Major Country Developments
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Global Overview

The U.S. Federal Reserve signaled that it remains on course for further short-term interest rate increases this year as inflation heads towards the 2% target and U.S. employment picks up. The major question still in doubt is whether the FED will agree to two or three rate increases over the course of the year. Separately, a proposal for a new levy on imports included in a tax reform plan being contemplated in Washington has set off a lobbying frenzy among U.S. business interests. A "border adjustable" tax system is considered probably the biggest change in global taxation in almost a century. The assumptions are that the proposed border tax would lead to a surge in the value of the U.S. dollar- forcing adjustments to currencies tied to the dollar [e.g. Saudi Arabia, Hong Kong] and hitting countries with high levels of U.S. dollar-denominated debt. Such a tax would also likely affect larger economies such as China and, more broadly, lead to a reconfiguring of global supply chains that would have consequences for export-dependent economies and trade around the world. Since many of the assumptions remain largely untested it will be a while yet before the pros and cons of the border tax proposal gets fully vetted and all of its implications are understood. Some analysts expect that the World Trade Organization could authorize $100 billion in trade retaliation if the U.S. implements a border adjustable tax. Some multinationals appear to favor the idea while others are strongly opposed.

In **India** there is a plan to merge state-controlled oil and gas companies to create a new international player that would compete more effectively with the world's leading energy groups. The entity to be created would do everything from exploration to selling fuel at gas pumps, in an attempt to rival the clout of integrated international energy companies. Most of the existing Indian entities are relatively small, but if the decision is to merge the top eight (out of a total of 13), it would create a company with a market capitalization of just over $100 billion, putting it close to BP which is currently valued at $116 billion.

Meanwhile, the crisis created when Indian authorities removed and replaced large currency notes in circulation last year, is estimated to have wiped 1% off the country's GDP growth for 2016. The problem has subsided somewhat after new notes have been released and are now in circulation.

The business environment in **Nigeria** continues to deteriorate as the government struggles with its reform agenda. Problems with infrastructure and the labor market mean that Nigeria has slid closer to the bottom of global and regional rankings.

Turkey risks sliding towards an "authoritarian and personal regime" if constitutional overhauls proposed by President Recep Erdogan go into effect. That is the conclusion reached by the Council of Europe which opined that the proposed changes represent a dangerous step backwards for Turkey's democratic tradition. The proposed constitutional amendments would introduce in Turkey a presidential regime without checks and balances according to legal experts at the Council.

Trinidad and Tobago confirmed that it experienced an 80% decline in fiscal revenue from the oil and gas sector [from $2.85 billion in 2014 to less than $1 billion in 2016]. The decline was driven by lower energy prices and a continuing fall in oil and gas production. The industry expects that there will be some improvement in gas supply during 2017. Projects nearing completion will ease gas curtailments by the end of 2017, but an early decision is needed on new investments to prevent shortages in 2019 and beyond. The confirmation explains the continued reports of foreign exchange shortages and slow payments experienced by several foreign suppliers selling to customers in T&T.

Nicaragua

Presidential elections were held in Nicaragua in November 2016 and the winner was 3-term President and the former head of the Sandinistas in the 1980's, Daniel Ortega. To underscore the lack of a vibrant democracy and the extent of Ortega's dominance over the country's affairs, Ortega had his wife run as his vice-president. Foreign observers point to the continued lack of democratic institutions, no viable opposition and the absence of meaningful checks and balances to help keep abuses at a minimum.

Still, the economy is one of the fastest growing in Latin America. Nicaragua is one of the poorest countries in the western hemisphere and there are signs that the government has encouraged the development of a private sector and is attracting growing [but modest] amounts of foreign investment inflows.

The following are some key areas around which a consensus has developed:

- There has been a growing concentration of power under President Ortega. The recent election was probably not rigged but credible opposition to Ortega was prevented from running for the presidency, given Ortega's control over other branches of government.

- The risk of a coup against Ortega is considered low and the Nicaraguan media is deemed freer than in some countries.

- Social reforms under Ortega are popular and have been successful in reducing poverty and growing the middle class.

- Having Ortega as President and his wife as the Vice President is a risk mostly because if they were to be removed, the lack of a predictable succession would create uncertainty and adversely shift the country risk into even more negative territory.

- Nicaragua will hold municipal elections in 2017 and will be closely watched for signs that Ortega has attempted to restore some level of democratic credibility.

- Without such evidence, the speculation is that the U.S. Congress would be pushed to resurrect dormant legislation [Nicaragua Investment Conditionality Act or NICA] that aims to block loans and funding for Nicaragua if the Organization of American States (OAS) deems that the country has moved dangerously away from democracy.

- Nicaragua's dependency on Venezuela for oil supplies under the Petrocaribe facility has declined considerably. Nicaragua now gets most of its oil supplies from the U.S.

- Debt owed to Venezuela for oil delivered under the Petrocaribe arrangement, has been moved onto the government's balance sheet.

- A tendency toward dollarization has become normal practice. Businesses and some citizens routinely convert local currency into dollars, reflecting lack of confidence in the local currency. This poses a medium-term FX risk to the banking sector. The authorities acknowledge that without confidence in local institutions and given a lack of transparency in government, the culture of holding on to dollars won't be easily reversed.

- Nicaragua is vulnerable to earthquakes, volcanic eruptions and natural disasters which further undermines the country's overall risk profile.

- The country has managed to become a source of interest among European and U.S. tourists. Interest by foreigners in visiting the country and in buying vacation property in Nicaragua has shot-up in recent years.

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Notwithstanding weaknesses cited above, Nicaragua is not currently in a crisis, neither is it close to being in a crisis. The forecast remains for a stable outlook with signs of improvement in economic growth, exports and in the ability to gradually attract foreign investment. In February Standard & Poor's affirmed its stable long-term outlook for Nicaragua based on the expectation that the government would maintain its track record of pragmatic economic policies and stable economic growth. The consensus between the government and the private sector on pragmatic economic policies has contributed to investor confidence, S&P asserted. That plus low crime rates compared with other Central American countries, have helped to sustain Nicaragua's GDP growth at an average of 5.2% over the past five years.

Nicaragua is a close second in its reliance on exports to the U.S. market only to Mexico, with exports to the U.S. comprising 20% of its GDP. When combined with its current reliance on U.S. supplies for most of its oil needs, this suggests that Nicaragua is unlikely to pursue policies that would antagonize U.S. lawmakers.

Tunisia

Tunisia's deteriorating social and economic situation is reflected in its modest (1.0%) 2016 GDP growth rate and by a deepening public deficit. Some recovery in the services and manufacturing sectors were tempered by negative contribution from the energy and extractive sectors (gas and phosphates). Tourism faces stiff competition as well as ongoing political and security issues. The country continues to face many social and economic challenges, as well as populist expectations, which fuels strikes and protests. On top of that is the scale of the security threat due to terrorism. Tunisia suffered various terrorist attacks on its territory in 2015, including two attacks at a favorite resort frequented by European visitors. A total of 53 persons were killed in those incidents. Since then, Tunisian security forces have made progress in flushing out terrorist cells and they continue to minimize terrorist activity. Nonetheless, visitors have stayed away.

Savings to the country's budget from spending cuts embarked on after the reform of oil subsidies were reallocated to fight terrorism and the reinforcement of security policies. A loss of revenue caused by the fall in gas production also limited the level of taxes collected in 2016.

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In 2017, the implementation of structural tax reforms under an IMF program combined with austerity measures are expected to bring down the public deficit. Of the reforms recommended by the IMF, the authorities are likely to continue with changes to the civil service aimed at bringing down the costs of paying civil servants as well as reforming the civil service pension system. A freeze on public sector hiring should help limit the increase in current government spending over the short term. Meanwhile, tax receipts are expected to increase in 2017, based on improved tax collection, which should facilitate tax remittances and combat rampant tax evasion. Moreover, the corporate tax rate will be increased.

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deficit recorded in 2016. Exports are expected to increase moderately, enabling an improvement in the trade balance. A more marked slowdown in foreign demand could, however, dampen export momentum. The Tunisian dinar will continue to face downward pressure but it could firm with the growth in foreign direct investments over the next year or two. Improving Tunisia's business climate remains one of the government's main priorities, aimed at increasing the country's attractiveness for investors. To this end, a new investment code was implemented in September 2016 to help facilitate inflows of FDI's.

A commitment to pursue a cautious fiscal policy faces considerable obstacles, making it necessary for the government to remain engaged with heads of labor unions and corporate leaders, to limit strikes and blockades in response to ongoing austerity measures, as was the case in 2016. There is likely to be only a limited economic recovery after the near stagnation recorded in 2015-16. Social unrest has hit consumer and investor confidence, while tourism will continue to weigh on the overall services sector as European tourists stay away, given lingering uncertainty about terrorist threats (with the loss of their spending only partly offset by tourists from non-traditional markets such as Russia). Although the forecast is for GDP growth to recover slowly to 2.6% in 2018, this level is well below the 5-6% levels needed to bring the unemployment rate down from over 15% where it stands currently.

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Tunisia's transition to democracy over the past five years has coincided with a dismal economic performance, which continued in 2016 and has served to weaken the belief among young Tunisians that democracy and improved economic performance go hand in hand. In the 2016 Democracy Index, Tunisia fell 12 places to 69th in the global ranking. This is perhaps the biggest disappointment in MENA region as with the dawn of the Arab Spring in late 2010, it appeared conceivable that a period of political transformation had begun. According to recent reports Tunisia and the U.S. have drawn up a new long-term security and defense strategy. Moreover, the EU's financial support to Tunisia in recent years has been substantial. A combination of subsidies, macro-financial aid and loans, including those from the European Investment Bank, has brought the EU's total support to Tunisia between 2011 and 2016 to approximately $4.2 billion. There is a further commitment to continue EU support through 2020, including some $400 million due in 2017.

The EU's plan is to leverage further support from European financial institutions which could mobilize approximately $1 billion per year until 2020. According to the EU's press department "EU support has been provided in more diverse approaches and forms of assistance over the past five years to address Tunisia's needs and to target its population, especially the youth and more vulnerable segments of the Tunisian society".

Hungary

The government's popularity has recovered since mid-2015, when Prime Minister Viktor Orban adopted a strident anti-immigrant stance in the face of an unprecedented movement of migrants and refugees into and across Hungary. The far-right political party has overtaken the Hungarian Socialist Party as the second most popular party, but has fallen in the polls since the government led Hungarian Civic Union moved its rhetoric to the right. It is expected that Hungary's relations with the EU will remain combative, whereas relations with the U.S. are set to improve under the Trump administration.

Hungary's banking sector posted a record-large profit (combined $1.62 billion) in 2016 after six years of losses or very small profits. However, one-off factors were partly responsible for the sharp improvement in earnings, which- along with generally slow business and a low interest rate environment, makes it unlikely that there will be further significant improvement in profitability in 2017.

On the positive side, banks remain well capitalized and non-performing loans fell to close to the level before the 2009 global recession. With banks in a healthier state, a probable return to credit growth in 2017 should contribute to faster economic growth. Despite the good headline results achieved in 2016, a closer look at the year's figures reveals a largely stagnant performance, aided by one-off factors or trends that might not be sustainable. The forecast is for a rebound in lending in 2017 and a pick-up in economic activity, helping to accelerate GDP growth to 2.8% this year from an estimated 2% in 2016.

Retail sales slowed in 2016 from 5.2% in 2014 and 5.8% in 2015. The slowdown took place despite a rise in household incomes. Real wages increased 7.4% in 2016, the highest rate since 2003 and about twice the growth rates in 2014 and 2015. It is likely that expanding household incomes are increasingly being spent outside the narrowly defined retail sector. Increasing consumer confidence is reflected in shifts in the popularity of various product categories.

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Government policy is expected to continue along similar lines to those of the past six years. Focus will be on boosting short-term economic growth in the run-up to parliamentary elections in April 2018. Measures to ease the burden on households through consumption tax cuts, utility price stability and caps on interest rates on household loans will be highlighted. The fiscal deficit widened to 2% in 2016 and is forecast to average 2.4% of GDP in 2017-20. Annual GDP growth slowed from 3.1% in 2015 to 2% in 2016. The forecast is for growth to accelerate to an average 2.4% in 2017-20. Following average deflation of 0.1% in 2015, inflation returned in 2016 at 0.4%. The forecast is for inflation to average 2.5% in 2017-20.

In the short-term the government is expected to increase its ownership role in the energy sector, strengthening the system of state control over end-user prices. State-owned banks are to be privatized, with a preference for strengthening domestic ownership of the sector.

Hungary's foreign investment policy aims to attract high-value-added manufacturing investment, especially in the automotive, high-tech and pharmaceuticals sectors. Anti-foreign business overtones continue to accompany legislation on banks and energy companies.

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FCIA's Deals Of the Month

Bank's A/R Purchase Policy: Participation in syndicated policy supporting purchase of $150 million in receivables for buyers in the tech sector located in Scandinavia

Single Buyer Policy: $17mm limit of liability on short term Letter of Credit coverage for import of petroleum products into Egypt