 10.3% in 2016. It also projected Iraq's oil GDP to contract by 6.1% this year and to expand by 3% in 2018 compared to a growth rate of 24.6% last year. It noted that the limited fiscal space for oil-related investments, as well as Iraq's compliance with the OPEC agreement, would reduce the growth potential in hydrocarbon output in the near term.

In parallel, the Fund projected Iraq's fiscal deficit to narrow from 8.3% of GDP in 2016 to 4.2% of GDP in 2017 and 3.9% of GDP in 2018. It estimated the fiscal breakeven oil price at \$54.3 p/b in 2017 and at \$56.5 p/b in 2018 relative to \$46.1 p/b in 2016. It forecast government revenues, excluding grants, at 37.8% of GDP in 2017 and 37.7% of GDP in 2018, and total spending at 42.1% of GDP in 2017 and 41.5% of GDP in 2018. It expected the public debt to reach 60% of GDP at end-2017 and 61.8% of GDP at end-2018. It also forecast the gross external debt at 38.8% of GDP at end-2017 and 39.3% of GDP at end-2018.

Further, the IMF forecast Iraq's exports of goods & services at \$69.2bn in 2017 and \$73.1bn in 2018, and its imports of goods & services at \$77.1bn this year and \$77.4bn next year. It projected the current account deficit at \$8.4bn, or 4.4% of GDP, in 2017, and at \$9.8bn, or 4.9% of GDP, next year. It forecast gross official reserves to stand at \$46.6bn, or 7.2 months of import cover at end-2017, and to drop to \$44.8bn, or 6.9 months of imports, at end-2018. The Fund anticipated Iraq's oil production at 4.35 million b/d this year and 4.48 million b/d next year, and for oil exports to increase from 3.62 million b/d in 2017 to 3.75 million b/d in 2018.

Source: International Monetary Fund



ECONOMY & TRADE

SAUDI ARABIA

Fiscal deficit to gradually narrow in coming years

The Institute of International Finance considered that Saudi Arabia's fiscal deficit would remain wide in the near term, due to the recent delays in spending cuts and to the gradual introduction of revenue raising measures. It said that the fiscal results in the first quarter of 2017 were better than anticipated, but it noted that the increase in revenues was mostly due to a rise in hydrocarbon receipts. It projected the fiscal deficit to narrow from 16.8% of GDP in 2016 to 10.2% of GDP in 2017, in case oil prices average \$52 p/b this year relative to an average of \$45 p/b in 2016. It said that the deficit could narrow to 6% of GDP by 2020, driven by further increases in fuel and electricity prices, and the introduction of a 5% value-added tax in 2018, among other measures. The IIF expected Saudi authorities to finance the deficit through external and domestic borrowing and by tapping the country's foreign reserves. It noted that the government drew down \$14bn from its reserves in the first quarter of 2017 and issued \$9bn in Sukuks in April. It anticipated the Kingdom to borrow about \$16bn from external sources in 2017 relative to \$17.5bn in Eurobond issuance and \$10bn in international syndicated loan in 2016. In parallel, the IIF forecast non-hydrocarbon sector activity growth to accelerate to 1.8% in 2017, supported by the government's payment of arrears and the reinstatement of public sector allowances. However, it estimated that growth in the non-oil economy would be insufficient to absorb about 200,000 new entrants to the labor market each year.

Source: *Institute of International Finance*

UAE

Economic growth to recover to 3% in medium term

The International Monetary Fund considered that the UAE's large financial buffers, diversified economy and the authorities' robust policy response are facilitating the country's adjustment to the low oil price environment. It projected non-hydrocarbon real GDP growth at 3.3% in 2017, supported by a more gradual fiscal consolidation, stronger global trade and higher investments for World Expo 2020. In contrast, it forecast hydrocarbon output to contract by 2.9% in 2017 due to production cuts under the OPEC agreement. As such, it projected the UAE's real GDP growth at 1.3% in 2017 and anticipated it to recover to above 3% over the medium term. Also, the Fund expected the fiscal deficit to narrow to 4.5% of GDP and for the current account surplus to increase to 2.4% of GDP in 2017, driven by prospects of higher global oil prices. It encouraged authorities to continue to rationalize spending and improve its efficiency, such as through a sustained review of infrastructure investments by government-related entities (GREs). Also, it noted that a timely introduction of the value-added and excise taxes would help diversify public revenues. Further, the IMF said that the close coordination of cash flow and liquidity management among local governments, GREs and sovereign wealth funds would improve the predictability of government financing flows and of banking system liquidity. In turn, this would support lending growth and private sector activity. It also pointed out that the approval of the federal debt law would facilitate the development of the domestic debt market and would constitute an additional instrument for government financing and bank liquidity.

Source: *International Monetary Fund*

OMAN

Ratings downgraded to below investment grade

S&P Global Ratings downgraded Oman's long-term local and foreign currency sovereign credit ratings from 'BBB-' to 'BB+', and maintained the 'negative' outlook on the ratings. It attributed the downgrade to below investment grade to the significant decline in Oman's net external assets to a level that is insufficient to mitigate the risks from its volatile export revenue base. It anticipated the net external asset position to decline from 60% of current account receipts (CARs) in 2016 to 30% of CARs in 2017, and to shift to a net debtor position of 12% of CARs by 2020 due to sustained wide current account deficits. It expected the current account deficit to remain above 10% of GDP in 2017 and 2018, given the low oil price environment and the highly concentrated export base. It noted that authorities have financed the deficits through external debt and short-term private sector borrowing. In parallel, S&P projected the fiscal deficit to gradually narrow from 20.4% of GDP in 2016 to 6.5% of GDP in 2020, and for the government debt level to rise from 29.8% of GDP in 2016 to 48.2% of GDP by 2020. It added that the structure of the debt stock is weakening because of the sharp increase in foreign currency-denominated debt and non-resident debt holdings. S&P said that the 'negative' outlook on the ratings reflects the potential weakening in Oman's per capita income level, as well as a steeper-than-anticipated deterioration in the fiscal and external positions. It noted that the ratings are supported by potential financial aid from other GCC peers in case the fiscal and external balances significantly deteriorate.

Source: *S&P Global Ratings*

JORDAN

Additional reforms needed amid challenging operating environment

The International Monetary Fund indicated that economic conditions in Jordan have been encouraging so far in 2017, as reflected by the rebound in exports, remittance inflows and tourism receipts. It projected the country's real GDP growth rate to slightly improve from 2% in 2016 to 2.3% in 2017 under current regional conditions. It anticipated domestic and regional geopolitical and security developments to continue to weigh on investor confidence, exports, investment and public finances. The IMF called on authorities to adjust some of the policies and structural reforms, mainly those aimed at increasing tax receipts, amid the challenging operating environment. It considered that donor support is crucial to alleviate the persistent pressures from hosting Syrian refugees, as well as to help authorities reduce the public debt level from 95% of GDP in 2016 to 77% of GDP by 2022. Further, the Fund welcomed the authorities' intentions to continue to gradually remove exemptions on general sales tax and customs duties. It considered that the government's plan to broaden the income tax base, tackle tax evasion and contain non-priority current expenditures would strengthen the resilience of public finances. In this context, it called on authorities to improve the efficiency of public investments, to adopt the new electricity tariff adjustment mechanism in order to safeguard the National Electric Power Company's operational balance, and to streamline spending across public sector entities.

Source: *International Monetary Fund*

BANKING

WORLD

AML/CFT framework facing challenges

The Institute of International Finance considered that the current global anti-money laundering and combating the financing of terrorism (AML/CFT) framework suffers from challenges related to the exchange of information and from the ambiguity of guidelines. It noted that the framework is based on the Financial Action Task Force's recommendations and on United Nations conventions, but that it is applied through local legislation. First, it pointed out that the setup of the current AML/CFT system negatively affects the exchange of information because financial institutions can only share information between them on an ad hoc basis, while local laws on data sharing and privacy inhibit the exchange of data within the same group, especially if the group operates in multiple jurisdictions. It added that poor data quality and data infrastructure, and the absence of common reporting standards of suspicious activity, reduce the usefulness of such data. Second, it said that current international AML/CFT regulations leave significant room for interpretation, which leads to fragmentation among jurisdictions and to conflicting sets of requirements. It noted that the regulations' ambiguity, the lack of a universal definition of money laundering, as well as the "zero-tolerance" attitude of regulators, are pushing financial institutions to over-report any potential suspicious activity. Further, the IIF indicated that legacy systems at financial institutions could be outdated, complex or contain disconnected silos of information and redundant processes, which makes it difficult to obtain an up-to-date group-wide view of suspicious activity. It added that technology could help detect suspicious activity and fraud more effectively, promote data sharing, and cut compliance cost.

Source: *Institute of International Finance*

UAE

Profits of Abu Dhabi listed banks up 7%, earnings of Dubai listed banks up 6% in first quarter of 2017

The aggregate net income of 14 banks listed on the Abu Dhabi Stock Exchange reached AED5.8bn, or \$1.6bn in the first quarter of 2017, reflecting a rise of 6.7% from AED5.5bn in the same quarter of 2016. It accounted for 53.2% of the total earnings of publicly-listed firms that declared their profits in the covered quarter, down from 63.6% in the first quarter of 2016. In addition, eight of the 14 banks posted a year-on-year increase in their profits. The National Bank of Abu Dhabi accounted for 30.6% of the banks' earnings in the covered quarter, followed by First Gulf Bank (19.6%), Abu Dhabi Commercial Bank (19%), Abu Dhabi Islamic Bank (10%) and Union National Bank (7.7%), while the other nine banks represented the balance of 13%. In parallel, the net profits of eight banks listed on the Dubai Financial Market totaled AED3.9bn, or \$1.1bn in the first quarter of 2017, up by 5.7% from AED3.7bn in the first quarter last year. They accounted for 54.7% of the total earnings of listed firms on the DFM in the covered quarter, up from 47% in the first quarter of 2016. In addition, five out of the eight listed banks posted a year-on-year increase in their profits. Emirates NBD accounted for 48.4% of total banks' earnings in the covered quarter, followed by Dubai Islamic Bank (26.1%) and Mashreq Bank (14.4%), while the other five banks represented the balance of 11%.

Source: *KAMCO*

NIGERIA

Stable outlook on banking sector maintained

Moody's Investors Service maintained its outlook on the Nigerian banking system at 'stable', as it expected foreign-currency shortages to gradually ease amid improving export receipts. However, it anticipated the banks' asset quality to deteriorate in the coming 12 to 18 months, as the low oil price environment, currency depreciation and the contraction in economic activity in 2016 continue to generate non-performing loans (NPLs) in 2017. As such, it projected the NPL ratio at between 14% and 16% at end-2017 relative to 14% at end-2016. It noted that the NPL ratio would start regressing once loan restructurings, write-offs and the recovery of the economy take effect. In parallel, the agency indicated that Nigerian banks should have sufficient capital to absorb expected losses, even though it forecast the sector's tangible common equity to regress from 14.7% of adjusted risk-weighted assets at end-2016 to 14.1% at end-2018. It attributed the decline in equity to increased loan-loss provisions, as well as to the rise in the value of foreign currency risk-weighted assets when converted to local currency following the depreciation of the naira. Further, it projected the banks' return on assets to regress from 1.3% in 2016 to 1% in 2017 due to high provisioning costs that stand at 3% of gross loans. But it anticipated the banking sector's pre-provisions income to remain robust at 4% of average total assets, supported by high yields on government securities and gains from open foreign currency positions.

Source: *Moody's Investors Service*

JORDAN

Construction and trade account for 43.5% of overall lending at end-March 2017

Figures released by the Central Bank of Jordan indicate that credit facilities extended by commercial banks in Jordan totaled JD23.4bn, or \$33bn, at the end of March 2017, constituting an increase of 2.2% from JD22.9bn at end-2016 and a rise of 9% from JD21.5bn at end-March 2016. Credit in foreign currency accounted for 11.5% of the total at the end of March 2017, relative to 13.3% a year earlier. The resident private sector accounted for 87.2% of total credit at end-March 2017 relative to 86.4% a year earlier, followed by the central government with 9%, down from 9.8% in March 2016; the non-resident private sector with 2.1%; and public entities with 1.6%. The distribution of credit by sector shows that construction represented JD6.1bn or 26.3% of the total at end-March 2017, up from 24.7% a year earlier; while general trade accounted for JD4bn or 17.2% of the total relative to 18% at the end of March 2016. Public services & utilities followed with JD3.3bn or 14.3% of the total; then industry with JD2.3bn (10%); tourism, hotels & restaurants with JD594.2m and financial services with JD585.6m (2.5% each); transportation with JD358.6m and agriculture with JD341.4m (1.5% each), and mining with JD308.3m (1.3%). Further, other sectors accounted for JD5.4bn, or 22.9% of total credit, of which JD132.7m were extended to buy shares. In parallel, loans & advances reached JD15.4bn at end-March 2017, followed by Islamic banks' receivables with JD5.1bn, overdrafts with JD2.6bn and discounted bills with JD194.2m.

Source: *Central Bank of Jordan, Byblos Research*

ENERGY / COMMODITIES

Global oil market oversupply to narrow in 2017

ICE Brent crude oil front-month prices closed at \$52.2 per barrel (p/b) on May 17, 2017, constituting a rise of 4% from the preceding week; while WTI oil prices grew by 3.7% from a week earlier to close at \$49 p/b. The increase in oil prices came after Saudi Arabia and Russia, the world's largest two oil producers, agreed on May 15 on the need to extend output cuts until March 2018 to reduce the oversupply in the oil market. Also, the recent data released by the U.S. Energy Information Administration showed a decrease of 1.8 million barrels in U.S. crude oil inventories, which supported oil prices. Overall, the global oil market remains highly volatile, as upside support for oil prices from voluntary production cuts or unplanned outages in recent months has been offset by rising oil production in Libya, Nigeria and the U.S. In parallel, global demand for petroleum and other liquids, which include crude oil, natural gas liquids and biofuels, is projected to grow by 1.56 million barrels per day (b/d) to 98.3 million b/d in 2017; while global production is expected to rise by 1.38 million b/d to 98.47 million b/d this year. As such, the oil market oversupply is anticipated to drop from an average of 350,000 b/d in 2016 to 170,000 b/d this year. Overall, Brent oil prices are forecast to grow by 16.7% to an average of \$52.6 p/b in 2017, while WTI oil prices are projected to rise by 17% to an average of \$50.7 p/b.

Source: U.S. EIA, NASDAQ, Thomson Reuters

OPEC's oil basket price up 2% in April 2017

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) averaged \$51.34 per barrel (p/b) in April 2017, up by 2% from \$50.32 p/b in the preceding month. Abu Dhabi's Murban crude oil was \$54.3 p/b, the highest price among the basket's components, followed by Nigeria's Bonny Light at \$53 p/b and Angola's Girassol at \$52.7 p/b. All 13 prices included in the OPEC reference basket posted monthly increases of \$0.4 p/b to \$1.9 p/b in April 2017.

Source: OPEC, Byblos Research

Middle Eastern demand for gold up 5% in first quarter of 2017

The Middle East region's demand for gold, which includes demand for jewelry and bars & coins, totaled 64.5 tons in the first quarter of 2017, up by 4.9% from 61.5 tons in the same quarter of 2016. It was equivalent to 8.4% of global consumer demand for the precious metal. Demand for gold in the UAE was 17.2 tons in the first quarter of 2017 and represented 26.6% of the region's total demand, followed by Iran with 16.6 tons (25.7%) and Saudi Arabia with 14.2 tons (22%).

Source: World Gold Council, Byblos Research

MENA's natural gas output to rise by 4% in 2017

The production of natural gas in the Middle East & North Africa region is forecast to average 14 million barrels of oil equivalent per day (boe/d) in 2017, which would constitute an increase of 3.7% from 13.5 million boe/d in 2016. The Gulf Cooperation Council (GCC) countries would account for 63.2% of the region's gas production in 2017, while non-GCC producers would represent the remaining balance of 36.8%. Qatar's natural gas production is projected at 4.1 million boe/d in 2017, equivalent to 29.3% of the region's total, followed by Iran with 3.4 million boe/d (24.2%) and Saudi Arabia 2.1 million boe/d (15%).

Source: International Monetary Fund, Byblos Research

Base Metals: Copper prices to rise on supply disruptions

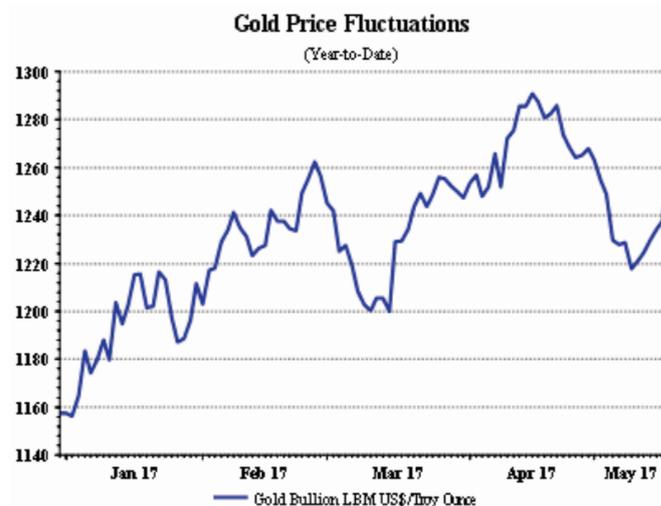
LME copper three-month future prices closed at \$5,610 per metric ton on May 17, 2017 and declined to less than \$5,530 per ton in intraday trading on May 18, following rising political uncertainty in the United States that undermined expectations of an increase in U.S. infrastructure spending. Also, reports of a potential economic slowdown this year in China, the world's largest copper consumer, weighed on prices. In fact, the limited number of planned investments in the Chinese power sector, which accounts for 50% of Chinese copper consumption, has put a downward pressure on the metal's price. Global copper consumption is projected to grow by 2.4% to 23 million tons in 2017 due in part to rising demand for the metal in mature economies and India. In parallel, global refined copper production is projected to increase by 1.2% to 23.1 million tons this year. As such, the production surplus in the copper market is forecast to narrow from 396,000 tons in 2016 to 123,000 tons in 2017. In turn, prices are projected to average \$5,526 a ton in 2017, which would constitute an increase of 13.5% from \$4,870 a ton in 2016, and represent the first annual price rise in five years.

Source: Thomson Reuters GFMS, Byblos Research

Precious Metals: Gold prices trend higher on rising U.S. political uncertainties, weaker US dollar

The gold bullion spot price increased for the sixth consecutive day to reach a two-week high of \$1,258 a troy ounce on May 17, 2017 due to a weaker US dollar, reduced expectations of further U.S. interest rate hikes this year, and ongoing geopolitical tensions. In fact, the increase in the metal's price coincided with a 1.7% decline in the trade-weighted US Dollar Index from the beginning of May. Prices trended higher in intraday trading on May 18 to about \$1,260 an ounce, as allegations against the U.S. president heightened market tensions and led gold prices higher. Prices are forecast to remain nearly unchanged year-on-year at an average of \$1,249 an ounce in 2017 and to increase to \$1,294 an ounce in 2018 amid expectations of sustained geopolitical risks. In parallel, the Bloomberg Precious Metals Total Return Sub-Index declined by 0.6% in April and grew by 9.1% in the first four months of 2017, while the Gold Sub-Index rose by 1.4% last month and grew by 9.8% 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	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	BB+	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 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	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	12-May-17	No change	13-Jul-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	N/A
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	16-May-17	No change	27-Jun-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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