

OUTLOOK

16 January 2018

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Contacts

Elisa Parisi-Capone +1.212.553.4133
VP-Senior Analyst
 elisa.parsi-capone@moodys.com

Steffen Dyck +49.69.7073.0942
VP-Sr Credit Officer
 steffen.dyck@moodys.com

Matt Robinson +44.20.7772.5635
Associate Managing Director
 matt.robinson@moodys.com

Marie Diron +65.6398.8310
MD-Sovereign Risk
 marie.diron@moodys.com

Alastair Wilson +44.20.7772.1372
MD-Global Sovereign Risk
 alastair.wilson@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

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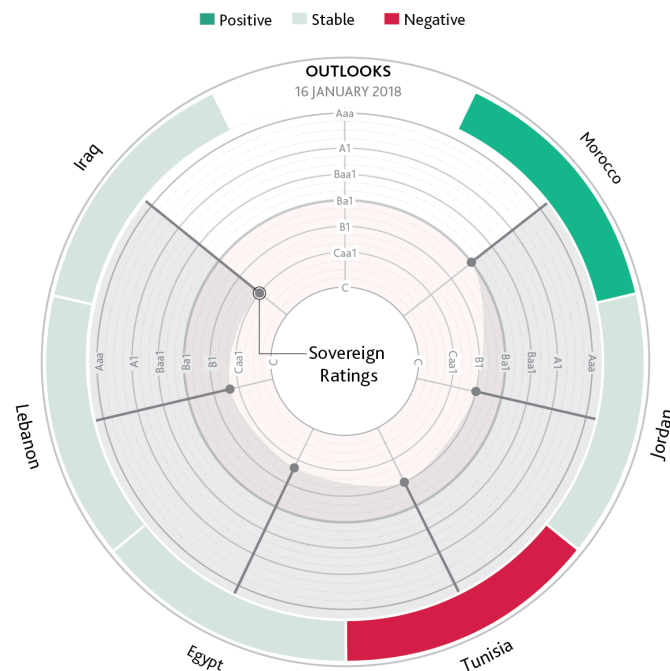
Sovereigns – Levant & North Africa

2018 outlook stable as improving growth offsets persistent fiscal and political risks

Our outlook for sovereign creditworthiness in 2018 in the Levant and North Africa is broadly stable, reflecting our expectations for the fundamental credit conditions that will drive sovereign credit over the next 12-18 months.¹ The improved global growth dynamics, ongoing structural reforms, and gradual re-opening of trade routes in former conflict areas together with a planned reconstruction drive will underpin GDP growth in 2018. Reforms under IMF supervision will continue in 2018, but implementation is likely to vary across countries, with persistently weak labour markets and suppressed purchasing power slowing momentum in some cases. A tightening of global financing conditions poses fiscal risks for some countries, and elevated political risk will continue to drive event risk in the region.

Exhibit 1

Four Levant & North African sovereigns hold stable rating outlooks, as of 16 January 2018



Source: Moody's Investors Service

Ratings Overview

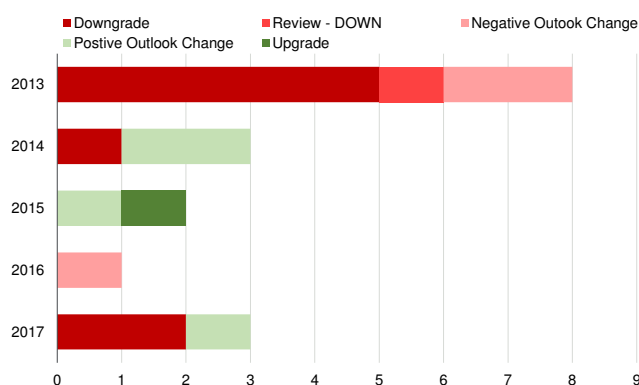
As of 16 January 2018, four sovereigns in the Levant and North Africa region hold stable rating outlooks, while one carries a positive (Morocco) and another a negative outlook (Tunisia). In 2017, we took two negative rating actions driven by deteriorating fiscal, external and institutional factors, and one positive rating action to reflect structural economic and fiscal reforms (Exhibits 2 and 3). We also assigned a first-time issuer rating to the government of Iraq.

- » **In February 2017, we changed the outlook on Morocco's (Ba1 positive) rating to positive**, reflecting a structural shift towards higher value-added export industries as well as improvements in the fiscal area in the form of completed subsidy and pension reforms. These improvements set the stage for higher non-agricultural growth and for a stabilization and gradual reduction in public-sector indebtedness. The country is strategically positioned within global value chains in the automotive and aeronautics sectors and as a trade hub between Europe and the African continent. This positioning is mirrored by the Moroccan banking system's cross-border expansion across the African continent, and is supported by a transportation infrastructure upgrade.
- » **In August 2017, we downgraded Lebanon's (B3 stable) rating and changed the outlook to stable** to reflect the ongoing erosion of government debt metrics, pending further clarity on whether recent and planned fiscal reforms will be effective given the evolving political environment. The country is host to a very large Syrian refugee population and remains reliant on continued remittance inflows and private-sector deposit growth in the large banking system, whose assets are more than four times the size of GDP, given the need to meet significant external and government funding requirements. One particular source of risk is that an escalation of geopolitical tensions in the region could disrupt financial flows in Lebanon.
- » **In August, we also downgraded Tunisia's (B1 negative) rating and maintained the negative outlook** in response to the structural deterioration in fiscal strength, persistent external imbalances, declining foreign exchange reserves, and the weakening government effectiveness, as reflected in the difficulty in implementing the fiscal and structural reform program agreed with the IMF. A further credit negative factor is the build-up of contingent liabilities in pensions, state-owned enterprises (SOEs) and the banking sector which await reform implementation under the Extended Fund Facility (EFF).
- » **We assigned a first-time issuer rating to the Government of Iraq (Caa1 stable) in August.** The rating reflects the Iraqi economy's concentration in the oil sector amid significant institutional and political challenges. It also points to the deterioration in the government's fiscal position that was caused by the decline in oil prices in recent years, as well as the difficult security situation that prevents the government from implementing its structural reform agenda. These credit challenges are set against the country's substantial natural resource wealth and its relatively large economy.

Exhibit 2

Downgrades in the region have exceeded upgrades²

Rating actions 2013-17

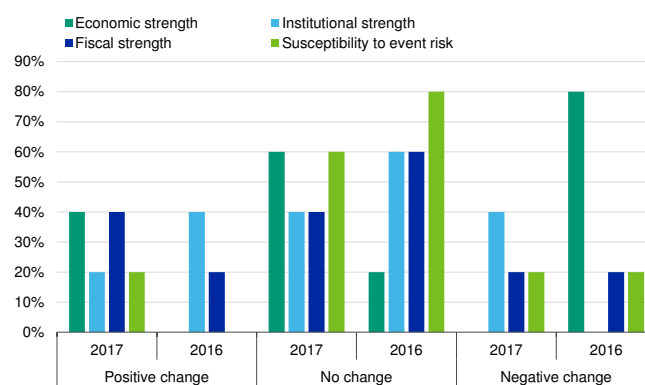


Source: Moody's Investors Service

Exhibit 3

Shifts in institutional and fiscal strength drove downgrades in 2017

% of North Africa and Levant sovereigns



Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

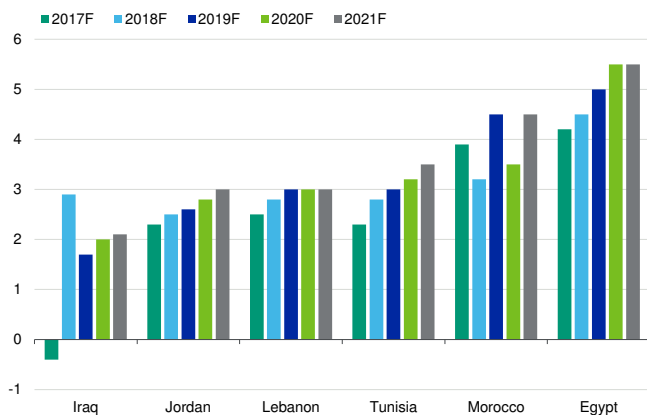
Growth recovery reflects improved external demand, structural improvements and winding-down of regional conflicts

Higher global growth will drive an increase in the region's exports, including tourism, and remittances and investment flows in 2018. Moderate oil prices will provide further support, while the region's five oil-importing countries are making progress toward accessing or developing lower-cost or renewable energy sources so as to permanently reduce their energy deficits. That said, the region's economic potential continues to be significantly hampered by structural weaknesses, in particular labour market inefficiencies and weak competitiveness.

- » We expect growth in **Egypt** to accelerate from 4.2% in 2017 to around 5.0% by 2019 and 5.5% by 2021, as structural reforms support more broad-based activity compared to the mostly consumption-driven pre-reform growth model (see Exhibit 4). In particular, the floating of the Egyptian pound in November 2016 has helped to restore foreign investment incentives and the economy's external competitiveness (see Exhibit 5), thus boosting exports by almost 16% in 2017 compared with 2016. The cost of this structural adjustment has been high inflation and falling purchasing power, which we expect will keep the contribution of consumption to growth in check. Restored external price competitiveness has also been accompanied by structural competitiveness improvements: Egypt's ranking in the World Economic Forum's Global Competitiveness Index jumped five ranks to the 100th rank in the 2017-18 survey, which also marked Egypt as the most improved country in the region. This should support further foreign direct investment (FDI) inflows to help fund the country's significant infrastructure investment agenda.
- » We expect **Morocco's** cyclical growth recovery to moderate to 3.5% in 2018 from 3.9% in 2017 due to the volatile contribution of the agriculture sector (see Exhibit 4). Still, the shift toward higher value-added manufacturing in the automotive, electronics and aeronautics export sectors will support non-agricultural GDP growth and productivity over the longer term, alongside the longstanding reliance on the traditional phosphate mining and textile exports. The kingdom's relative political stability and governance framework, its proximity to Europe and the expansion of the Tanger Med port infrastructure will support Morocco's strategy of participating in global carmakers' value chains and serving as a trade hub between Europe and the African continent, a region with which it runs a trade surplus. However, this transformation remains slow-moving as persistent labour market rigidities and skill mismatches pose challenges to the government's industrialization strategy.
- » In **Iraq**, real GDP growth is highly volatile due to the economy's concentration in the oil sector which accounts for 59% of output and over 90% of exports. Economic diversification remains a challenge because the growth of private, non-oil industries is constrained by corruption, infrastructure constraints, an inefficient banking system and shortages of skilled labour. While the strong GDP growth in 2016 was driven by higher oil production, 2017 production has stabilized at around 4.5 million barrels per day as a result of the OPEC+ agreement signed in late November 2016. Given the expectation of higher oil production, we forecast a growth rebound of 2.9% in 2018 and growth between 1.7% and 2% thereafter.

Exhibit 4

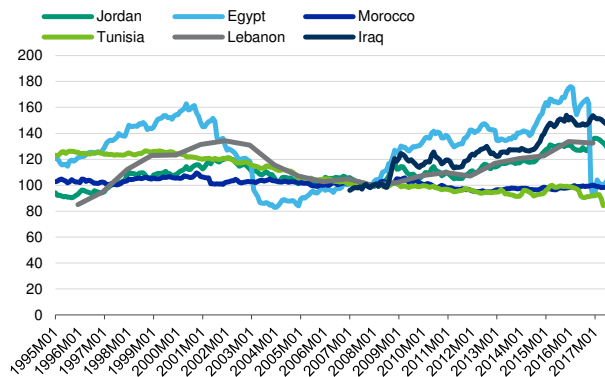
Egypt to record the region's strongest growth in coming years...
(real GDP growth, % change)



Sources: National Statistics, Moody's Investors Service

Exhibit 5

...boosted by its improving external competitiveness
(real effective exchange rate, December 2007 = 100)



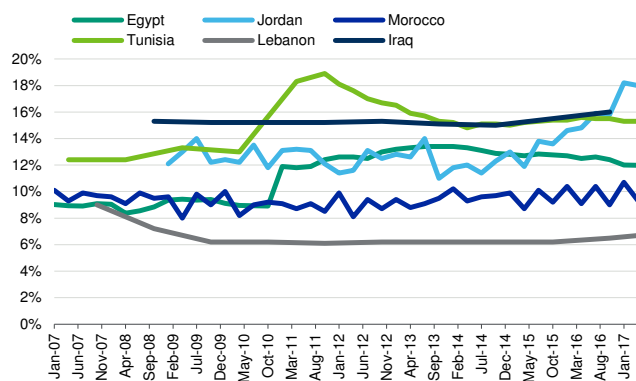
Source: Darvas, Zsolt (2012a) "Real effective exchange rates for 178 countries: A new database," Working Paper 2012/06, Bruegel, 15 March 2012; Bruegel, December 2017 update

The growth trajectories of the region's other three sovereigns – **Tunisia**, **Jordan (B1 stable)** and **Lebanon** – continue to face significant structural and external headwinds, despite the cyclical growth recovery.

- » Economic growth in **Tunisia** will be supported by an improved security environment and fewer instances of social unrest, a shift that is laying the foundations for a recovery driven by the tourism, mining and agriculture sectors in our central scenario. An escalation of recent protest movements leading to renewed production disruptions would be credit negative. In our central scenario, we forecast a slight acceleration in growth to 2.8% in 2018 from 2.3% in 2017 based on demand, in particular from France and Italy, and improving investment incentives following the recent investment law and legislation on public-private partnerships (PPPs). That said, Tunisia has suffered a significant loss in competitiveness as reflected in persistent external imbalances and subdued FDI inflows (see Exhibit 7). In the energy sector, the continued decline in energy production due to maturing oil fields and the lack of new exploration undertaken over the past few years continues to weigh on overall industrial production and on the energy trade balance. The completion date for the key Nawara natural gas project, which is expected to cover over 10% of domestic demand, has been delayed to late 2018 from end of 2017.
- » We expect **Jordan** to record a marginal improvement in growth to 2.5% in 2018 from 2.3% in 2017, mostly driven by the services, tourism and the traditional mining sectors. The main drivers of the subdued trend growth outlook are: (1) the lasting impact of the conflicts in Syria and Iraq, two of Jordan's main trading partners, which have dented private investor sentiment and closed regional trade routes before the recent reopening of the Karameh/Trebil border crossing with Iraq in August 2017; (2) an influx of 660,000 registered Syrian refugees, which now account for almost 10% of Jordan's population and have dented wages and labour market conditions; and (3) lingering security threats. The IMF estimates the negative impact of the regional crisis on Jordan's annual growth rate at around 1 percentage point, with equally significant repercussions on Jordan's unemployment rate (see Exhibit 6). Looking ahead, we expect Jordan to participate in the reconstruction drive in neighbouring countries via special development zones, which benefit from Jordan's network of trade relations and free trade agreements signed with western and Arab countries alike.
- » We expect **Lebanon's** economic growth to accelerate to 2.8% in 2018 from 2.5% in 2017 driven by the expected resumption of long-delayed public investment projects – most acutely in waste management, transport and the electricity sector – as part of a 10-year \$16 billion Capital Investment Program. Lebanon's potential growth outlook has declined with the influx of Syrian refugees, which currently account for around 22% of the resident population, and also after years of public under-investment linked to recurring political crises. The subdued growth outlook in the GCC region – which receives over 20% of Lebanon's exports, hosts around 400,000 Lebanese expatriates and accounts for about 30-40% of remittances to Lebanon – will weigh on funding channeled to key Lebanese sectors such as construction and real estate. Business sentiment in Lebanon also remains exposed to regional political developments and the mounting tensions between **Iran (unrated)** and **Saudi Arabia (A1 stable)**. The offshore oil and gas sector, for which the first licensing round has been completed, is one of the country's future diversification avenues.

Exhibit 6

Jordan has recorded the largest increase in unemployment... (unemployment, %)



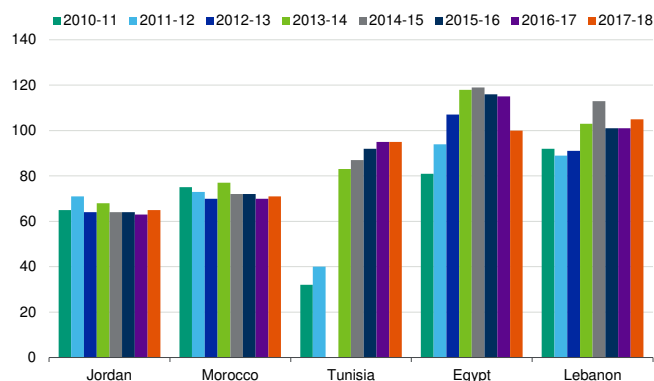
Lebanon series excludes unemployed refugee population

Source: National Statistics, International Labor Organization, Moody's Investors Service

Exhibit 7

...and Tunisia has seen the largest drop in competitiveness since 2011

(rank out of 138*, lower = better)



*Number of surveyed countries has fluctuated between 137 and 144 countries; Iraq n/a

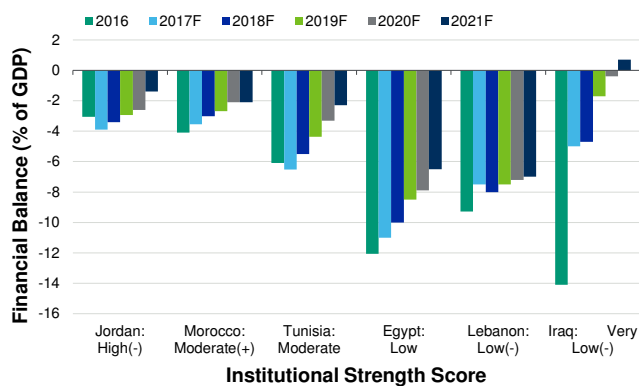
Source: World Economic Forum Global Competitiveness Indicator

Fiscal reform programs and official liquidity assistance mitigate exposures to higher interest rates

We expect most of the region's countries to implement IMF programs, with the impact on fiscal metrics depending in part on the strength of the institutions (see Exhibit 8). High debt levels, low debt affordability, large funding needs and relatively high debt roll-over rates increase Lebanon, Egypt, and Jordan's exposure to a sharper rise in interest rates than we currently assume (Exhibits 10 and 11).

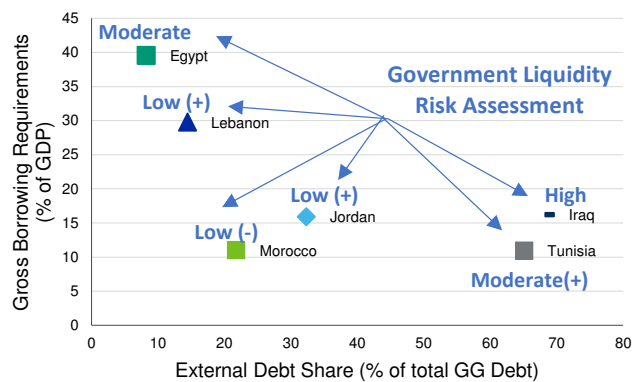
- » **Jordan** has the highest institutional strength assessment from among its regional peer group, reflecting a track record of effective responses to a series of regional shocks. The Jordanian government has made significant progress with the implementation of previous IMF program commitments, including in the areas of public financial management, debt strategy, water and electricity utility reform, financial sector regulation and improvements in the business environment. However, declining grant contributions to below 3% of GDP in 2018 from a peak of 5.9% in 2011 will test the government's ability to mobilize revenues in a slow growth environment. In the 2018 budget, the government has announced cash subsidies to compensate low-income households for new revenue-enhancing measures, including the gradual removal of general sales tax exemptions and the broadening of the income tax base which currently excludes about 95% of the population. We expect a gradual reduction in the fiscal deficit to 3.4% of GDP in 2018 and to below 3.0% of GDP by 2019 from about 3.7% in 2017. We expect the debt ratio to have peaked at over 95% of GDP in 2017 in our base case scenario.
- » We expect **Morocco** to reduce its deficit to 3.0% of GDP in 2018 from 3.5% in 2017, in line with the budget. After the successful elimination of fuel subsidies and the adoption of pension reforms, the government aims to implement a comprehensive tax reform with the objective of broadening the tax base, reducing exemptions and further decentralizing fiscal policies to lower levels of government, in addition to improving the business environment. Morocco's comparatively strong track record of policy implementation underpins its continued access to multilateral funding at favourable rates, which has included funding extended to public investment projects via state-owned enterprises, including in the renewable energy sector. The positive outlook reflects our expectation of a stabilization and gradual decline in the central government debt-to-GDP ratio to 62% as of 2021 from a peak of over 65% in 2018, combined with a stabilization of external debt guarantees for state-owned enterprises which reached 16.7% of GDP in the third quarter of 2017.

Exhibit 8
Projected outstanding fiscal balances by 2021 mirror our institutional strength ranking
 (financial balance, % of GDP; on fiscal year basis for Egypt)



Source: National Statistics, Moody's Investors Service

Exhibit 9
Small domestic funding base drives government liquidity risk in Iraq and Tunisia



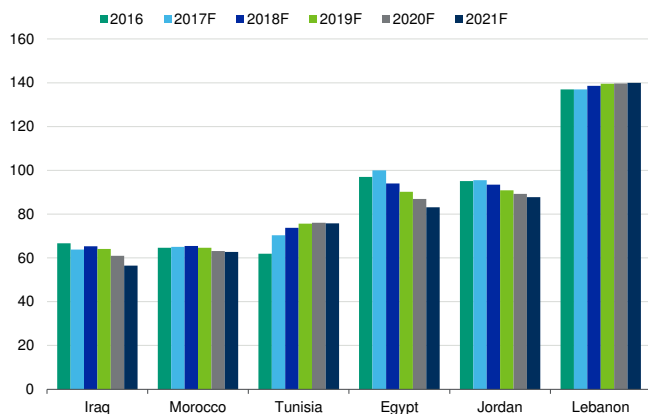
Sources: National Statistics, Moody's Investors Service

We expect fiscal consolidation to be more challenging for Tunisia, Egypt and Lebanon.

- » **Tunisia's** rapidly deteriorating fiscal position is a key driver of its negative rating outlook. A persistent lack of spending control underpins our 6.5% of GDP fiscal deficit forecast for 2017. For 2018, the wage bill of over 14% of GDP (compared to an emerging market average of 8%) and a rigid spending structure underpin Tunisia's reliance on tax increases to cover a deficit that we project at 5.5% of GDP against the budgeted 4.9%. Taking into account debt amortizations, we expect gross borrowing requirements of 13-15% of GDP over the next three years. Despite the more contained annual funding needs – compared with peers like Lebanon and Egypt at 30% and 40% of GDP, respectively – we assess Tunisia's government liquidity risk to be the among the highest in its regional peer group owing to a comparatively narrow domestic funding base (Exhibit 9). Reduced visibility about future funding terms, in addition to rising contingent liability exposures stemming from the public banking sector, the pension system and SOEs are further key drivers for the negative outlook. The large share of foreign-currency debt also exposes Tunisia's debt dynamics to depreciation pressures. We expect the debt-to-GDP ratio to peak at over 76% of GDP by 2020 from 70.2% in 2017.
- » We expect **Egypt** to balance subsidy reform and maintain social spending commitments under its IMF program. Its currency flotation has triggered high inflation, which is weighing on households' purchasing power and reducing the likelihood of large-scale social spending cuts. Other measures like a value-added tax (VAT) hike and cuts to energy subsidies have also fueled inflation and translated into higher domestic borrowing costs. Interest spending at levels above 40% of Egypt's revenues, together with subsidy and wage spending at similar levels, led to an estimated deficit of 11% of GDP in 2017. We expect a slight consolidation to 10% in 2018 and 8.5% in 2019. While the government can fund itself mostly in the domestic local-currency market, the debt stock's relatively short maturity increases roll-over risk and drives Egypt's very high gross borrowing requirements. At 40% of GDP per year, Egypt's borrowing needs are among the highest in Moody's rated universe. We expect the debt ratio to peak at 100% of GDP in 2017 and to decline thereafter, reaching 83% of GDP in 2021 as a result of fiscal consolidation and higher growth.
- » The passage of **Lebanon's** 2017 budget in October and the 2018 budget consultations are credit positive because we expect them to prompt debt-stabilizing reforms. Our fiscal deficit projection of between 7-8% over the next two years takes into account the tax package adopted in October 2017, including a VAT rate hike to 11% from 10%, which is intended to offset long-deferred salary increases for civil servants and armed forces worth almost 2% of GDP in a fiscally neutral manner. Looking ahead, we expect the fiscal deficit to decline only slowly in the wake of renewed public investment spending, including in the electricity and waste management sectors. Lebanon's fiscal profile is susceptible to tighter US monetary policy given its currency peg, and would therefore undergo a significant reduction in fiscal space if interest rates were to rise faster than we currently expect, and without any offsetting fiscal measures (see Exhibit 10). We expect Lebanon's debt to approach 140% of GDP in 2018 and to continue rising under a "no policy change" scenario (see Exhibit 11).
- » We expect **Iraq** to record a fiscal deficit of 4.7% of GDP in 2018 from 5.0% in 2017 and 14.1% in 2016 on the back of changes in oil revenues, which account for over 90% of total revenues. Albeit very large, the deficit reduction in 2017 was almost entirely driven by oil revenue increases and cuts in public investment rather than by reforms in civil service compensation and transfers, as agreed under the IMF's three-year Stand-By Agreement approved in July 2016. Reform implementation challenges reflect in part the government's very low institutional strength and government effectiveness. Similar to Tunisia, Iraq's high government liquidity risk assessment is driven by a narrow domestic funding base and its significant reliance on official funding sources (which are tied to specific conditionalities) to bridge gross borrowing requirements at 16.2% of GDP (Exhibit 9).

Exhibit 10

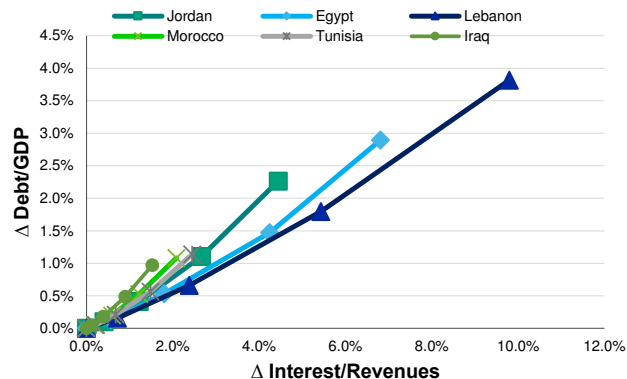
Most debt burdens stabilize or fall in our central scenario...
(Debt-to-GDP, %)



Source: National Statistics, Moody's Investors Service

Exhibit 11

... but fiscal positions remain exposed to a sharper rise in interest rates
(estimated impact on debt-to-GDP ratio of a cumulative interest rate increase of 250 bp by 2021 compared with our baseline)



Note: The estimated impact takes into account the average maturity of debt to calculate the speed at which debt is refinanced at higher costs
Source: Moody's Investors Service

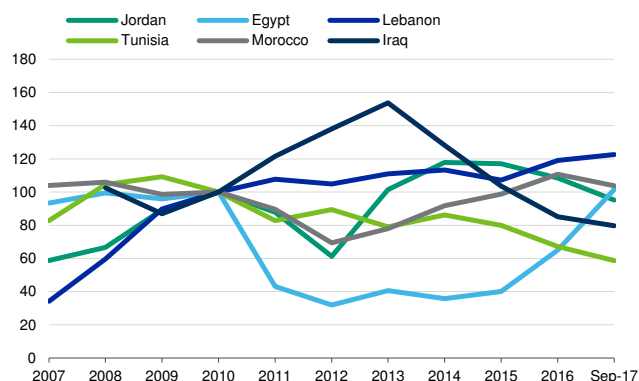
External pressures remain high amid continuing fallout from Arab Spring disruptions

Improved external demand from global trading partners and increased tourism revenue (albeit from a low base) will support a gradual but uneven external rebalancing, supported by broadly unchanged oil prices of around \$40-\$60 per barrel in 2018 and 2019. The significant recourse to external borrowing in the aftermath of the Arab Spring disruptions underlines mounting regional external vulnerability risks, which are most evident in Tunisia (see Exhibits 12 and 14).

- » Persistent external imbalances in **Tunisia** with current account deficits of 7.5-9% of GDP over the next two years (9.8% in 2017), in conjunction with the weak foreign exchange buffer, are key drivers for the negative rating outlook, beside the above-mentioned deterioration in fiscal metrics (see Exhibit 12). The structural decline in crude oil production combined with weak FDI inflows continue to weigh on the country's balance of payments. The accumulation of external debt and increasing external debt maturities relative to foreign exchange reserves mean that Tunisia faces significant balance-of-payment risk.
- » We forecast that **Lebanon's** current account deficit will remain elevated at 16%-17% of GDP over the next two years, exacerbated by the refugee crisis and trade channel disruptions. Lebanon receives remittance inflows worth around 15% of GDP and relies on significant deposit inflows via the large banking system where total assets were equivalent to 4 times GDP, to cover its sizable external financing needs. That said, its stock of foreign exchange reserves which cover over 13 months of imports, provides a credible backstop for the peg to the US dollar. After awarding offshore exploration licenses to a consortium of major oil explorers in December 2017, the government expects drilling to begin in early 2019 with the aim to reducing energy imports.

Exhibit 12

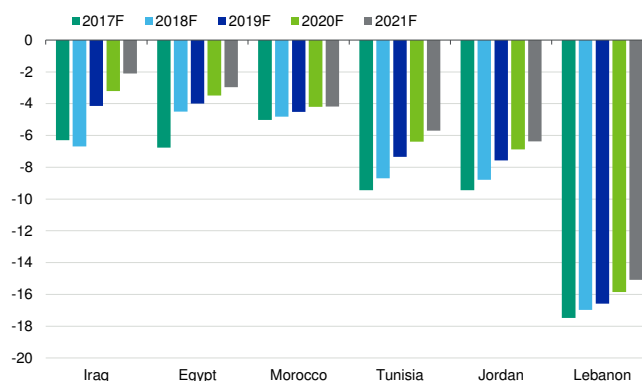
Tunisia's foreign exchange reserves have fallen steadily (US dollar foreign exchange reserve index, 2010 = 100)



Source: Moody's Investors Service

Exhibit 13

Most current account positions will improve, albeit unevenly (Current account balance, % of GDP)



Source: National Statistics, Moody's Investors Service

Exhibit 14

Tunisia's external position is most vulnerable in the region (External Vulnerability Metrics Heatmap, 2017F)

	EVI	CA Balance/ GDP	Months Imports	Ext. Debt/ FX Reserves	Ext. Debt/ CA Receipts	Ext. Debt/ GDP
Tunisia	198	-9.5	2.9	548.7	154.1	75.0
Lebanon	110	-17.5	13.1	164.8	193.9	106.0
Iraq	102	-6.3	6.0	300.5	188.4	60.0
Jordan	103	-9.4	6.8	232.6	141.0	69.7
Egypt	93	-6.8	5.0	283.2	141.6	34.3
Morocco	75	-5.0	5.8	207.1	102.1	42.2

External Vulnerability Indicator (EVI) = (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/Official Forex Reserves
Source: Moody's Investors Service

- » For **Iraq**, moderate oil prices will continue to negatively impact current account metrics given that oil accounts for nearly 100% of the country's exports. We expect a current account deficit of 6.3% of GDP in 2017, followed by a 6.7% deficit in 2018 and a lower deficit of around 4% in 2019 as oil prices rise and production increases, assuming OPEC+ cuts expire at the end of 2018.
- » In **Jordan**, the foreign exchange buffer of around seven months of imports remains adequate to support the peg to the US dollar, although a continued trend decline in foreign exchange reserves over the next few years would result in an increased external vulnerability assessment in view of current account deficit projections of 7.5%-8.5% of GDP over the next two years (see Exhibit 13). We expect Jordan to benefit from the gradual reopening of regional trade routes and reconstruction efforts in the region with the winding-down of armed conflicts.
- » **Egypt's** currency float in November 2016 has helped rebalance its external position, as reflected in the sharp increase in foreign exchange reserves to pre-Arab Spring levels (see Exhibit 12). The coming on-stream of the very large Zohr natural gas field at the end of 2017, which will have the capacity to service almost all of Egypt's domestic gas needs to fuel power plants, will further drive a structural improvement in the current account deficit to around 3.0% of GDP by 2021 from 6.8% in 2017.
- » **Morocco's** current account deficit at a projected 4.5%-5.0% of GDP over the next two years is close to equilibrium based on the country's fundamentals. Foreign exchange reserves have recovered to around six months of import cover and provide a backstop for the government's recently adopted gradual foreign exchange liberalization policy, which widens the daily trading band around the reference peg to a basket of 60% euros and 40% US dollars to 2.5% in each direction, from 0.3% previously. We expect this incremental policy shift to extend over several years and improve the country's external shock-absorption capacity and competitiveness.

Geopolitics and domestic policy paralysis remain key event risks

Elevated tensions between Saudi Arabia and Iran, lingering security risks from recent regional conflicts in Iraq and Syria, and recurring Israeli-Palestinian tensions will shape geopolitical risk in the Levant; whereas North Africa remains exposed to potential policy paralysis from popular opposition to fiscal reform (see Exhibit 15).

- » From among all the sovereigns we rate, **Iraq** is the only country whose political risk assessment is set at "Very High (-)", both at the domestic and the geopolitical level. Political risks in Iraq fall mainly into three categories: ISIS, Kurdish tensions and domestic politics. In July 2017, the military offensive to retake Mosul concluded with the Iraqi government reestablishing control over the city, albeit at a high economic and humanitarian cost in form of displaced persons. The relationship between Baghdad and the Kurdistan Regional Government remains volatile after the latter's failed bid for independence led the Iraqi government to effectively take control of the oil-rich province of Kirkuk and other disputed territories. The government additionally reduced revenue allocations to the Kurdish region to 12.6% from 17%.
- » In **Egypt**, our domestic political risk assessment remains at "High (-)". The presidential election due to take place by May 2018 adds uncertainty to future reform momentum. While we expect the government to remain committed to reform, there is a risk that the large, young and growing population, which is facing high unemployment and inequality, could exert pressure that slows or even reverses reform (for example, by increasing the public-sector workforce or reinstating certain subsidies). While we view the probability of another public uprising in the short term as low, the impact on the economy and government finances would be very high. In addition, security risks persist, with the potential of negatively affecting sentiment and growth.
- » "High (-)" political event risk in **Lebanon** is driven by the country's fragile domestic sectarian balance and by the economic and political exposure to regional tensions between Iran and Saudi Arabia. While we do not expect the imposition of a Qatar-like sanctions regime by the GCC on Lebanon related to Iranian-backed Hezbollah's role in regional conflicts, the repercussions on Lebanon's economic and financial system of such sanctions would be very significant. That said, the country has established a long track record of resilience to political crises, and we expect the current government to lead the country to parliamentary elections scheduled for May 2018 after a nine-year hiatus.
- » In **Tunisia**, "Moderate (+)" political risk reflects the country's susceptibility to political deadlock and potential security incidents, despite the significant improvements in the security environment since 2015. The renewed protests that erupted recently in response to the tax hikes as part of the 2018 budget highlight the population's declining tolerance for the initially contractionary repercussions associated with the implementation of reforms agreed with international donors with a view to improving fiscal and external debt sustainability. A reversal of the reform momentum in response to the protests would be credit negative. Tunisia continues to benefit from significant international support in security matters, including under its designation by the US as a major non-NATO ally.
- » **Jordan** has been better able to manage the Arab Spring upheavals than many other countries in the region, as reflected by our "Moderate" political risk assessment. The swift implementation of constitutional amendments in 2011 to enhance civil rights, establish the independence of the judiciary, increase the powers of the National Assembly, and establish the constitutional court helped quell the demonstrations that broke out in January 2011. That said, Jordan's large Palestinian community and its administrative role in particular areas of East Jerusalem makes it susceptible to any perceived setback in the regional peace process.
- » Similar to Jordan, **Morocco** responded to the Arab Spring upheavals by implementing constitutional reforms that have allowed it to preserve domestic political stability, hence the political risk assessment of "Moderate (-)" and our decision to maintain the stable rating outlook throughout the Arab Spring period. The main risk facing Morocco is that of a slowdown in fiscal and economic reform as a result of sporadic protests, but we consider such events to be a moderate risk with a moderate impact. Lingering tensions also persist due to the unresolved situation in the Western Sahara.

Exhibit 15

Political event risk remains elevated across the region



Source: Moody's Investors Service

Moody's related publications

Issuer Comments:

- » [Lebanese prime minister's resignation risks renewing a political vacuum, a credit negative](#), 9 November 2017
- » [Lebanon, Government of: Lebanon's Parliament Approves First Budget in 12 Years, a Credit Positive](#), 23 October 2017
- » [IMF Completes Its First Review of Egypt's Economic Reform Program, a Credit Positive](#), 20 July 2017
- » [Iraq's IMF Deal Will Lower Fiscal and Balance-of-Payments Challenges](#), 14 July 2017
- » [IMF Postpones Aid Disbursement to Tunisia, a Credit Negative](#), 6 March 2017

Issuer-In-Depths:

- » [Government of Iraq - Caa1 stable: Annual credit analysis](#), 12 December 2017
- » [Government of Jordan – B1 stable: Annual credit analysis](#), 23 November 2017
- » [Government of Egypt – B3 stable: Annual credit analysis](#), 19 September 2017
- » [Government of Tunisia - B1 negative: Annual credit analysis](#), 15 September 2017
- » [Government of Lebanon – B2 Negative: Annual Credit Analysis](#), 15 May 2017
- » [Government of Morocco – Ba1 Positive : Annual Credit Analysis](#), 28 February 2017

Rating Actions:

- » [Moody's Downgrades Lebanon's Rating To B3, Changes Outlook To Stable From Negative](#), 25 August 2017
- » [Moody's affirms Egypt's B3 rating; maintains stable outlook](#), 18 August 2017
- » [Moody's downgrades Tunisia's rating to B1, maintains negative outlook](#), 18 August 2017
- » [Moody's assigns Caa1 issuer rating to the Government of Iraq; outlook stable](#), 3 August 2017
- » [Moody's changes outlook on the Government of Morocco's Ba1 rating to positive from stable; ratings affirmed](#), 24 February 2017

Outlook:

- » [Sovereigns – Global: 2018 outlook stable as healthy growth tempers high debt, geopolitical tensions](#), 8 November 2017

Sovereign Bond Rating Methodology:

- » [Sovereign Bond Ratings](#), 22 December 2016

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- 1 Since outlooks represent our forward-looking view on the fundamental credit conditions that we factor into our ratings, our stable outlook overall for sovereign creditworthiness in 2018 suggests that rating affirmations are more likely on average. However, the outlook does not merely represent a sum of upgrades, downgrades or ratings under review, or an average of the rating outlooks of all sovereigns, but rather our assessment of the direction of fundamental credit conditions for sovereigns overall.
- 2 Exhibit 2 takes account of all downgrades, upgrades, reviews for up- or downgrade, and changes in outlook to negative or positive. And for the purpose of counting all directionally positive and negative rating actions, we have counted those actions that moved a negative outlook to stable as a 'positive' outlook change, and those that moved a positive outlook to a stable one as a 'negative' change. Confirmations or affirmations that were not also accompanied by an outlook change were not counted.

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Contacts

Chris Cho
Associate Analyst
chris.cho@moody's.com

+44.20.7772.5453

Magdalena Zemla
Associate Analyst
magdalena.zemla@moody's.com

+44.20.7772.1081