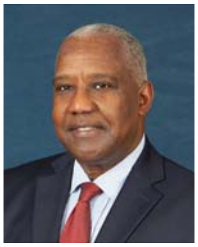
Major Country Developments
October 2017



By Byron Shoulton

Global Overview

The **U.S.** economy is expected to continue growing steadily over the next few years, outpacing many other western countries. GDP growth of 2.6% in 2017 is forecast to pick up pace to 3% by 2019. As the economy approaches full employment, analysts believe long awaited wage growth will improve and eventually push inflation to the 2% target.

A measure of how much economic output is generated for a unit of input, rising productivity, is seen as one of the only ways to improve living standards at a time when advanced and some emerging economies are seeing aging populations and a rapidly increasing retirement rate. Productivity growth in the U.S. though, along with many other western economies, has been alarmingly slow since the financial crisis. Businesses have maintained their confidence in the U.S. outlook and are ramping up hiring despite slow progress so far on the reform agenda in Washington.

Separately, some caution seems appropriate in the light of high levels of government and corporate debt in the U.S. that has been building over several years of consistently low interest rates. The concern is that rising debt loads could stoke new bubbles that lead to an increase in non-performing loan ratios once interest rates start rising again. In the U.S. a fresh build up of consumer debt via credit cards, auto loans and new real estate investments - deserves close watching over the next few years.

Britain's economy fell from the top to the bottom of the league among the Group of Seven countries. The IMF has singled out the UK as an exception to an improving global economic outlook, confirming a cut to its forecast for 2017 UK growth to 1.7%. The Fund has noted that the long-term negative effects of Brexit are beginning to show.

The **UK's** exit from the EU is creating particular problems for insurers, especially those who have written long-term contracts - pensions for British citizens living in Spain, for example. Also, commercial liability policies written in London for clients in other parts of the European Union are being questioned. Under "pass porting" rules member states of the EU allow financial services companies to provide a wide range of services across the single market while only being legally domiciled in one EU country. Insurers say that if and when passporting disappears from the UK, they will be unable to legally pay out on those policies. The Association of British Insurers says its members face the choice of breaking the contract or breaking the law. This is not a small matter. Liabilities under these long-term cross-border deals run into billions of dollars.

Against this background British regulators are examining a new kind of temporary authorization for the thousands of overseas financial services groups that will need new licenses to operate in the UK after Brexit. The Finance Control Authority will be responsible for approving financial companies beyond the major banks or insureds covered by the Bank of England's Prudential Regulation Authority. Time is important for the financial sector: not only do companies need to think about their business structure if they do lose their right to a passport, but there are also questions about the validity of derivative contracts that are not yet resolved.

The BoE's Financial Stability Committee warned that thousands of cross-border insurance and derivative contracts would have to move to EU subsidiaries of UK banks and insurers after Brexit – but there may not be enough time to do this before March 2019 when

Britain leaves the EU. Similar concerns pertain to asset management companies that could face more stringent scrutiny of mutual funds and similar investments after Brexit. Warnings from the European Commission point out that some 90% of EU assets under management use so-called delegation rules, which allows an asset manager to set up a fund in one EU country and outsource the portfolio management to investment staff in another country. The funds can then be sold across the EU block. London had typically been a major beneficiary of these activities as many investments decisions were made there. After Brexit, London will likely be disqualified from being a lead participant in these arrangements going forward.

Middle East

Saudi Arabia is moving closer to Russia to cement new relations including collaboration on restricting crude oil output that would help strengthen global oil prices. The Saudi King visits Russia in October where he is expected to sign several bilateral agreements. The Saudis will explore obtaining gas supplies from Russia and will likely examine the purchase of military hardware. This development sends a message to Saudi Arabia's traditional other big power ally the U.S.

Crude trades at around $50 per barrel currently. While global demand is stronger than a year ago oil prices have gained only slightly. The outlook is for crude to trade in the $50 to $60 per barrel range over the next few years. OPEC sources data shows recent Saudi crude oil production remained below agreed target levels of 10.06 million barrels per day. Adherence to agreed cuts and higher summer seasonal domestic oil demand saw Saudi crude oil exports declining for four consecutive months.

Saudi Arabia's economy continued to slow during 2017, with GDP contracting by 1% during the first half of the year. Foreign exchange reserves fell by $6.8 billion in August-September. A recent international bond issue totaling $12.5 billion is expected to ease the pace of decline in the kingdom's foreign exchange reserves. Upward revisions in global oil demand by international oil agencies, and rising regional tensions in Northern Iraq, helped push oil prices up by 8% month-to-month in September.

The Saudi unemployment rate rose slightly from 12.7% in the first quarter to 12.8% in the third quarter. However youth employment (20-29 years) for males declined to 15.9% after reaching a two-year high of 16.4% in the first quarter.

Turkey

U.S.-Turkey relations remain strained as Turkey continues to insist that the U.S. extradite Turkish cleric Fethullah Gulen who resides in the U.S. (in self-imposed exile from Turkey) and who is blamed by President Erdogan for the failed 2016 coup attempt. Turkey is moving more aggressively to link and arrest U.S. citizens with presumed ties to the Gulen movement. These actions not only trigger further weakening of the Turkish lira, but complicate strategic bilateral U.S.-Turkish relations at a time when the West needs Turkish participation to ease regional tensions; its help to stem the flow of migrants from east to west; and its assistance in the ongoing war against Isis. Meanwhile, Turkey's economy remains heavily dependent on foreign capital inflows to finance its high current account deficit (equivalent to 5% of GDP). The tensions may result in increasing the cost of borrowing for Turkish entities and the cost of accessing foreign funds by Turkish financial institutions and businesses.

Turkey also came to the aid of **Qatar** since four Arab states launched an economic blockade against that country in June. The loss to Qatar of easy access to food, construction supplies and various staples which meant the likelihood of serious shortages occurring inside Qatar, gave Turkish authorities the green light to take action to prevent worsening economic fallout in Qatar. Ankara helped airlift food supplies into Qatar, and then rushed through plans to deploy troops at a military base in the isolated Gulf state at a time when many Qataris feared invasion. The intervention by Turkey prompted widespread anger among many Saudis and Emiratis – the leaders of the quartet that includes **Egypt** and **Bahrain** – which bitterly rejected an alleged return to "Ottoman expansionism" in the Gulf.

Turkey and Qatar have recently cemented an alliance through support for so-called political Islam – used to describe the widespread transformation of societies according to Islamic rules- in the region. But their relations with Saudi Arabia, and especially the United Arab Emirates, have been affected as these two newly interventionist Gulf monarchies seek to undermine Islamist influence. As the mood sours between Turkey and prominent Gulf economies the new status quo threatens what was a close regional partnership that blossomed after the turn of millennium. Those years saw Turkey develop into one of the world's most exciting emerging markets, while the six-member Gulf Cooperation Council (GCC) entered an oil boom, with grandiose infrastructure projects and surplus revenues seeking overseas investment opportunities.

Despite fears to the contrary, the Qatar embargo has not had an immediate negative impact on Turkish-Gulf economic ties. According to the evidence, existing contracts are still being honored and the two sides remain significant actors to each other's economic interests. Among other things, Turkey has important contracts in Saudi Arabia, at airports for example, that remain fully operative. Also, there remains a good deal of Emirati investment in Turkey in a range of sectors. So far, it doesn't appear the stand-off has had a major immediate effect on trade and investment between Turkey and the GCC.

As Saudi Arabia boosts private participation in aviation, Turkey's TAV Airports Holding in partnership with Saudi Arabia's Al Rajhl Holding, will develop and operate Saudi Arabia airports at Yanbu, Qassim and Hail. The contractor also has a 50% stake in Medina airport. Privatization forms the cornerstone of Saudi Arabia's ambitious plans to diversify its oil-dependent economy, opening up opportunities for Turkish companies as Saudi plans $200 billion in sales of state enterprises.

However, construction industry executives say Turkish groups might face political risks in the UAE, especially in Abu Dhabi, where concerns about Turkey's regional politics are strongest. Politics aside, the slump in oil prices has dampened trade and investment flows in the region. GCC direct investment into Turkey, a major source of capital inflows, fell from $940 million in 2012 to an estimated $446 million in 2016. Demand for Turkish real estate from the Gulf also declined in recent years. The regional market has weakened in recent years; there is austerity in the Gulf region and in such an environment people like to hold on to cash. The second quarter of 2017 has seen a modest recovery, as some investors turn to land and commercial property as investments.

Saudi-Turkish trade increased steeply after the millennium to peak in 2012, and the value of bilateral trade declined by 8% by 2016, falling $5 billion, according to official statistics. Trade between the UAE and Turkey also peaked in 2012 at $11.8 billion, declining 23% to $9.1 billion in 2016. The war in Syria, which closed down the land route between Turkey and the GCC, directly hit trade. More competitive European brands have also undercut some Turkish imports into the region.

Despite the Qatar crisis, tourism flows from Gulf countries to Turkey remain strong, driven by the strong dollar-pegged currencies against the Turkish lira as well as cultural affinity. The number of GCC visitors to Turkey increased by 26% to 360,000 in the first six months of 2017. The robust numbers suggest common ties sometimes trump political differences. Contractors in Turkey hope for a political settlement to the Qatar boycott as Turkey have strong relations/ties with the region through Dubai (UAE). Dubai is a very important platform to get contracts across the GCC area. Many observers expect the most likely outcome to the Qatar stand-off will be a grudging compromise, which would ease political differ ences between the "quartet" and Turkey. They warn that a prolonged crisis, with Turkey perceived as an indispensable partner facilitating Qatar's position, could cause relations including trade and investment to deteriorate.

Turkey fell three places in global risk rankings to 62nd out of 186 countries, extending a longer-term score connected to its security problems, the failed 2016 coup, and moves toward greater authoritarian control undermining its attributes as an emerging market. Last year all but one of Turkey's political risk indicators were downgraded, notably those covering institutional and government stability risks. All five economic indicators slipped, and all four structural indicators in the wake of the coup aftermath which caused turmoil, delayed policy making and led to currency instability, with the lira plunging. Since then Turkey's credit ratings were downgraded, and the country earned a lower capital access score.

Recently, the Turkish president met with Iranian President to discuss paths to closer ties between both countries. This further complicates the regional geo-political picture, given Iran's intense competition with Saudi Arabia for influence in the region; while being at odds with the U.S. over the Iran nuclear deal signed by former President Obama. That nuclear agreement could be in jeopardy if rejected by the Trump Administration on the basis of violations by the Iranians and underlined by the Administration's distrust that the Agreement was a fair one.

Puerto Rico

Puerto Rico and other affected Caribbean islands such as Antigua & Barbuda will need tens of billions of dollars for reconstruction following the devastation to infrastructure, inventory and agriculture caused by recent hurricanes. In addition to the humanitarian crisis that has cut off millions from drinking water in Puerto Rico, food, electricity and sanitary conveniences, roads, electric grids, bridges, ports, telecommunication towers, railroads, basic transportation and warehouses will need to be rebuilt while destroyed inventories will need to be replaced in the months and years ahead.

Puerto Rico's already ailing economy which had been stifled by a deep debt crisis will look to U.S. aid, grants and donations and new investments to fund much of the work which lies ahead. Political attention will now have to shift from the immediate focus on relief efforts to the longer-term challenges of funding vast infrastructure reconstruction.

There are reports of some progress being made to restore immediate water access and to improve distribution of fuel across the island. Gasoline is slowly being made available to accessible regions and the time it takes to obtain gas and diesel is being gradually cut. Federal and local authorities are stressing the importance of keeping hospitals operational.

Businesses are looking to the Federal government to include tax reform proposals that would benefit Puerto Rican businesses as they look to rebuild and recover from the devastation. Many are eying the outcome of the Federal government's policy toward Puerto Rico as a key indicator of how quickly and comprehensively the rebuilding efforts will be.

Meanwhile, what happens to Puerto Rico's existing $73 billion bundle of debt on which it defaulted and was in the midst of restructuring prior to the hurricane, is now the subject of wide open debate. The island is seeking to cut its debt and pension liabilities which are worth more than $120 billion, through a process akin to bankruptcy. Bondholders in the island's wrecked Electric Power Authority (PREPA) had begun pitching a debt restructuring deal that would have pumped $1 billion of private money into the struggling utility for urgent repairs to the power grid. Prepa's bonds have slid since hurricane Maria, reflecting concerns that creditors are likely to recover even less through the bankruptcy process as a result of the devastation wrought on the electric grid and the wider Puerto Rican economy. Meanwhile, wrangling intensifies over who will bear the costs for post-hurricane clean up of the island.

Mexico

Following two devastating earthquakes within a few short weeks, parts of Mexico including Mexico City will undergo huge reconstruction and rebuilding efforts lasting over many years. The priorities of the government have changed and the focus on identifying funding sources for the recovery efforts will take center stage.

Naturally, the budget did not include the vast expenditures that will now be required to rebuild.
The situation is further complicated by an upcoming presidential election campaign and the ability of contenders for the presidency, (including the maverick leftist challenger Andres Manuel Lopez Obrador) to maneuver in the midst of the reconstruction jockeying for contracts (and the corruption which it represents) and a growing disgust among the populace with the high levels of financial mismanagement, irregularities and illegal practices that dominates Mexican politics and business.

All of Mexico's political class is under fire. The earthquake is serving as a watershed, juxtaposing peoples' anger and disappointment at the country's party politics while channeling increased demands for greater vigilance against corruption among politicians and in business.

Meanwhile, the ongoing renegotiation of the North American Free Trade Agreement [NAFTA] between the U.S., Mexico and Canada proceeds slowly, amidst speculation that various U.S. demands are too contentious, thus making an early breakthrough less likely. Business lobby groups in the U.S. appear less than confident that significant changes will be agreed to by the three sides in the current rounds of negotiation, with the emphasis on maintaining current guidelines on duty free imports and exports of inputs for production in all three countries. Moving off that platform is a difficult proposition for multinationals and companies located in all three countries to adapt to. Altering the arrangements of NAFTA brings with it many hazards to the current supply-chain integration that exists between thousands of players in the three markets.

China

First-half results for China's top four banks show that regulatory crackdown over the past year has had some success in bringing banks into shape: Interest income rose and asset quality improved for all of the so-called Big Four. Under pressure to clean up their shadow banking activities, Chinese banks have reined in a key profit engine, non-interest income. Fees and commissions from off-balance sheet investment and wealth-management businesses plummeted in the second quarter. Still, going back to basics is not going to be easy. The four banks are able to earn 5% yield on new loans, while their funding costs remain lower than those of smaller rivals. That should mean easy profits, but the big banks' average return on assets was just over 1% in the first half, partly due to high operating costs, and partly because of still-high loan impairment charges. Together with declining fee income, poor profitability is harming banks' capital positions. With little to add to retained earnings, bank capital levels are growing slowly. Their assets, meanwhile are growing fast as the banks expand their loan books. The net effect is that their capital ratios- bank capital divided by risk-weighted assets- are declining. Bank of China's core equity Tier 1 capital adequacy ratio fell to 11.8% from 12.3% a year earlier. More optimistically, banks' bad loan positions seem to be improving. Total loans have been growing faster than bad loans. Moreover, big banks have found creative ways to dispose of bad debts. Bank of China has been securitizing some of its bad loans, while others have carried out debt-for-equity swaps or just transferred them into off-balance sheet entities. Chinese bank stocks are up

17% so far in 2017, and now trade at 0.9 times book value on average

Meanwhile, China has ordered North Korean companies operating within its borders to shut down as Beijing tightens the screws on Pyongyang amid the latest round of UN sanctions. China's ministry of commerce said it had given North Korean businesses and individuals located in China, as well as joint ventures between Chinese and North Korean companies outside of its borders, three months to close. The order could damage a vital artery of North Korea's economy; China accounts for 80-90% of North Korea's trade. Hundreds of North Korean trading companies operate in north-east China. North Korea relies on external trade to obtain industrial inputs and consumer products, which are financed using exports, notably raw materials and agricultural and fisheries products.

In September the United Nations imposed fresh sanctions on North Korea after it tested its sixth and most powerful nuclear weapon. The U.S. has been blunt about its lack of appetite for more diplomacy to ease the tension with a nuclear armed (and apparently ready) North Korea that is becoming more isolated and hence more aggressive.

Uganda

Uganda's economic growth is recovering slowly in 2017 with quarterly growth rates registering 0.6% and 1.1%, respectively, over the last two quarters. Annual inflation remains at 5% pushing the central bank to reduce interest rates by 0.5 percentage points to 9.5% from 10% at the end of September 2017. The move is considered as one way toward revamping the economy and to spur private sector credit growth. The central bank stated that its cautious easing of monetary policy was meant to strengthen the economic growth momentum currently underway. The GDP growth forecast is 3.9% in 2017/18 and 5% to 5.5% in 2019/20.

President Yoweri Museveni has been in power in Uganda for the last 31 years. The Ugandan parliament took its first step in September toward removing a constitutional presidential age limit restriction that prevents anyone older than 75 years from running for the presidency. Mr. Museveni is now 73 years old. Like many leaders in Africa, his tenure in office began on a positive note. According to World Bank figures the size on the economy more than doubled from 1992 to 1999. The national poverty rate fell from 56.4% in 1993 to 33.8% in 1999. However, as the president began to tighten his grip on power, Uganda's economy began to weaken. In 2005 a two-term presidential limit that was in place was scrapped.

GDP per capita rose from $630 to $660 between 2011 and 2016, while the poverty level increased from 20% in 2013-14 to 27% in 2016-17. Some attribute the stagnation to poor economic policies and population growth (which increased 3.2%); plus the emasculation of institutions as Musevini concentrated more power in the presidency. Some argue that with his tight grip on power, the President could possibly stay on as long as he wants to. Many in Uganda expect this will be until he dies. The general belief is that President Musevini has used the Mugabe example in Zimbabwe to perpetuate his long stay in power: control over the security forces, tight grip and loyalty from the military plus financial blackmail of lawmakers.

Parliament, where Mr. Museveni's National Resistance Movement (NRM) dominates, could easily secure the two-thirds majority needed to change the constitutional age limit. The debate comes as the president is entrenching power in his family: his wife, son, step brother and father- in- law all hold prominent government positions.

Laws on the books, including an anti-terrorism act, a non-governmental organizations act and the public order management act and amendments to Uganda's penal code have all been used to stifle dissent and to rein in opponents to the government. Many Ugandans fear that if the president leaves office before he feels it is time, the transition would not be peaceful. This has to do with the fact that since independence in 1962 Uganda has never had a peaceful handover of power. Civil society appears to be mobilizing against any such development.

The regime has exercised the use of violence to remain in power. Non-governmental organizations that have been monitoring abuses had their offices raided as a crackdown was orchestrated against groups campaigning against the age-limit amendment. Ugandans are connecting their dissatisfaction with the leadership and the reason why an age limit is so important. The initiative to amend the article banning anyone over 75 from running for president has triggered unprecedented fighting in parliament on two consecutive days last month. It also led to two weeks of broad based protests that were brutally suppressed by the police.

Financial incentives offered to Members of Parliament, will in all likelihood succeed in influencing the final vote on the age-limit amendment. This ensures President Museveni stays in office probably for life. This could likely spark unrest as discontent with the president has been fueled by the stuttering economy and opposition to visible evidence of a crackdown on dissent and protests.

Recently, the leaders of **Zimbabwe, Rwanda, Burundi, Congo, Cameroon** and the **Democratic Republic of Congo** have all altered laws or used the courts to enable them to stay in power longer than allowed by the constitution.

Nigeria

Nigeria's government is speaking out, telling prospective investors and creditors that business conditions are improving. Oil production has recovered from 1 million barrels per day to 1.85 million barrels per day. Disruptions to oil pipelines in the Delta Region have been brought to a halt as a result of a political truce with the militant Islamists group Boko Haram. The Nigerian authorities claim they have made great strides de-escalating the dispute over oil royalties in the Delta Region, including granting financial concessions to the militants. With this progress oil production has been resumed to normalcy and production has climbed in recent months. According to the government, there are now no threats of a resurgence of violence in the Delta region, where militants had previously sabotaged oil installations.

A serious dollar shortage in Nigeria over the past two years has eased somewhat with the creation of a second foreign exchange window at commercial banks to facilitate importers and investors and allowing for the honoring of foreign payment obligations owed by Nigerian entities. With the changes, the banking system is claiming a greater ability to respond more quickly to legitimate requests for foreign exchange from importers and traders than it could previously.

The Nigerian government reports that due to its more positive attitude towards the private sector it had drawn pledges of more than $22 billion in new investments in Nigeria during the first eight months of 2017.

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FCIA's Deals Of the Month

Non-Cancelable Limits Policy*: Covering $100,000,000 sales of electronic products to North America. Policy was obtained for risk mitigation purposes.

Non-cancelable limits: subject to policy terms and conditions – after issuing the policy, the insurer may not unilaterally reduce any country or buyer limits