Emerging market bonds

CEEMEA sovereign monitor: Well positioned to overcome upcoming challenges

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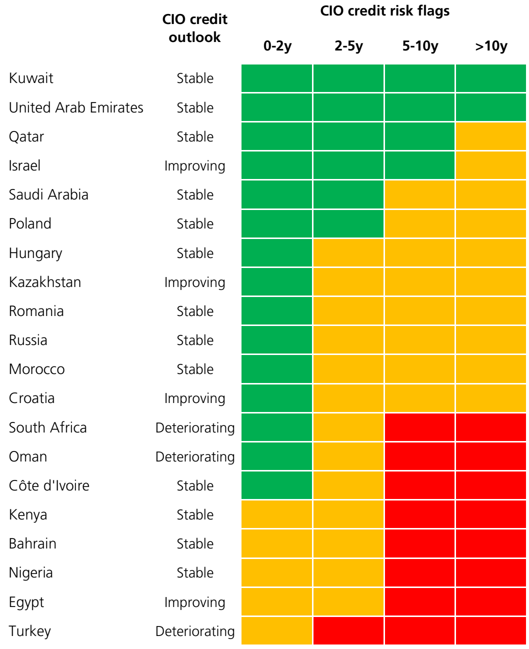
- Our credit outlook for the CEEMEA region remains fairly benign. We expect stable to improving credit fundamentals in 17 out of 20 countries, and think the risk of sovereign defaults should remain low. But weaker global (trade) growth, rising public discontent, and the need to tackle climate change are important threats.
- Many CEEMEA markets benefit from sound fiscal and external buffers and good market access. This should ease the transition to new sources of growth. Such models should also integrate the growing need for environmental, social, and governance (ESG) considerations. Neglecting the need for reforms and instead proceeding with an unsustainable policy mix is not a recipe for longer-term success.
- In our view, the fundamental outlook for CEEMEA sovereigns remains supportive this year and next, though we note several longer-term risk factors. Specifically, we are keeping an eye on Turkey and other high yield issuers. Please refer to our Emerging Markets Bond List and our various model portfolios for specific investment recommendations.
- Risks to our view include a faster and deeper economic deterioration, a sudden shift in access to global funding, rising tensions between the US and China, and a slump in commodity prices. Reform fatigue or an unsustainable policy mix is a danger for selected countries.

Fig. 1: Our views on CEEMEA sovereigns
CIO credit outlook and credit risk flags



Source: UBS, as of 31 October 2019

We would like to thank Emre Tekmen for his valuable support on this report.

A quick look at recent trends

The credit fundamentals of the sovereigns we cover in Central and Eastern Europe (CEE), the Middle East, and Africa (collectively CEEMEA) have remained fairly stable this year. The region's GDP growth will likely slow to an average of 2.7%, down from 3.2% last year. The impact of trade tensions on investment, the ongoing slowdown in the Eurozone, and a more challenging backdrop for the energy market have served as impediments and remain major risks particularly for CEE and oil-driven economies in the region.

Inflation has fallen even lower and enabled many central banks to cut interest rates to support credit growth, and government fiscal metrics have remained stable on aggregate thanks to prudent fiscal management and healthy nominal GDP growth. The ongoing public and external deleveraging in Croatia, Hungary, Russia, and Egypt, together with sound macro policies, has led to credit rating upgrades in those countries.

Reforms and ongoing economic diversification efforts in Bahrain, Kazakhstan, and Morocco have helped stabilize their credit outlook (Table 1). Conversely, the lack of reforms in Oman, South Africa, and Turkey has led to negative rating actions and increased concerns about government debt sustainability.

Elsewhere in the Gulf, years of fiscal reform have stabilized credit fundamentals and lowered fiscal breakeven oil prices, but Fitch unexpectedly cut the ratings of Saudi Arabia in the wake of the attacks on Saudi Aramco's oil facilities. Elevated external debt and geopolitical risks have kept Turkey on its negative rating trajectory despite growing signs of economic stabilization there. Lastly, in sub-Saharan Africa, Kenya, Ivory Coast, and Nigeria show continued resilience.

ESG integration: key to our credit analysis
Environment, social, and governance (ESG) risks have always played a critical role in our credit risk assessment. However, analyzing them becomes even more important in the current global context, which is marked by increasing climate change and social risks. Below investment grade rated countries tend to be more heavily exposed to ESG risks, be it via weaker governance standards, higher poverty levels and income inequality or exposure of large agricultural sectors to climate risks. That said, sovereigns with strong credit ratings are not immune to those risks; that's the case of many oil-driven economies, for instance, which will have to adapt to the ongoing transition towards renewable energies.

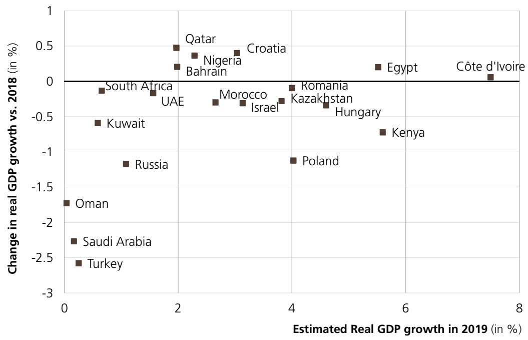
Credit fundamentals not at risk

We expect the stabilizing trend to continue, so we remain fairly upbeat on the region overall. We attach a stable outlook to 13 of the 20 sovereign credit issuers we cover. Credit fundamentals and possibly credit ratings, in our view, are likely to improve in Egypt, Croatia, Kazakhstan, and Israel, while Turkey, South Africa, and Oman are likelier to suffer a further deterioration of theirs absent significant shifts to their policy framework (see summary table on page 8 for an overview).

The CEEMEA countries we follow will likely enjoy higher growth than they did this year, thanks chiefly to the expected recovery in the Middle East following the large slump in energy prices in 2014, as well as to high growth in selected African countries (Fig. 3). Russia and South Africa should also register marginally better GDP numbers, but we expect growth to remain soft at around 2% and 1–1.5%, respectively.

Inflation is unlikely to spoil the party, given structural forces that should keep price pressures low for longer. Exchange rate overvaluation is not an important risk, in our view, except in Nigeria, although we don't expect a naira devaluation in the coming quarters. The countries in the Gulf Cooperation Council (GCC) currently benefit from declining US interest rates, and we see a very low likelihood of exchange rate pegs coming under pressure. But further bouts of currency weakness could challenge this benign outlook, especially in countries that rely heavily on foreign funding or maintain an unsustainable policy mix. Turkey and South Africa appear most at risk.

Fig. 2: CEEMEA growth under pressure
Real GDP growth rates (in %)



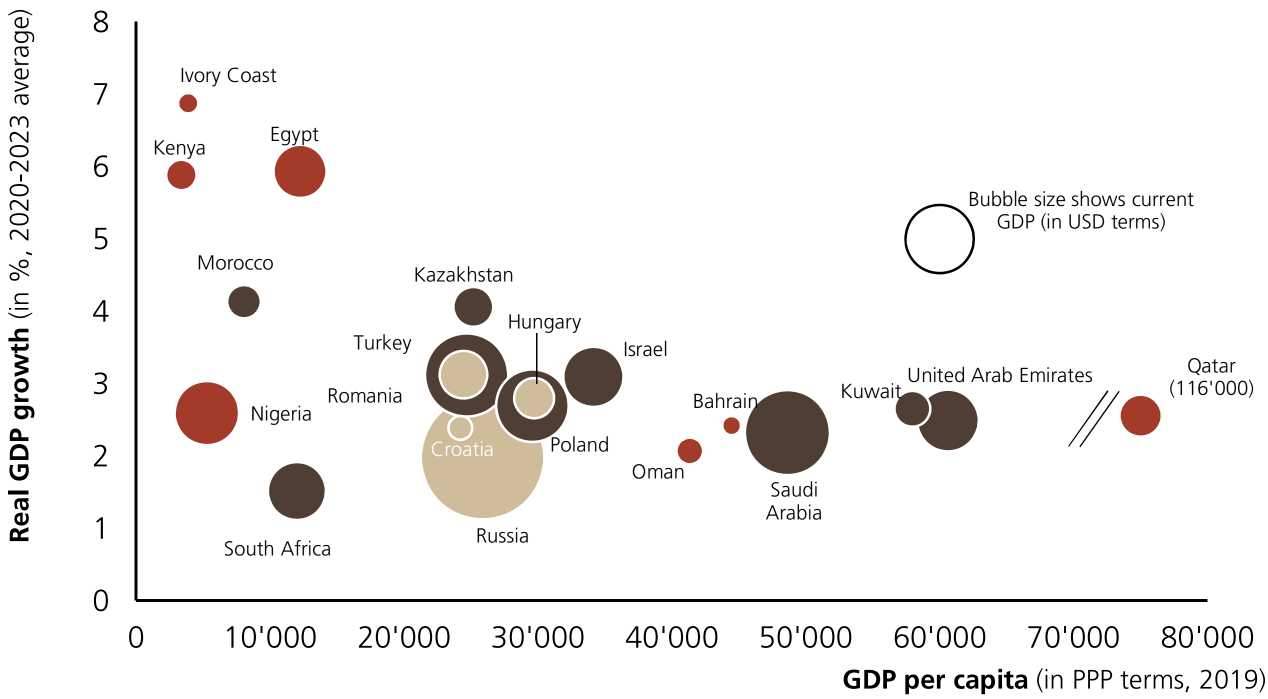
Source: IMF, UBS, as of 31 October 2019

Table 1: More credit rating upgrades than downgrades this year
Based on ratings from Fitch, S&P, and Moody's

	Rating action	Notches	# of rating agencies
Hungary	Upgrade	1	2
Croatia	Upgrade	1	2
Russia	Upgrade	1	2
Egypt	Upgrade	1	2
Saudi Arabia	Downgrade	1	1
Oman	Downgrade	1	1
Turkey	Downgrade	1	2
Others	No change	-	-

Source: Bloomberg, UBS, as of 31 October 2019

Fig. 3: CEEMEA growth healthy overall, despite divergences
Red bubbles indicate population growth above 2%, brown 0–2%, beige below 0%



Source: World Bank, IMF, UBS, as of 31 October 2019

Fiscal buffers and market access a big help

The good news is that the major central banks in advanced economies will likely adhere to their accommodative policy stance for longer. So fiscal spending should remain affordable. Most policymakers in CEEMEA countries will have enough fiscal leeway, and those hesitant to engage in structural reforms might feel less urgency to initiate (often painful) economic adjustments. The extent of fiscal flexibility differs from country to country, depending on government debt burdens, budget balances, and potentially available sovereign assets. It is limited in South Africa, Bahrain, Oman, Egypt, and Kenya, for instance, and more expansive in Russia, Kazakhstan, Poland, and select Gulf countries (Kuwait, Qatar, and the UAE).

Change is unavoidable

The coming years, nonetheless, will not be short of challenges for the region. Making the right policy choices will be crucial to success. We think structural change has become unavoidable in many countries for a number of reasons.

Reducing dependence on global trade growth is difficult for small open economies, such as those in CEE. Measures to diversify export markets away from Europe and to improve attractiveness for foreign investment should be key priorities for policymakers. Moreover, the region features high education standards and competitive wages, which should enable most countries in it to increase their service sector relevance and their presence in higher value-add industries. Structural reforms and policy choices should ensure that they remain attractive for foreign direct investment while addressing issues related to disadvantageous demographic trends and skill shortages in selected industries.

Fig. 4: Fiscal leeway exists in some countries
Forecasts for 2019 (% of GDP)

	Budget balance/ GDP	Public debt / GDP	Fiscal leeway (also based on fiscal buffers)
Kuwait	6.7	15.2	Very high
UAE	-1.6	20.1	Very high
Qatar	7.0	53.2	Very high
Kazakhstan	0.4	20.8	High
Russia	1.0	16.5	High
Poland	-1.5	47.8	High
Saudi Arabia	-6.1	23.2	High
Hungary	-1.8	67.5	Moderate
Romania	-3.7	37.4	Moderate
Turkey	-4.6	30.1	Moderate
Israel	-3.7	61.9	Moderate
Côte d'Ivoire	-3.0	52.7	Moderate
Croatia	0.0	71.1	Moderate
Morocco	-3.7	65.3	Low
Nigeria	-5.0	29.8	Low
Oman	-6.7	59.9	Very low
Bahrain	-8.0	101.7	Very low
Egypt	-7.6	84.9	Very low
South Africa	-6.2	59.9	Very low
Kenya	-7.4	61.6	Very low

Source: IMF, UBS, as of 31 October 2019

The commodity-producing countries in the region also face environmental and social challenges. Growing calls to tackle climate change, combined with major technological advances from fracking and renewable energy sources, mean growing competition for energy producers in Russia, the Middle East, and Africa. This impacts the creditworthiness of affected sovereigns directly by lowering revenues, export proceeds, and economic growth, and indirectly by increasing the pressure on them to adjust growth models to these changing realities. High unemployment rates, combined with demographic pressures arising from rapid population growth, require measures to create jobs in the private sector that go beyond existing labor market nationalization policies.

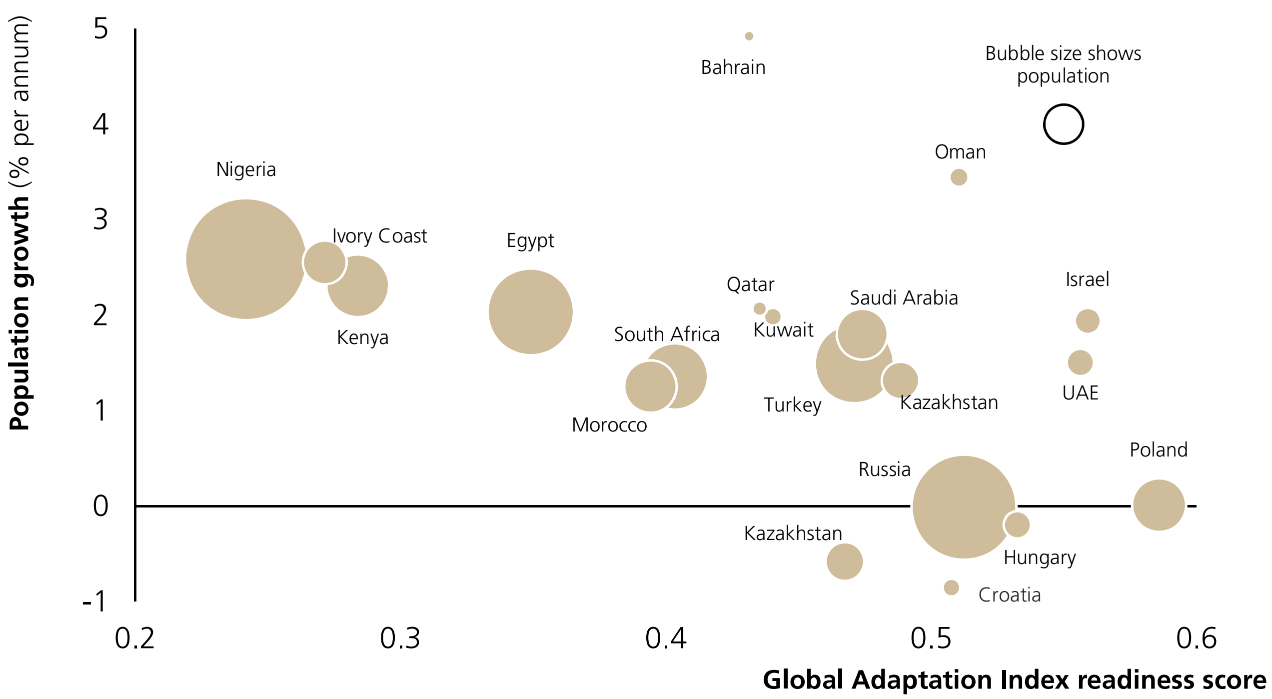
Similarly, the mining industry is confronted with mounting pressure from structurally slowing demand growth and more calls to address social and environmental concerns. And with agriculture resources dwindling, the difficulty of feeding a growing, urbanized population without further harming biodiversity and the ecosystem is intensifying. This will constitute a big challenge for many African countries, which combine high population growth with a limited ability to cope with the consequences of climate change (Fig. 5).

Reforms help countries stay competitive

Structural reforms, infrastructure investment, and a solid macroeconomic framework are crucial elements for addressing these challenges. The scores of CEEMEA countries in global competitiveness and ease-of-doing business rankings reveal that much progress has been made in recent years, but they also make clear that more work needs to be done to attract and maintain human talent and capital (Fig. 6).

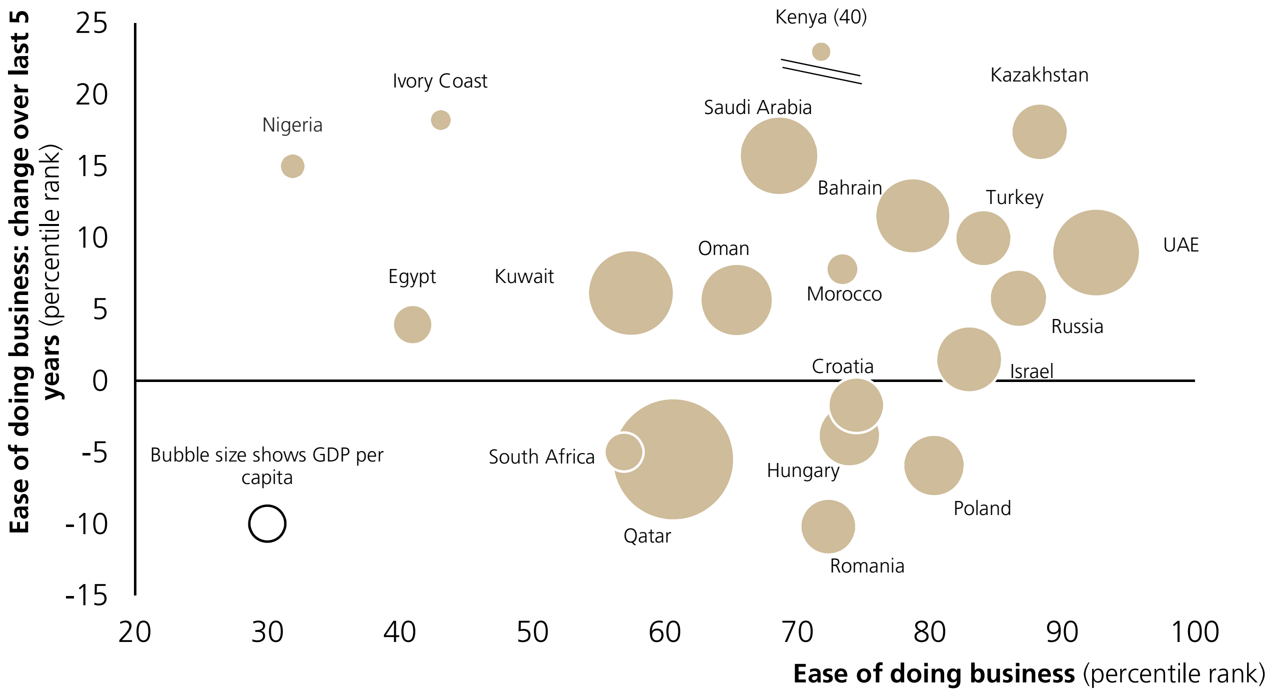
Fig. 5: High population growth rates still a challenge in some African countries

Bubble size shows total population (196m in Nigeria, 1.6m in Bahrain)



Note: The Global Adaptation Index measures the ability of countries to cope with the consequences of climate change. Bigger values indicate a higher readiness. Source: World Bank, ND-GAIN, UBS, as of 31 October 2019

Fig. 6: More business reforms needed despite progress in recent years
Bubble size shows GDP per capita in USD, at PPP (USD 133,000 in Qatar, USD 3,900 in Kenya)



Source: World Bank, IMF, UBS, as of 31 October 2019

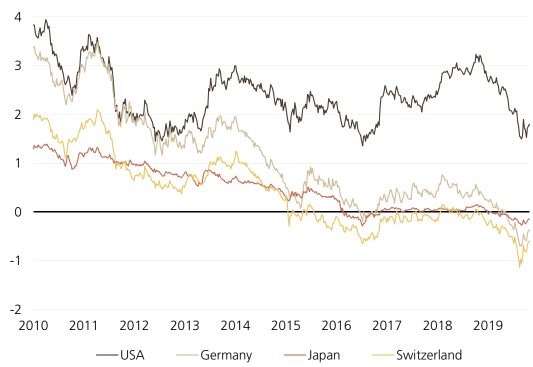
We think the reform and diversification efforts in such CEEMEA countries as Saudi Arabia, the UAE, Egypt, Morocco, Ivory Coast, and Kenya are encouraging. The ability to improve infrastructure is also important, provided it does not put public finances at risk. Progress in these areas can spur long-term growth prospects, especially in countries with low per capita GDP. Finally, sound macro policies are needed to ensure growth and inflation stability. Russia is a leader in this area, with its independent monetary policy and fiscal rules in place, and others are following suit. Egypt, for instance, has been able to improve its policy framework under the recent IMF program.

Low global interest rates help, but complacency remains a danger

Reliance on foreign funding and the sustainability of public debt trajectories are other factors investors must consider. A few exceptions aside (in smaller countries such as Croatia, Bahrain, Egypt, Hungary, and Lebanon), public debt is low to moderate and fiscal spending is being handled sensibly throughout the region. Such prudence, in combination with low sovereign bond yields in core markets (Fig. 7), offers an important advantage to those countries trying to foster change.

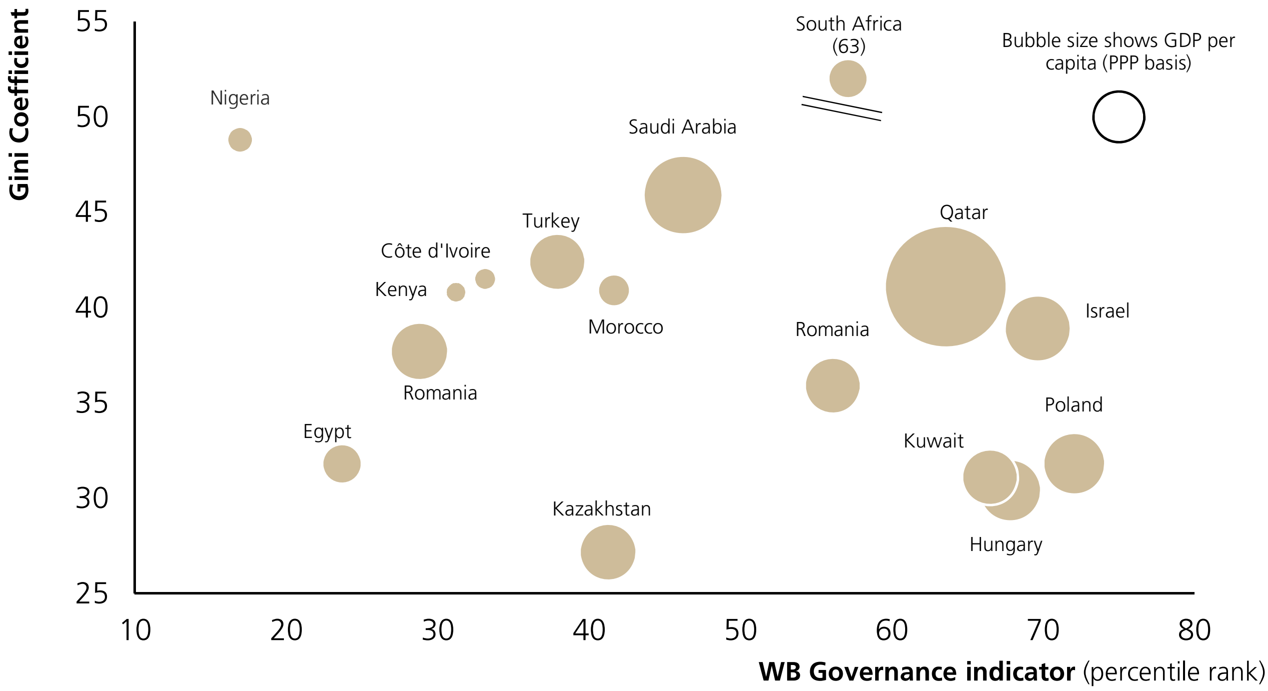
At the same time, it might encourage others to remain complacent. Absent a clear commitment to a reform agenda that aims to tackle longer-term threats to their growth outlook, they can fall into jeopardy of succumbing to longer-term credit risks. So we consider it useful to assess not only a country's willingness and ability to adopt reforms, but the urgency with which it goes about doing so.

Fig. 7: Low core yields limit pressure on sovereign funding costs
Yield on 10-year government bonds (in %)



Source: Bloomberg, UBS, as of 31 October 2019

Fig. 8: High income inequality and poor governance lead to social risks
Bubble size shows GDP per capita in USD, at PPP (USD 133,000 in Qatar, USD 3,900 in Kenya)



Note: The Gini Coefficient (in %) measures income inequality. Higher values indicate higher inequality. Source: World Bank, UBS, 31 October 2019

While our country snapshots provide additional details, we highlight a few examples here.

- **Saudi Arabia** has been proactive in addressing the need to diversify its economy. It has shown a high willingness to adopt reforms and a clear understanding of its pressing need to because of lower energy prices. A coherent and ambitious reform plan should reduce its dependence on energy exports and foster job growth for its young and growing population. Notwithstanding the several risks it is prey to, we think the likelihood that it will achieve these objectives is fairly high.

- In **Russia**, prudent monetary and fiscal policies have lowered the urgency for reforms. Slower reforms come with the cost of lower growth potential, amplified by an aging society, though it has enabled the country to cope with sanctions in recent years. Sound fiscal metrics and immense commodity resources act as a shock absorber, and will permit Russia to pursue such policies for longer.

- The willingness of the current **South African** government to pursue reforms seems high, but political infighting within the ruling party, high poverty rates and income inequality, and fierce domestic resistance to change—particularly from labor unions—hinder its ability to enact them. We think the urgency for change is high already, given weakening fiscal metrics, contingent liabilities from poorly managed state-owned enterprises, and the fact that the situation could deteriorate quickly, for example if international capital flows drop abruptly.

- By contrast, both the willingness and ability to adopt meaningful reforms are limited in **Nigeria** at this point, and we don't expect the situation to change anytime soon. Low government debt and large energy reserves serve as important buffers, but the country is vulnerable to declining energy prices and prone to civil unrest due to its low growth potential.

Inequality threats and rising populism

The growing number of mass protests and the rise of populism, both in developing and developed nations, also warrant close monitoring. While grounded in different causes, the dissatisfaction in many populations related to economic inequality and policies conducted by and perceived to be for the benefit of elites seems to be a common element. Demands to address inequality are likely to rise in coming years.

Policymakers will also need to balance job creation and distributing social welfare benefits to the unemployed while maintaining the attractiveness of their economies as an investment destination. Delivering sufficient, more inclusive economic growth will be a test for them. Higher population growth, more jobs at risk due to automation and broader industry threats, and insufficient progress made in improving competitiveness will make it more difficult for a country to master the challenges ahead.

It is not easy to ascertain how likely it is that a country will be hit by protests and anticipate how much those protests could affect its sovereign creditworthiness. Yet we think investors should monitor proxies for income inequality, corruption, government effectiveness, and other governance indicators (Fig. 8). They need to be assessed in the context of a country's medium- to longer-term ability to ensure sufficient wealth creation and its fair distribution.

It's equally necessary to analyze how well an incumbent government can withstand a period of stress. Argentina is an important reminder that implementing market-friendly policies is not without its risks. A government might be voted out of office if its policies require too much austerity. A populace incensed by price hikes on basic goods and services increases the danger of more populist leaders taking over.

With this analytical framework in mind, we think the countries we cover that are most at risk are South Africa, Bahrain, Oman, and Egypt, as well as, to a lesser extent, Morocco and Nigeria. In CEE, we see the risks skewed more toward political polarization and populism.

Summary of credit views and key indicators

	Page number	Credit rating (Moody's / S&P)	CIO credit outlook	CIO credit risk flags				CIO credit coverage		Key indicators for 2019 (%) *					
								Sovereign	Corporate	Economics		Fiscal		External	
				0-2y	2-5y	5-10y	>10y	Amount (USD bln)	Amount (USD bln / # of issuers	GDP Growth	Inflation	Budget balance/ GDP	Public debt / GDP	Current account / GDP	External debt / GDP
Central & Eastern Europe															
Poland	9	A2 STABLE / A- STABLE	Stable					37.28	1 / 1	4.0	3.3	-1.5	47.8	-0.9	61.4
Hungary	10	Baa3 STABLE / BBB STABLE	Stable					11.97	0 / 0	4.6	3.2	-1.8	67.5	-0.9	92.3
Romania	11	Baa3 STABLE / BBB- STABLE	Stable					23.68	0 / 0	4.0	4.5	-3.7	37.4	-5.5	46.8
Croatia	12	Ba2 POS / BBB- STABLE	Improving					12.69	0 / 0	3.0	1.2	0.0	71.1	1.7	73.1
Turkey	13	B1 NEG / B+ STABLE	Deteriorating					56.88	12.59 / 7	0.2	13.5	-4.6	30.1	-0.6	57.7
Russia and CIS															
Kazakhstan	14	Baa3 POS / BBB- STABLE	Improving					7.67	0 / 0	3.8	5.7	0.4	20.8	-1.2	90.7
Russia	15	Baa3 STABLE / BBB- STABLE	Stable					16.98	58.75 / 15	1.1	3.8	1.0	16.5	5.7	27.4
Middle East															
Kuwait	16	Aa2 STABLE / AA STABLE	Stable					8.00	0 / 0	0.6	1.8	6.7	15.2	8.2	41.2
United Arab Emirat	17	Aa2 STABLE / NA	Stable					28.90	21.54 / 3	1.6	-1.5	-1.6	20.1	9.0	69.8
Qatar	18	Aa3 STABLE / AA- STABLE	Stable					40.40	10 / 3	2.0	0.0	7.0	53.2	6.0	101.6
Israel	19	A1 POS / AA- STABLE	Improving					10.94	0.95 / 1	3.1	1.1	-3.7	61.9	2.4	25.3
Saudi Arabia	20	A1 STABLE / A- STABLE	Stable					63.94	20.72 / 2	0.2	-1.1	-6.1	23.2	4.4	28.1
Oman	21	Ba1 NEG / BB NEG	Deteriorating					22.50	0 / 0	0.0	0.8	-6.7	59.9	-7.2	94.0
Bahrain	22	B2 STABLE / B+ STABLE	Stable					13.95	0 / 0	2.0	2.0	-8.0	101.7	-4.3	187.4
North Africa															
Morocco	23	Ba1 STABLE / BBB- STABLE	Stable					4.22	0 / 0	2.7	0.7	-3.7	65.3	-4.5	41.4
Egypt	24	B2 STABLE / B STABLE	Improving					18.94	0 / 0	5.5	9.4	-7.6	84.9	-3.1	39.6
Sub Saharan Africa															
South Africa	25	Baa3 STABLE / BB STABLE	Deteriorating					16.06	8.55 / 4	0.7	4.7	-6.2	59.9	-3.1	48.7
Côte d'Ivoire	26	Ba3 STABLE / NA	Stable					7.91	0 / 0	7.5	1.0	-3.0	52.7	-3.8	36.4
Kenya	27	B2 STABLE / B+ STABLE	Stable					5.60	0 / 0	5.6	6.2	-7.4	61.6	-4.7	35.8
Nigeria	28	B2 STABLE / B STABLE	Stable					10.17	0 / 0	2.3	11.7	-5.0	29.8	-0.2	11.6

* External debt/GDP ratios are 2018 actual data. All other indicators are IMF forecasts for 2019. Source: IMF, WB, UBS, as of 31 October 2019.

Central and Eastern Europe

Poland: Strong fundamentals, but institutional strength worth watching

With an A- composite rating, Poland is the best-rated CEE sovereign under CIO coverage. The country has stronger institutions than many emerging economies, in part due to the EU membership. Trend growth in Poland is solid, at around 3.5–4%, underpinned by sizable inflows of EU funds and robust domestic demand. The Polish economy is also fairly large and more resilient than regional peers due to a lower export dependence and diversified export base. That's positive given the ongoing economic slowdown in the euro area. Structural economic challenges exist, however, including negative demographic trends, gaps in infrastructure, increasing skill shortages, and likely lower volumes of EU funds going forward. The increasing unpredictability of economic policy and contentious reforms implemented by the ruling Law and Justice (PiS) party, such as changes in the judicial system, are also risks to monitor. These have polarized public opinion. On the fiscal side, the sizable structural deficit, fueled by increased social spending, is mitigated by high debt affordability.

Our stable outlook for Poland reflects balanced risks. Growth prospects remain robust despite some expected slowdown in 2020. More fiscal expansion is likely ahead of 2Q20 presidential elections. However, we expect fiscal metrics to remain compliant with EU rules and government debt to remain below 50% of GDP. Challenges to institutional strength and an increasingly polarized political landscape, with rising support for parties at extreme ends of the political spectrum, are worth monitoring. Positive credit catalysts would include fiscal consolidation, measures reversing the weakening of the institutional framework, and structural reforms supporting potential growth.

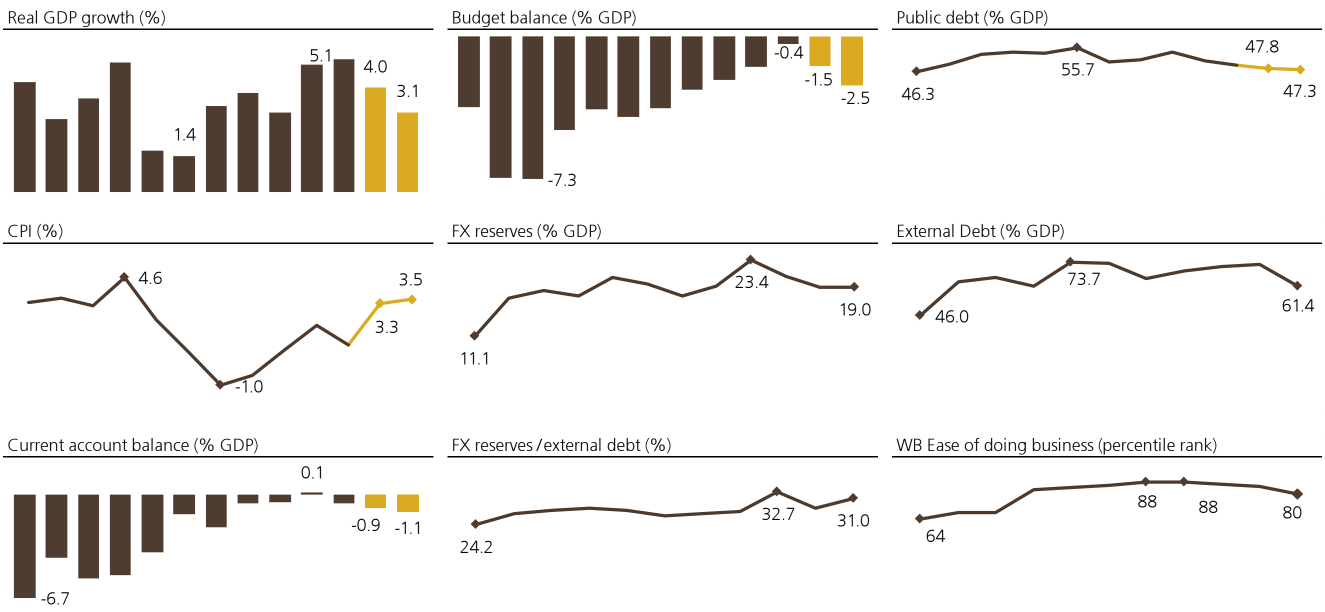
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags			
		0-2y	2-5y	5-10y	>10y
Poland	Stable				
Credit ratings (Moody's / S&P)		A2 STABLE /A- STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	4.9	5.1	4.0	3.1
CPI inflation (%)	2.1	1.1	3.3	3.5
GDP per capita (PPP, USD)	29'717	32'005	33'891	35'651
Fiscal				
Budget balance (% GDP)	-1.5	-0.4	-1.5	-2.5
Public debt (% GDP)	50.6	48.9	47.8	47.3
Interest payment /gov. revenue (%)	3.9	3.5	3.4	3.5
External				
Current account balance (% GDP)	0.1	-0.6	-0.9	-1.1
External debt (% GDP)	72.5	61.4	..	..
FX reserves (% GDP) *	20.7	19.1	19.0	..
Reserve coverage of ext. debt (%) **	28.5	31.0	..	..
Governance				
Ease of doing business (percentile rank)	88.3	86.7	85.1	80.3
WB Governance indicator (percentile rank)	72.4	72.1	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Hungary: Deleveraging continues, despite political noise

The Hungarian economy is diversified, with a focus on manufacturing, and strong export potential. Trend GDP growth of 3.5–4% is mainly driven by strong household consumption, with a low unemployment rate and investment in productive sectors supported by EU funds. As a small, open economy integrated with European value chains, Hungary is exposed to external shocks and global trade tensions. We expect a moderation of growth over the next few years given structural headwinds, including slower demand in Eurozone markets (particularly in the automotive sector), a range of non-cost competitiveness challenges (e.g., skills mismatches) and the likely reduction in EU financial support. But it should remain robust overall thanks to strong private consumption and EU-financed infrastructure projects.

The government debt burden (71% of GDP in 2018), its short-term financing requirements (21%), and total external debt (above 90% of GDP), are all elevated for a BBB rated country. Combined with pro-cyclical domestic fiscal and monetary policies of late, this exposes Hungary to deteriorating global liquidity conditions. But government and external debt ratios have dropped in recent years, a trend we expect to continue as authorities remain committed to gradual fiscal consolidation and a reduction of external and government debt and liquidity risks. Robust nominal GDP growth will be needed to achieve those objectives. On the political front, the EU accession process since 2004 has supported institutional capacity improvements. Recent government actions, such as the establishment of a National Competitiveness Council, go in that direction. But perceptions of institutional independence have worsened under the rule of the conservative-nationalist ruling party Fidesz, which remains a source of tension with the EU. We see risks as balanced and assign a stable outlook to Hungary.

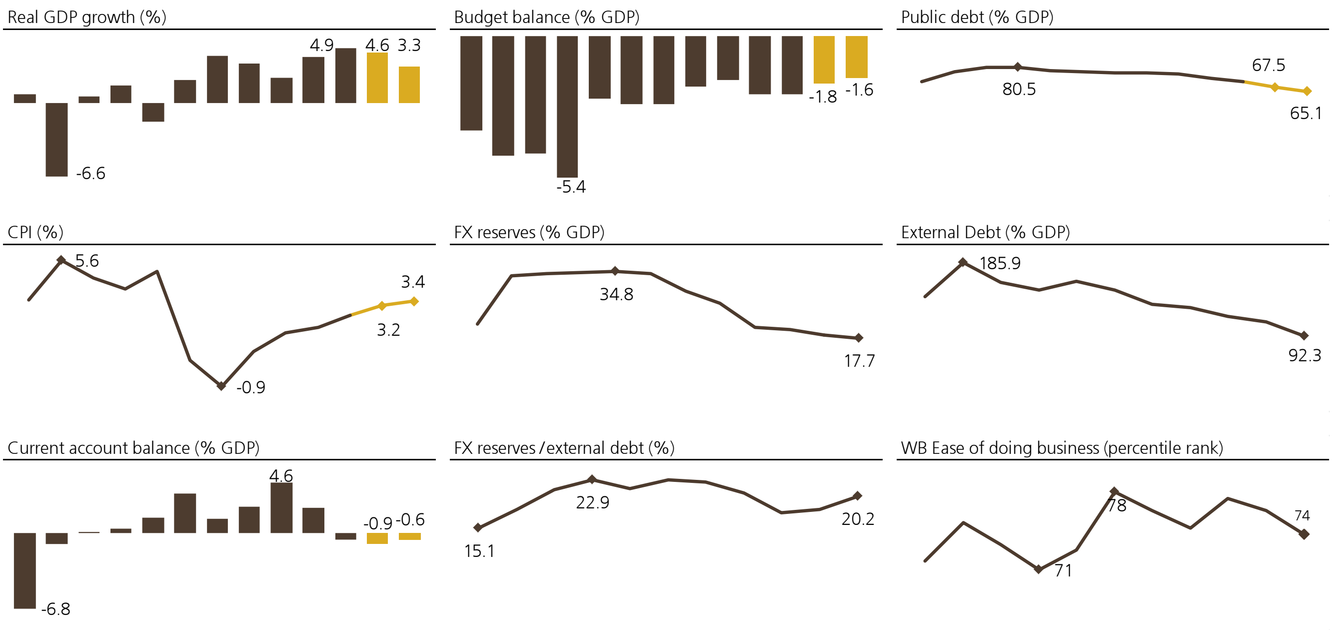
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Hungary	Stable				
Credit ratings (Moody's / S&P)	Baa3 STABLE /BBB STABLE				

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	4.1	4.9	4.6	3.3
CPI inflation (%)	2.1	2.7	3.2	3.4
GDP per capita (PPP, USD)	29'627	31'914	34'046	35'941
Fiscal				
Budget balance (% GDP)	-2.2	-2.2	-1.8	-1.6
Public debt (% GDP)	73.4	70.8	67.5	65.1
Interest payment /gov. revenue (%)	6.1	5.6	4.5	4.4
External				
Current account balance (% GDP)	2.3	-0.5	-0.9	-0.6
External debt (% GDP)	110.1	92.3	..	..
FX reserves (% GDP) *	19.9	18.7	17.7	..
Reserve coverage of ext. debt (%) **	18.1	20.2	..	..
Governance				
Ease of doing business (percentile rank)	74.5	77.1	76.1	73.9
WB Governance indicator (percentile rank)	67.6	67.8	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Romania: Lingering political uncertainty

Romania's BBB- credit rating reflects the policy anchor provided by EU membership and relatively healthy public finances, underpinned by a low government debt-to-GDP ratio (around 35%) and high debt affordability. The economy will likely slow this year and next, in tandem with the EU, but growth potential at around 3.0–3.5% remains one of the highest in the EU, thanks to robust private consumption. Macroeconomic policies since the global financial crisis have reduced fiscal and external imbalances. That said, these improvements have been partly reversed by a pro-cyclical fiscal stance in recent years (e.g., via significant increases in the minimum wage and public-sector wages), which has been financed in part by unorthodox measures (e.g., a new tax on bank assets). This has pushed inflation and the current account deficit to higher levels, hence increasing external vulnerability risk. Romanian institutions remain weaker than their EU counterparts, and reforms to important judicial laws, the criminal code, and the criminal procedure code conducted under Liviu Dragnea, the controversial former leader of the Social Democratic Party (PSD), have prompted substantial criticism.

We assign a stable outlook to Romania, with risks somewhat tilted to the downside. The strong growth potential and fiscal metrics mitigate rising policy risks which, if sustained in the longer term, may weigh further on public and external finances. Continuing fiscal expansion and increased budget rigidity are fueling macro imbalances and eroding the fiscal buffer needed to respond to potential shocks. Political risks remain elevated as well due to a fractious political landscape and threats to the rule of law. Combined with the lack of reforms, and uncertainty related to the recent break-up of the governing coalition, this could negatively affect investor sentiment ahead of a busy electoral calendar.

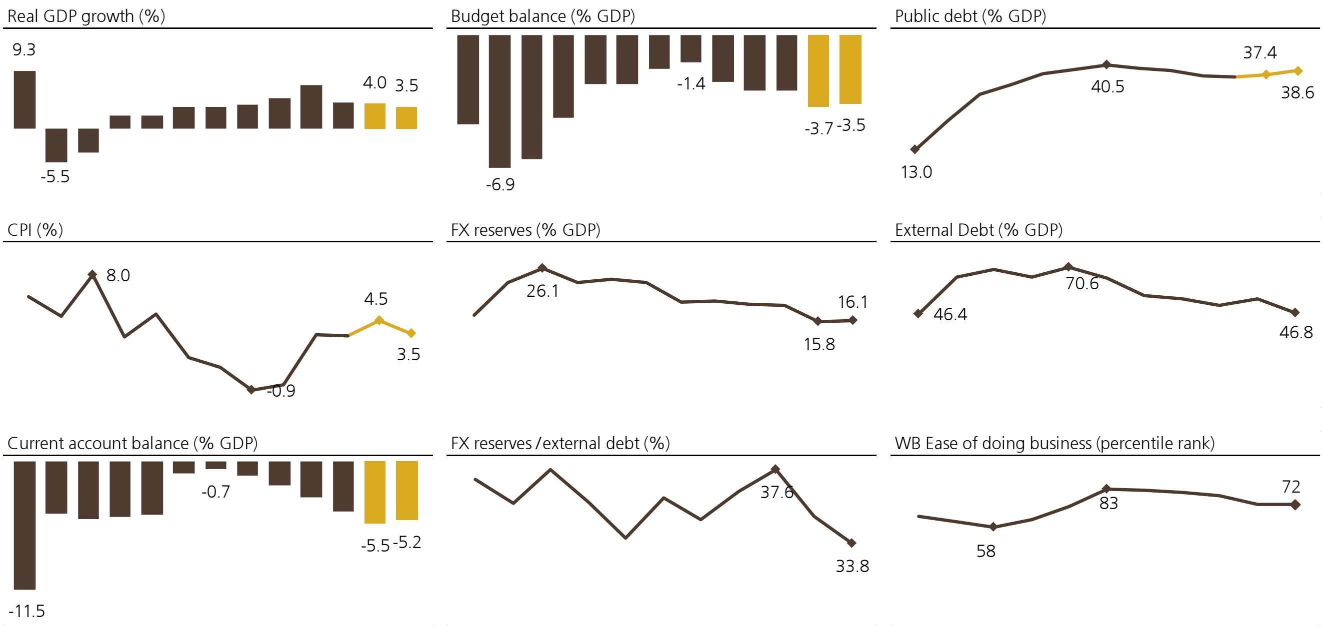
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags			
		0-2y	2-5y	5-10y	>10y
Romania	Stable				
Credit ratings (Moody's / S&P)		Baa3 STABLE /BBB- STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	7.0	4.1	4.0	3.5
CPI inflation (%)	3.3	3.3	4.5	3.5
GDP per capita (PPP, USD)	24'651	26'448	27'998	29'555
Fiscal				
Budget balance (% GDP)	-2.8	-2.8	-3.7	-3.5
Public debt (% GDP)	36.9	36.7	37.4	38.6
Interest payment /gov. revenue (%)	4.1	4.6	4.6	4.5
External				
Current account balance (% GDP)	-3.2	-4.5	-5.5	-5.2
External debt (% GDP)	53.9	46.8	..	..
FX reserves (% GDP) *	19.0	15.8	16.1	..
Reserve coverage of ext. debt (%) **	35.2	33.8	..	..
Governance				
Ease of doing business (percentile rank)	80.3	78.2	72.9	72.3
WB Governance indicator (percentile rank)	58.3	56.1	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Croatia: The CEE rising star, at the door of the euro area

S&P and Fitch have both upgraded Croatia's sovereign credit ratings to investment grade this year, and the positive trend will likely continue. Public debt, at around 75% of GDP in 2018, remains elevated, which leaves the country vulnerable to shocks. But it declined from its peak at 84% of GDP in 2014. The government expects to see a balanced budget in 2019 and 2020, which seems realistic as fiscal consolidation continues despite increased social spending and crystallization of some contingent liabilities (e.g., recent support for Croatia Airlines). Croatia's EU membership is strengthening its institutional framework, trade, and investment. Progress should continue with the forthcoming euro area membership application, and a potential euro adoption by 2023 at the earliest. The disciplined approach of the National Bank of Croatia to support the quasi peg to the euro and overall financial stability should help achieve this goal. Long-term potential growth is modest but improving. It is constrained by unfavorable demographic conditions, migration outflows, and low absorption of EU funds. Growth has picked up, however, and should hover around 2–3% in the medium term thanks to strong private consumption and investment. Croatia's small economy and its openness also lead to high growth volatility.

We assign an improving outlook to Croatia. We expect the debt burden to continue to decline gradually given the prudent fiscal policy and improving growth prospects, which should benefit from further improvement in living standards and select reforms. The likely euro area candidacy application should also support economic activity via further improvements in institutions and macro policies. But reforms to boost growth further will remain vital to ensure debt sustainability. The recent backtracking on pension reform, with the retirement age reduced back to 65, highlights that this is not an easy task.

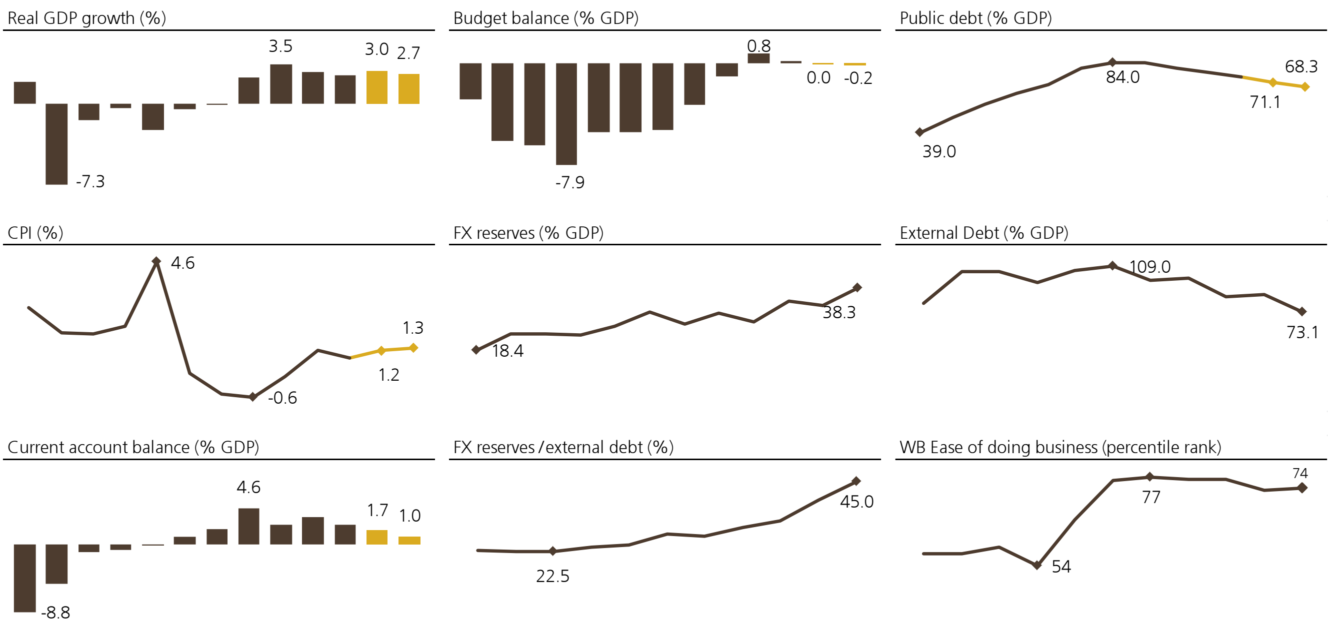
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Croatia	Improving				
Credit ratings (Moody's / S&P)	Ba2 POS /BBB- STABLE				

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	2.9	2.6	3.0	2.7
CPI inflation (%)	1.2	0.9	1.2	1.3
GDP per capita (PPP, USD)	24'757	26'256	27'729	29'207
Fiscal				
Budget balance (% GDP)	0.8	0.2	0.0	-0.2
Public debt (% GDP)	77.8	74.6	71.1	68.3
Interest payment /gov. revenue (%)	5.2	4.5	4.1	3.7
External				
Current account balance (% GDP)	3.5	2.5	1.7	1.0
External debt (% GDP)	87.1	73.1	..	..
FX reserves (% GDP) *	34.1	32.9	38.3	..
Reserve coverage of ext. debt (%) **	39.2	45.0	..	..
Governance				
Ease of doing business (percentile rank)	76.6	76.6	73.9	74.5
WB Governance indicator (percentile rank)	66.6	66.5	..	..

Source: IMF, WB, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Turkey: Structural hurdles outweigh cyclical adjustments

Since 2016, Turkey's composite credit rating has dropped by four notches to B+. Credit deterioration has been mostly driven by a steady erosion of institutional strength, the rule of law, and policy effectiveness, which has exacerbated already-high macro vulnerabilities. Combined with escalating geopolitical risks, this has undermined the country's growth potential and pushed it into a currency crisis in 2018. Turkey's still-large external debt keeps it dependent on foreign capital inflows and foreign investor confidence, which in turn depends on political and geopolitical developments and global financial conditions. Public finances remain quite solid, however, underpinned by a low government debt-to-GDP ratio (about 30%), although budget deficit is widening toward 5% of GDP. Turkey also features a large, diversified middle-income economy, supported by favorable demographics, diverse trade linkages, and a dynamic and diversified private sector.

We assign a deteriorating outlook to Turkey as structural hurdles and persistent economic policy uncertainty outweigh ongoing cyclical adjustments. The economy has been adjusting faster than expected, as reflected by improving growth, inflation, and current account dynamics. But the risk of renewed pressure on the balance of payments remains non-negligible. Policy decisions and political developments will likely determine Turkey's future credit trajectory. Prudent macro policies and reforms addressing persistently high inflation, dependence on imports, and the low savings rate, are crucial. But for now, Turkish authorities seem to prioritize near-term growth over those long-term objectives. Geopolitics also remains a major source of uncertainty, particularly the risk of US sanctions.

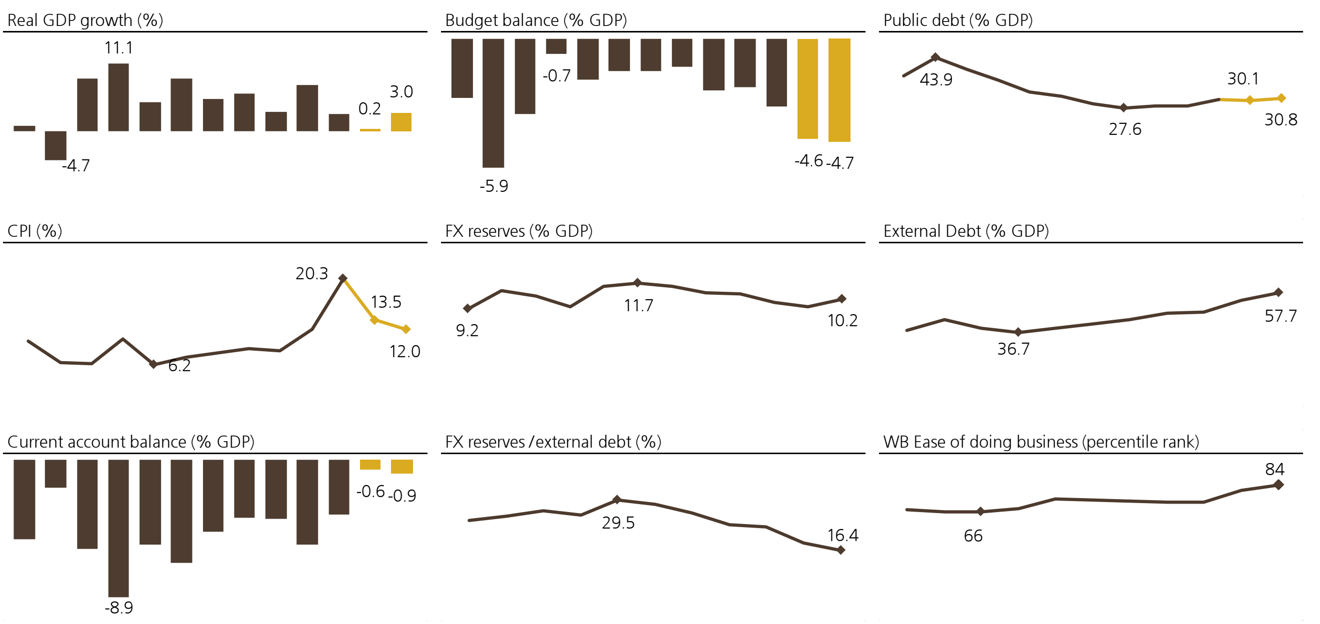
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Turkey	Deteriorating				
Credit ratings (Moody's / S&P)		B1 NEG /B+ STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	7.5	2.8	0.2	3.0
CPI inflation (%)	11.9	20.3	13.5	12.0
GDP per capita (PPP, USD)	27'018	28'044	28'264	29'327
Fiscal				
Budget balance (% GDP)	-2.2	-3.1	-4.6	-4.7
Public debt (% GDP)	28.2	30.2	30.1	30.8
Interest payment /gov. revenue (%)	4.2	4.6	5.8	7.0
External				
Current account balance (% GDP)	-5.6	-3.5	-0.6	-0.9
External debt (% GDP)	53.5	57.7	..	..
FX reserves (% GDP) *	9.9	9.4	10.2	..
Reserve coverage of ext. debt (%) **	18.4	16.4	..	..
Governance				
Ease of doing business (percentile rank)	72.9	72.3	80.3	84.0
WB Governance indicator (percentile rank)	40.3	37.9	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Russia and CIS

Kazakhstan: Increasing economic resilience

Kazakhstan is the largest economy in Central Asia. The country enjoys an abundant supply of accessible mineral and fossil fuel resources, which is both a source of wealth and vulnerability given the country's limited economic diversification. Kazakhstan's investment grade status is mostly due to its strong public and external finances, underpinned by low public debt (around 20% of GDP), ample sovereign assets (equivalent to about 35% of GDP), and sizable international reserves (about 13 months of current external receipts). This provides a significant buffer against external shocks. We expect growth to remain healthy and close to potential this year and next, at around 3.5–4%, thanks to robust domestic demand, fostered by government social measures and infrastructure projects, and potentially recovering oil production with the Tengiz oil field expansion. Ongoing banking sector fragilities and weak—albeit gradually strengthening—institutions are key credit weaknesses.

We assign an improving credit outlook to Kazakhstan as the country's economic resilience is increasing on the back of robust growth prospects, rising incomes, and a more effective macro policy mix. Policy continuity is likely to prevail with the newly elected president, Kassym-Jomart Tokayev. We also see prospects for moderate reforms and greater public investment, but the budget balance should remain in equilibrium. However, the government debt ratio should stay broadly stable, in our view. Key to monitor are banking sector risks, given the high dollarization and nonperforming loans, oil prices, and reforms.

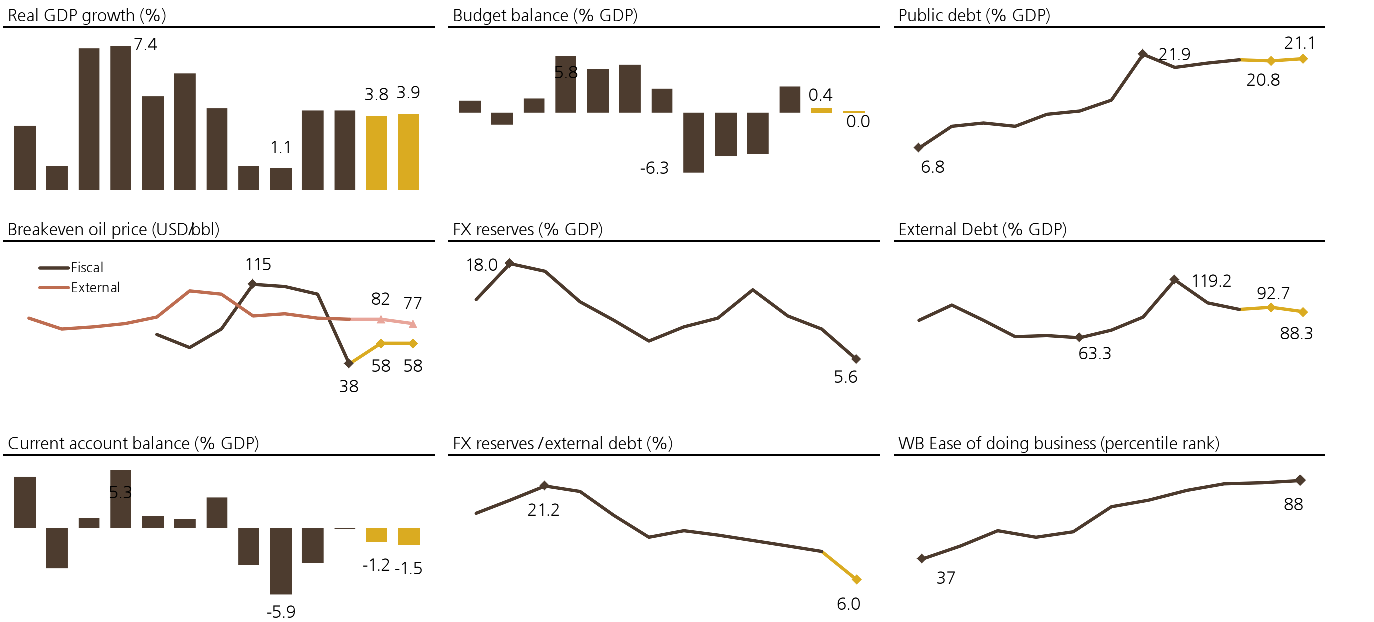
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Kazakhstan	Improving				
Credit ratings (Moody's / S&P)	Baa3 POS /BBB- STABLE				

Key Indicators	2017	2018	2019[f]	2020[f]
Growth and Inflation				
Real GDP growth (%)	4.1	4.1	3.8	3.9
CPI inflation (%)	7.1	5.3	5.7	4.7
GDP per capita (PPP, USD)	26'279	27'660	28'849	30'178
Fiscal				
Budget balance (% GDP)	-4.4	2.7	0.4	0.0
Public debt (% GDP)	20.3	21.0	20.8	21.1
Net interest payment /gov. rev. (%)	-4.9	-3.7	0.1	0.0
External				
Current account balance (% GDP)	-3.1	0.0	-1.2	-1.5
External debt (% GDP)	97.6	90.7	92.7	88.3
FX reserves (% GDP) *	11.2	9.6	5.6	..
Reserve coverage of ext. debt (%) **	11.5	10.5	6.0	..
Governance				
Ease of doing business (percentile rank)	81.9	85.6	86.7	88.3
WB Governance indicator (percentile rank)	39.0	41.3	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Russia: Back to a well-deserved investment grade rating

Russia has come a long way since the structural drop in oil prices and the introduction of sanctions in 2014. Thanks to the government's coherent and credible policy response, which combined a flexible exchange rate, inflation targeting, fiscal reforms, and financial sector support, the country returned to investment grade in 2018. The implementation of the fiscal rule, coupled with a weaker ruble, reduced the fiscal breakeven oil price from USD 110/bbl in 2013 to USD 45/bbl in 2018, pushing the government budget back into surplus. Russia now has more than USD 530bn of international reserves (covering total imports by 13–14 times), a low government debt stock, matched by government deposits (each equivalent to about 15% of GDP), and a large net external creditor position. Russia also remains one of the world's largest oil producers and possesses a quarter of total world natural gas reserves, in addition to other resource endowments. These strengths are balanced against lingering structural challenges such as a weak rule of law, still-high albeit diminishing dependence on the energy sector, and low potential growth amid unfavorable demographics and chronic underinvestment. Ongoing Western sanctions also weigh on Russia's macro outlook.

We attach a stable outlook to Russia as risks look symmetrical, in our view. Reforms boosting potential growth and improved structural indicators, such as governance standards, would be positive for creditworthiness. On the other hand, weak growth and productivity, lack of economic diversification, and the continued threat of sanction escalation are negative factors to watch. But these negative factors are partly mitigated by a more sustainable macro-policy mix as well as robust external and public finances.

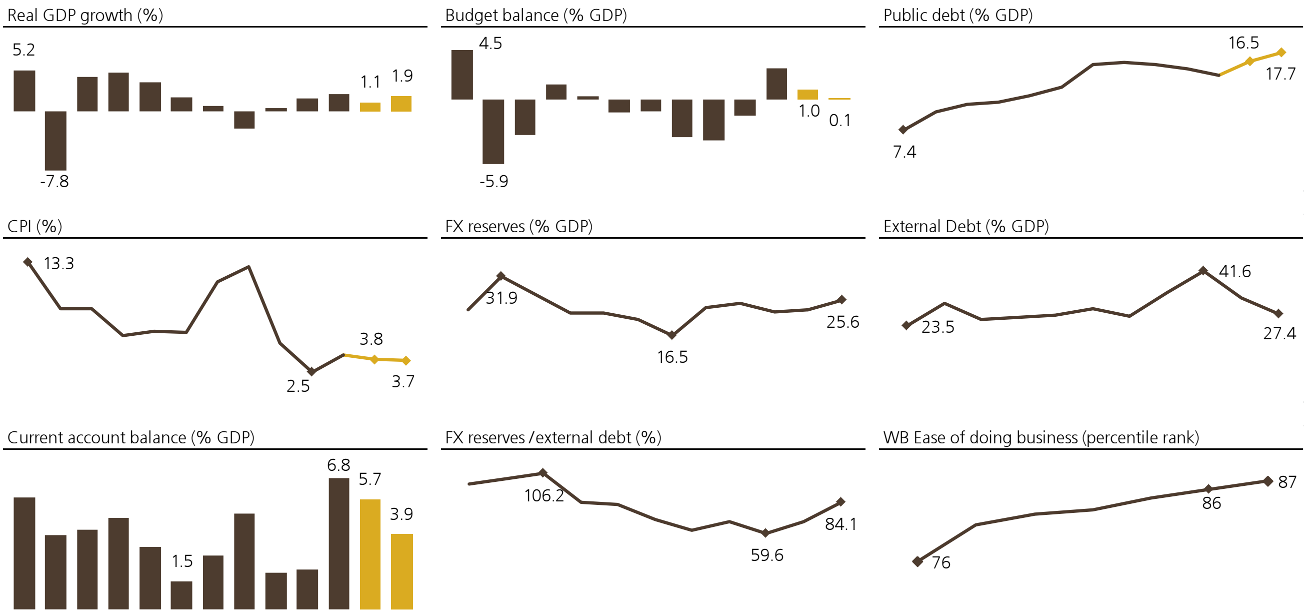
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Russia	Stable				
Credit ratings (Moody's / S&P)		Baa3 STABLE / BBB- STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	1.6	2.3	1.1	1.9
CPI inflation (%)	2.5	4.3	3.8	3.7
GDP per capita (PPP, USD)	27'474	28'797	29'642	30'820
Fiscal				
Budget balance (% GDP)	-1.5	2.9	1.0	0.1
Public debt (% GDP)	15.5	14.6	16.5	17.7
Interest payment / gov. revenue (%)	1.5	1.4	1.4	1.8
External				
Current account balance (% GDP)	2.1	6.8	5.7	3.9
External debt (% GDP)	32.8	27.4	..	..
FX reserves (% GDP) *	22.5	23.0	25.6	..
Reserve coverage of ext. debt (%) **	68.7	84.1	..	..
Governance				
Ease of doing business (percentile rank)	83.0	84.6	85.6	86.7
WB Governance indicator (percentile rank)	27.7	28.8	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Middle East

Kuwait: Solid as a rock despite the lack of reforms

With oil accounting for around 90% of government receipts and over 50% of its GDP, Kuwait is the most energy-dependent GCC economy. It is also the wealthiest, as measured by assets held in the Kuwait Investment Authority (KIA), estimated at 400% of GDP. Kuwait also enjoys the largest proven oil reserves in the region, estimated at around 90 years at the current rate of production. The corollary is that progress on reforms to develop the non-oil sector has been very slow, as shown by the delay in unpopular reforms such as the introduction of VAT, new excise taxes, and public sector wage reviews. This also reflects institutional weakness, in our view, due to an inefficient bureaucratic environment and the long-running political gridlock between the appointed government and the elected parliament. Exposure to geopolitical uncertainty is another risk to consider, similar to other GCC countries.

OPEC-led production cuts, which have been extended until March 2020, and likely lower-for-longer oil prices will affect growth and the broader macroeconomic outlook this year and next. Fiscal reform acceleration before the 2020 parliamentary election is also unlikely given ongoing political tensions. That said, we assign a stable outlook to Kuwait due to its extremely high fiscal strength, which provides ample capacity to support the economy and absorb oil price shocks. The large current account surplus, ongoing infrastructure projects, and potential for raising oil production are positive credit drivers. Key to watch are energy prices, geopolitics, and reforms, whose prospects are closely related to the next legislative election, due in 2020.

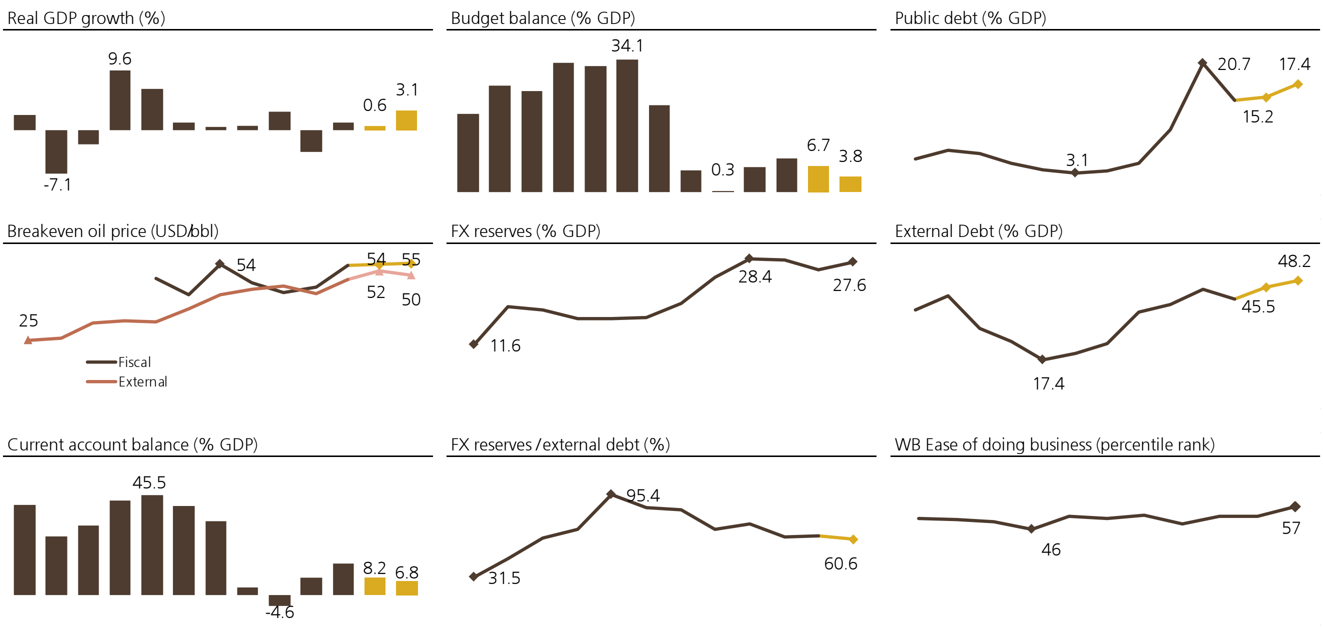
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Kuwait	Stable				
Credit ratings (Moody's / S&P)		Aa2 STABLE /AA STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	-3.5	1.2	0.6	3.1
CPI inflation (%)	1.0	0.4	1.8	3.0
GDP per capita (PPP, USD)	66'103	66'652	66'387	67'891
Fiscal				
Budget balance (% GDP)	6.3	8.7	6.7	3.8
Public debt (% GDP)	20.7	14.7	15.2	17.4
Net interest payment /gov. rev. (%)	-27.1	-20.7	-21.2	-22.9
External				
Current account balance (% GDP)	8.0	14.4	8.2	6.8
External debt (% GDP)	45.0	41.2	45.5	48.2
FX reserves (% GDP) *	28.1	26.1	27.6	..
Reserve coverage of ext. debt (%) **	62.5	63.5	60.6	..
Governance				
Ease of doing business (percentile rank)	48.4	52.7	52.7	57.4
WB Governance indicator (percentile rank)	46.2	48.7	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

UAE: On a slow recovery path

The UAE consist of seven emirates issuing debt individually. The country's Aa2 credit rating is underpinned by the assumed full backing of Abu Dhabi, the largest emirate, which enjoys a very strong balance sheet, backed by assets held by ADIA—the Abu Dhabi Investment Authority—equivalent to 145% of the UAE's 2018 GDP. Other credit strengths include a history of domestic political stability, a high GDP per capita, and hydrocarbon reserves of more than 70 years at the current rate of production. The economy is fairly diversified, but growth and public finances still depend on hydrocarbon exports and oil-driven liquidity in the region. Dubai has around USD 120bn of public debt (110% of GDP), split almost equally between the government and state-owned enterprises. This high debt ratio is mitigated, in our view, by the relatively healthy credit fundamentals of state-owned enterprises and the likely support from Abu Dhabi, if needed.

We assign a stable outlook to Abu Dhabi and Dubai. The UAE economy is on a slow recovery path from the 2014–2017 oil shock, and significant fiscal buffers remain in place. Headwinds will persist this year and next due to lingering trade tensions, the global economic slowdown, low energy prices, OPEC-led production cuts, and tensions with Iran. Growth should, however, pick up somewhat thanks to the ongoing fiscal stimulus measures, spending related to hosting Dubai Expo 2020, rate cuts in line with the Federal Reserve, and continuing diversification efforts. Key risks to watch beyond those mentioned above include the increasing economic competition from GCC neighbors, in particular Saudi Arabia, and debt levels of state enterprises.

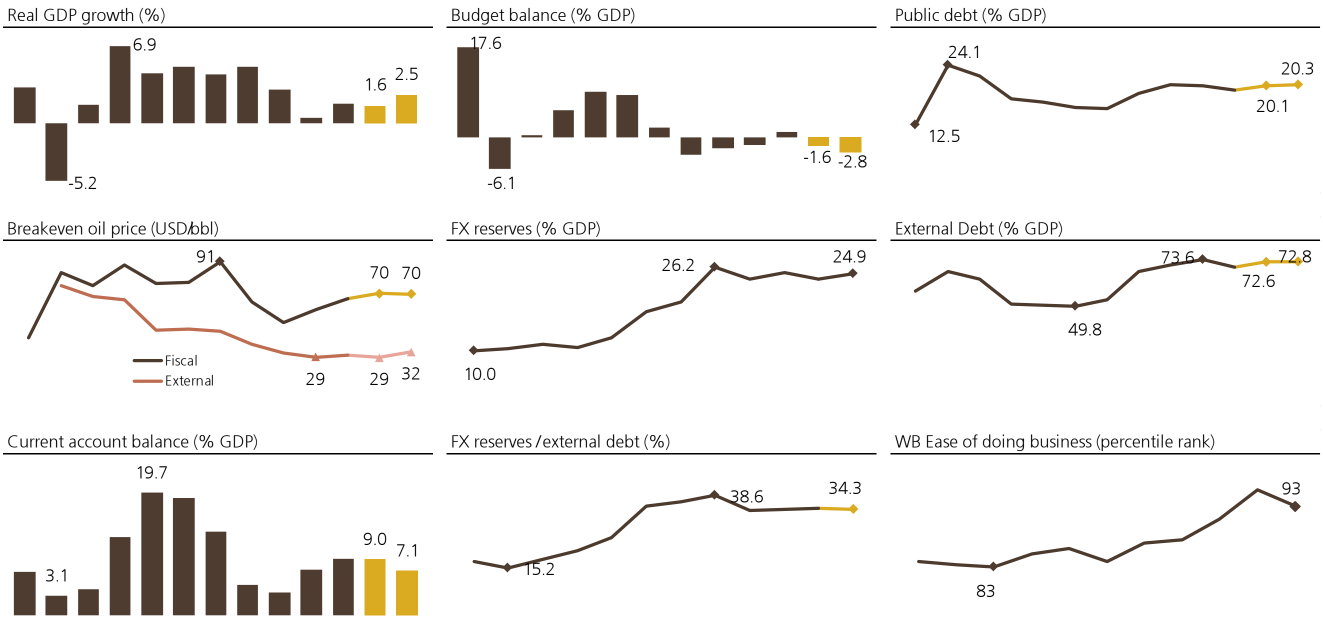
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
United Arab Emirates	Stable				
Credit ratings (Moody's / S&P)		Aa2 STABLE /NA			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	0.5	1.7	1.6	2.5
CPI inflation (%)	2.0	3.1	-1.5	1.2
GDP per capita (PPP, USD)	68'338	69'222	69'435	70'442
Fiscal				
Budget balance (% GDP)	-1.4	1.2	-1.6	-2.8
Public debt (% GDP)	20.0	19.1	20.1	20.3
Net interest payment /gov. rev. (%)	0.5	0.8	1.2	1.2
External				
Current account balance (% GDP)	7.3	9.1	9.0	7.1
External debt (% GDP)	73.6	69.8	72.6	72.8
FX reserves (% GDP) *	25.2	23.9	24.9	..
Reserve coverage of ext. debt (%) **	34.2	34.3	34.3	..
Governance				
Ease of doing business (percentile rank)	87.2	90.4	95.2	92.6
WB Governance indicator (percentile rank)	69.4	70.1	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

Qatar: Life goes on despite the boycott

Qatar's AA- rating is underpinned by the world's highest per-capita income (more than USD 130,000 at PPP), the return to fiscal and external surpluses despite the continued boycott by its GCC neighbors, the government's sound balance sheet, and vast hydrocarbon reserves. At the end of 2018, assets held in Qatar Investment Authority accounted for an estimated 180% of GDP, compared to about 50% of government debt. Qatar is also the world's leading exporter of liquefied natural gas (LNG), and its proven natural gas reserves should last for an estimated 130 years at the current rate of production. Reliance on volatile energy-related revenues is only partly mitigated by the country's low fiscal breakeven oil price (around USD 50/bbl). Other credit constraints include the country's sizable external debt, which has grown rapidly in recent years, and regional geopolitical risks.

We assign a stable outlook to Qatar. Qatar's economy contracted in 2Q19 due to lower oil prices, a shrinking construction sector, and stagnant hydrocarbon production growth. In addition, business cycle dynamics are likely to remain subdued in the foreseeable future. However, we expect a stable-to-declining government debt burden in the coming years. We also see prospects for significant improvements in public finances after the 2022 World Cup and for higher potential growth, supported by the 40% increase in LNG production targeted by the government by 2023–25 and, to a lesser extent, ongoing reforms. Effective public responses to the GCC boycott have also demonstrated a strong institutional capacity to manage crises. Main risks include regional tensions, falling gas prices, and rising external debt.

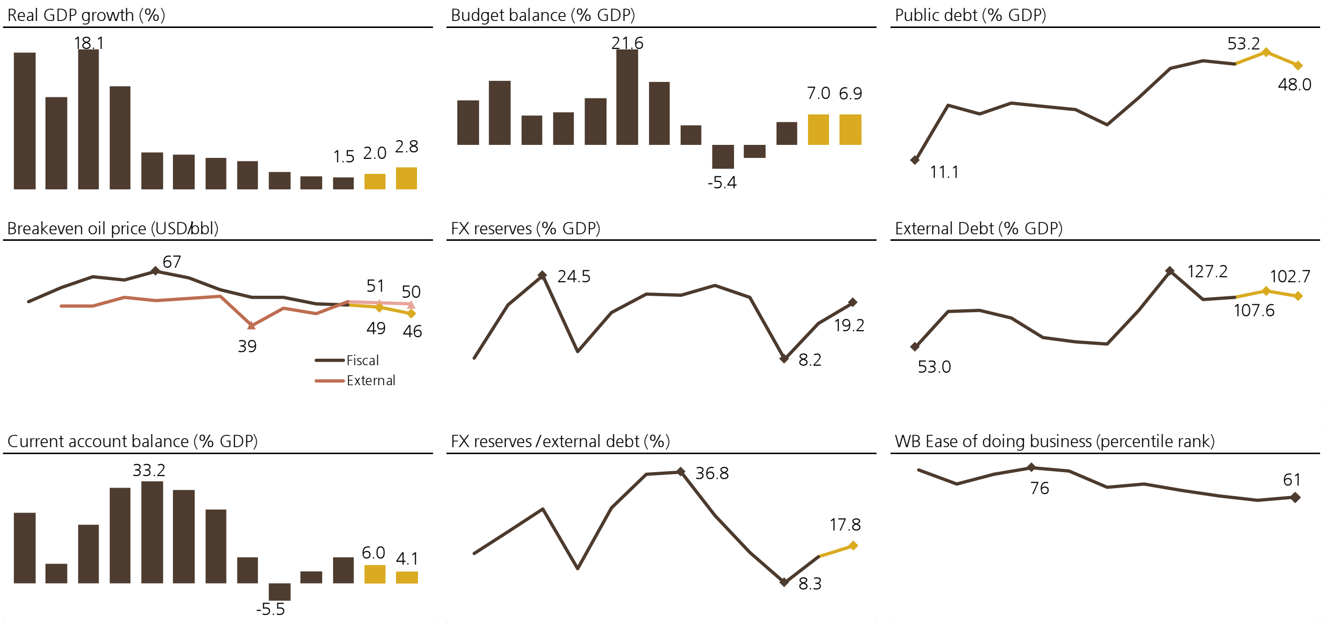
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Qatar	Stable				
Credit ratings (Moody's / S&P)	Aa3 STABLE / AA- STABLE				

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	1.6	1.5	2.0	2.8
CPI inflation (%)	0.4	0.2	0.1	3.7
GDP per capita (PPP, USD)	127'603	129'638	132'886	138'910
Fiscal				
Budget balance (% GDP)	-2.9	5.3	7.0	6.9
Public debt (% GDP)	49.8	48.6	53.2	48.0
Net interest payment /gov. rev. (%)	4.4	4.0	4.2	4.5
External				
Current account balance (% GDP)	3.8	8.7	6.0	4.1
External debt (% GDP)	99.6	101.6	107.6	102.7
FX reserves (% GDP) *	8.2	15.2	19.2	..
Reserve coverage of ext. debt (%) **	8.3	14.9	17.8	..
Governance				
Ease of doing business (percentile rank)	64.4	61.2	59.0	60.6
WB Governance indicator (percentile rank)	63.3	63.6	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

Israel: Inconclusive election outcome not a game changer:

Israel's credit profile is very strong, as shown by its A1/AA- ratings. The government debt burden is moderate, at 62% of GDP, and lower than before the global financial crisis. Debt affordability is high, supported by low funding costs; debt is well structured, with limited near-term financing needs; and government debt is backed by a deep global and domestic investor base, which should grow further after the inclusion of Israel in the FTSE World Government Bond Index (WGBI) from April 2020. The Israeli economy is also very competitive, supported by a dynamic growth model fueled by the high-tech and startup sectors and a good education system. Combined with a sound macroeconomic policy framework, a strong external creditor position, and a wealthy population, this has brought resilience to shocks in the past. Key credit risks to watch stem from long-term demographic challenges, a fragmented political system, and persistent geopolitical concerns. Improving diplomatic and economic relations with Saudi Arabia and other Arab countries have somewhat reduced regional security threats, however.

We assign an improving outlook to Israel. In our view, the inconclusive election outcome, and challenges to form a governing coalition, pose near-term risks to fiscal consolidation and reforms. However, they shouldn't derail the positive fundamental picture, in our view. We expect the Israeli economy to remain resilient, thanks to robust institutions and current account surpluses, and growth to remain at healthy levels, supported by robust domestic demand. The government debt burden should also remain in check as fiscal consolidation and reform efforts may intensify once a coalition government is formed. The development of the Leviathan gas fields, which are expected to begin operation soon, should also bring economic, fiscal, and foreign policy benefits.

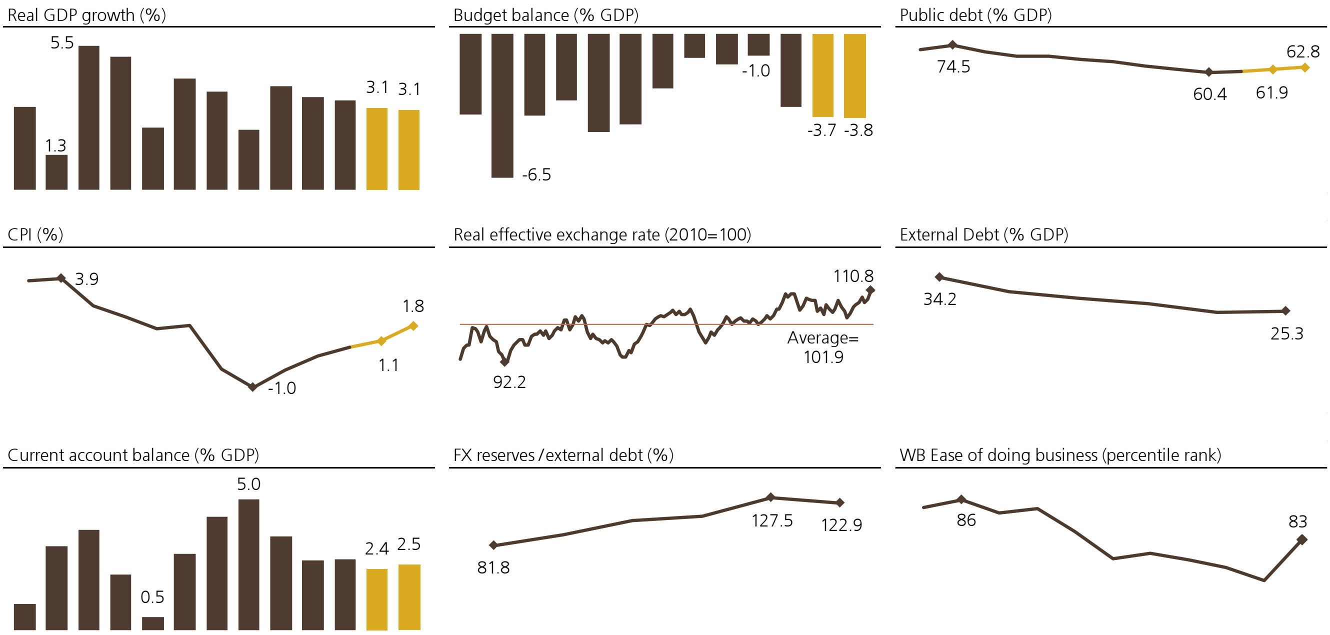
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Israel	Improving				
Credit ratings (Moody's / S&P)		A1 POS /AA- STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	3.6	3.4	3.1	3.1
CPI inflation (%)	0.4	0.8	1.1	1.8
GDP per capita (PPP, USD)	36'562	37'994	39'121	40'337
Fiscal				
Budget balance (% GDP)	-1.0	-3.3	-3.7	-3.8
Public debt (% GDP)	60.4	60.8	61.9	62.8
Interest payment /gov. revenue (%)	5.1	5.5	5.6	5.7
External				
Current account balance (% GDP)	2.7	2.7	2.4	2.5
External debt (% GDP)	25.1	25.3	..	..
FX reserves (% GDP) *	32.0	31.1	30.9	..
Reserve coverage of ext. debt (%) **	127.5	122.9	..	..
Governance				
Ease of doing business (percentile rank)	81.4	80.9	79.8	83.0
WB Governance indicator (percentile rank)	70.9	69.6	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

Saudi Arabia: No room for complacency with reforms

Saudi Arabia's creditworthiness is supported by the government's robust balance sheet, substantial external buffers, and a well-capitalized banking sector. At the end of 2018, sovereign debt and foreign assets (central bank reserves and sovereign wealth fund holdings) accounted for less than 20% and more than 90% of GDP, respectively. The country also has substantial proven oil reserves, which at the current rate of production would last more than 60 years, according to BP. On the negative side, oil accounts for about one-third of GDP and 80% of total exports. This makes public finances and the economy vulnerable to declines in oil prices, particularly due to a rigid spending structure. The country's lower economic growth and a still-large fiscal deficit demonstrate this. Regional geopolitical tensions remain an important risk, as reflected by the attacks on Aramco's oil facilities, and socio-economic challenges posed by high unemployment and rapid population growth are other risks to watch.

We assign a stable outlook to Saudi Arabia as we think the risks are balanced. Ongoing reforms to capital markets, public finances, the legal framework, the business environment, and the SME sector are starting to yield positive results, as highlighted by the IMF. In turn, this could enhance competitiveness and raise long-term potential growth as well as help achieve a balanced budget by 2023, in line with the government's target, although it will be difficult to fully achieve this objective, in our view. But social pressures or geopolitical events could slow or reverse the reform progress. Key factors to monitor are fiscal consolidation, economic reforms, oil market dynamics, and geopolitics. Aramco's upcoming partial IPO also needs to be watched as it could have positive credit implications, if successful.

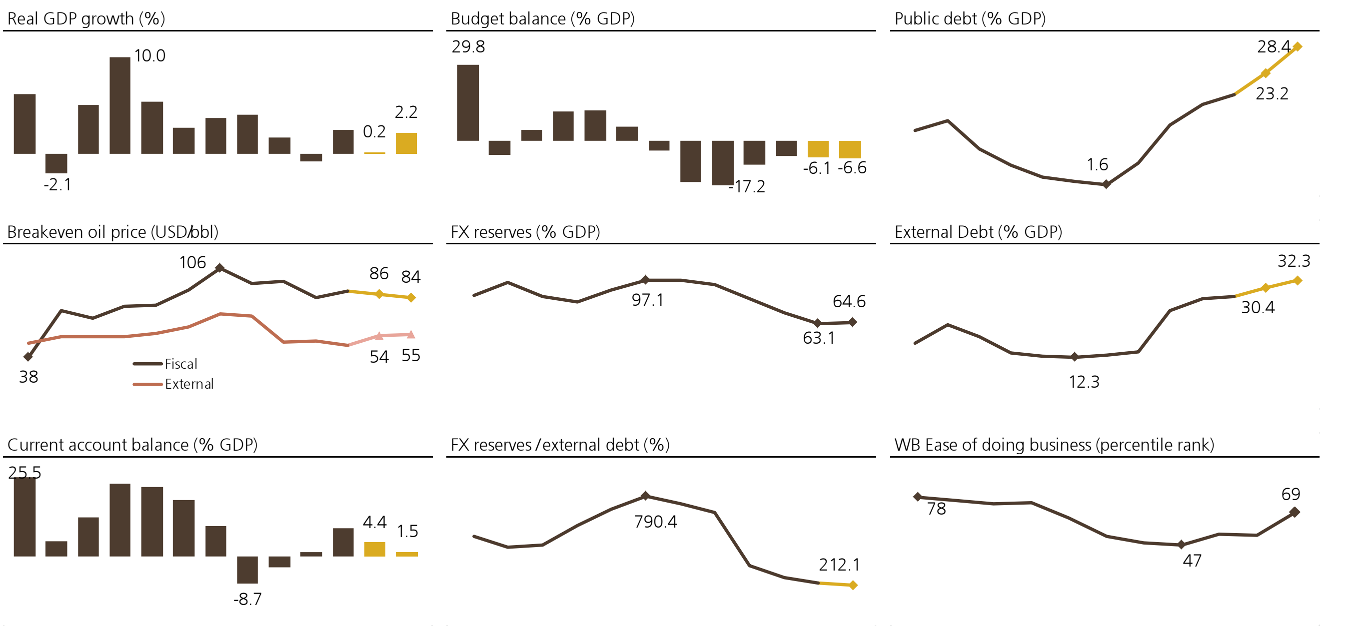
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Saudi Arabia	Stable				
Credit ratings (Moody's / S&P)	A1 STABLE /A- STABLE				

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	-0.7	2.4	0.2	2.2
CPI inflation (%)	-1.1	2.3	-1.1	2.2
GDP per capita (PPP, USD)	54'416	55'730	55'704	56'912
Fiscal				
Budget balance (% GDP)	-9.2	-5.9	-6.1	-6.6
Public debt (% GDP)	17.2	19.0	23.2	28.4
Net interest payment /gov. rev. (%)	-7.7	-2.1	0.4	1.5
External				
Current account balance (% GDP)	1.5	9.2	4.4	1.5
External debt (% GDP)	27.7	28.1	30.4	32.3
FX reserves (% GDP) *	72.0	63.1	64.6	..
Reserve coverage of ext. debt (%) **	260.4	224.3	212.1	..
Governance				
Ease of doing business (percentile rank)	47.3	54.3	53.7	68.6
WB Governance indicator (percentile rank)	45.3	46.2	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

Oman: Fiscal consolidation still very much needed

Due to its heavy reliance on hydrocarbons, Oman's fiscal and external accounts have deteriorated sharply since the drop in energy prices in 2014. Government debt is set to reach 60% of GDP in 2019 from only 5% in 2014, leading to multiple rating downgrades. Oman's proven oil reserves are also low relative to its regional peers (15 years of production at the current rate of output). The country's BB+ composite rating is underpinned by its still-high stock of liquid sovereign assets (around 40% of GDP in 2018), high levels of per capita income, a sound and profitable banking system, and a long-term debt profile. Oman is exposed to geopolitical risks, but its neutral foreign policy and location outside the Gulf are mitigating factors.

We assign a deteriorating outlook to Oman in light of the persistent weakening of government finances and external accounts. Despite ongoing consolidation efforts, the pace of policy adjustment has been slow as the government struggles to balance social and deficit-reduction objectives. A committee has been established with the aim of balancing the budget by 2023, but this has to be followed by concrete measures. The fiscal deficit may narrow on the back of spending cuts, the expected introduction of VAT in 2021, and revenue gains from the Khazzan gas field and potential increases in oil production. But implementation risks and credibility issues exist. On a more positive note, we think long-term growth potential may increase thanks to ongoing diversification efforts, with projects such as the large Liwa Plastics plant, the recently opened airport, a commercial seaport, and new, under-construction tourist complexes.

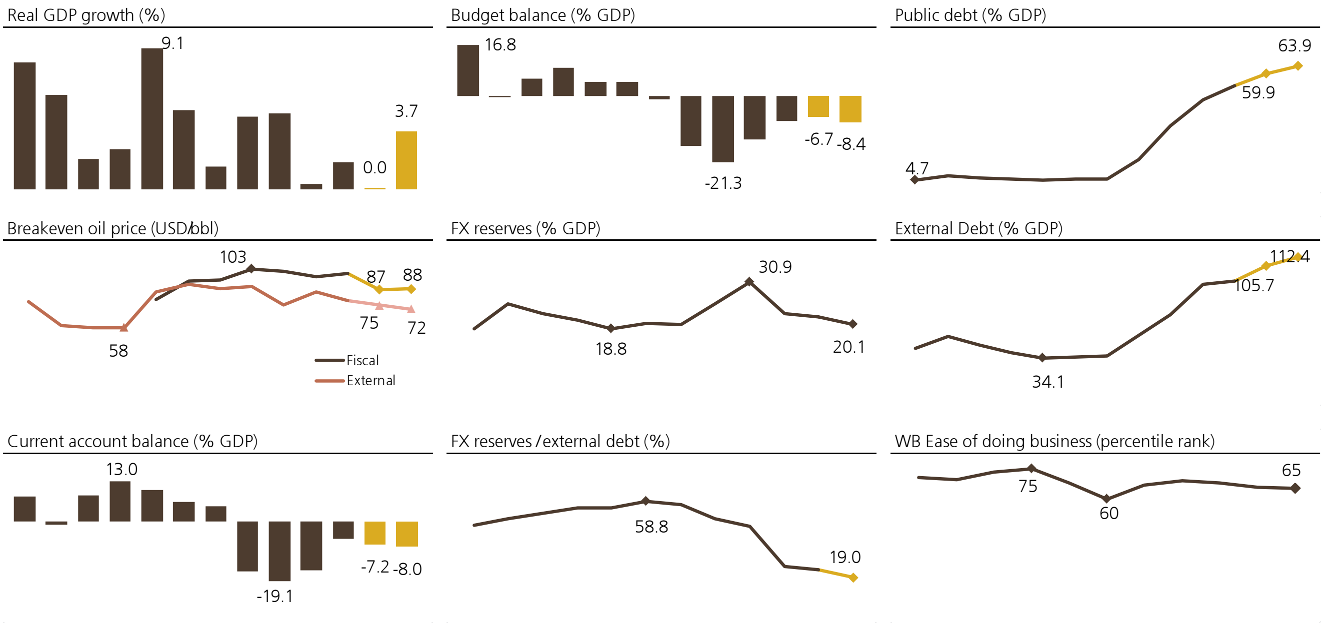
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Oman	Deteriorating				
Credit ratings (Moody's / S&P)		Ba1 NEG /BB NEG			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	0.3	1.8	0.0	3.7
CPI inflation (%)	1.6	0.9	0.8	1.8
GDP per capita (PPP, USD)	46'395	47'933	47'366	48'593
Fiscal				
Budget balance (% GDP)	-14.0	-7.9	-6.7	-8.4
Public debt (% GDP)	46.4	53.4	59.9	63.9
Net interest payment /gov. rev. (%)	1.8	2.8	3.6	4.7
External				
Current account balance (% GDP)	-15.6	-5.5	-7.2	-8.0
External debt (% GDP)	91.0	94.0	105.7	112.4
FX reserves (% GDP) *	22.8	21.9	20.1	..
Reserve coverage of ext. debt (%) **	25.0	23.3	19.0	..
Governance				
Ease of doing business (percentile rank)	69.1	68.1	66.0	65.4
WB Governance indicator (percentile rank)	58.2	57.3	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

Bahrain: GCC support and fiscal reforms under way

Bahrain is the smallest oil producer and the smallest economy in the GCC. The kingdom has a diversified and dynamic economy compared to its regional peers, as reflected by still-robust, albeit slowing, growth dynamics in the non-oil sector. It also has a very high per capita income. Bahrain's credit profile is, however, weak overall due to persistent fiscal deterioration, which started with the global financial crisis and continued with the Arab Spring in 2011 and the structural drop in energy prices since 2014. The government debt-to-GDP ratio has more than doubled since 2014 and is set to hit 102% in 2019. Government and external liquidity risks are also elevated given its very high borrowing requirements and low foreign exchange reserves, and the country is exposed to some degree of domestic political and geopolitical risks.

Despite those challenges, we assign a stable outlook to Bahrain. The country enjoys strong political and financial support from its GCC neighbors, from which it received a USD 10bn (26% of 2018 estimated GDP) financial assistance package in October 2018. Since then, fiscal reforms have picked up, with for instance spending cuts as well as the introduction of a value-added tax and a voluntary retirement scheme. The fiscal deficit shrank by 38% y/y in 1H19, and Bahrain was able to successfully come back to the Eurobond market. A more rapid and significant fiscal consolidation is, however, needed to set the government's debt burden on a stable or declining path. Fiscal reforms, disbursements of GCC support, foreign exchange buffers, geopolitical tensions in the region and global conditions are key factors to watch.

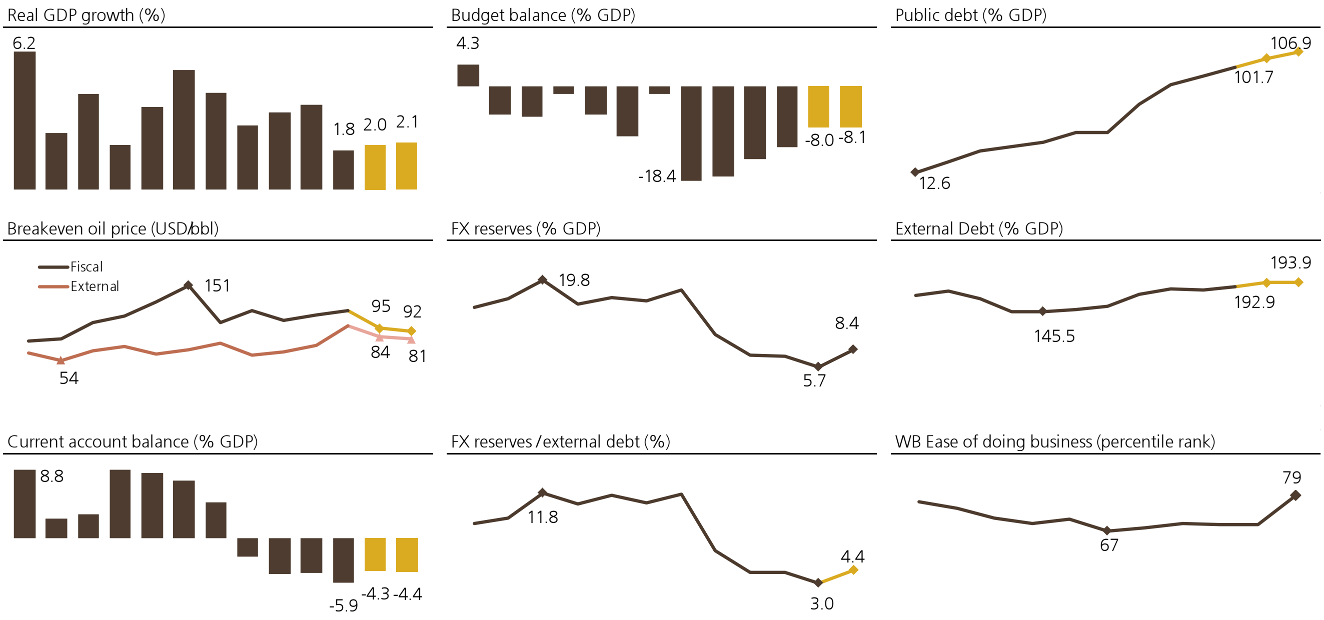
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Bahrain	Stable				
Credit ratings (Moody's / S&P)		B2 STABLE /B+ STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	3.8	1.8	2.0	2.1
CPI inflation (%)	1.4	1.9	2.0	2.8
GDP per capita (PPP, USD)	48'965	50'049	50'931	51'991
Fiscal				
Budget balance (% GDP)	-14.2	-11.9	-8.0	-8.1
Public debt (% GDP)	88.2	94.7	101.7	106.9
Interest payment /gov. revenue (%)	19.8	20.0	20.5	21.0
External				
Current account balance (% GDP)	-4.5	-5.9	-4.3	-4.4
External debt (% GDP)	181.2	187.4	192.9	193.9
FX reserves (% GDP) *	7.4	5.7	8.4	..
Reserve coverage of ext. debt (%) **	4.1	3.0	4.4	..
Governance				
Ease of doing business (percentile rank)	69.7	69.1	69.1	78.7
WB Governance indicator (percentile rank)	45.5	45.5	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

North Africa

Morocco: An investment grade African issuer

Other than Botswana, Morocco is the only investment grade African sovereign with Eurobonds outstanding. Its credit profile is constrained by its relatively low wealth levels, structural rigidities, such as in the labor market, and a high government debt burden (around 65% of GDP). Growth potential of 3.5–4% is relatively solid, and above the 1.5% population growth rate, but it is exposed to a volatile agricultural growth pattern and the euro-area business cycle. Government debt is sustainable, in our view, given the moderate interest burden (less than 10% of government revenue), the relatively low foreign-currency exposure (at about 20%), and good access to relatively deep domestic capital markets. The economy is also gradually diversifying into higher value-added manufactured export products in the automotive and aeronautics sectors, which supports the buildup of foreign exchange reserves (five months of imports). The coherent macroeconomic policies and fiscal reforms implemented over the past few years, the return of Morocco to the African Union in 2017 and its participation in the African Continental Free Trade Area, and its track record of political stability in comparison to its regional peers (despite sporadic social protests) also helped Morocco become an attractive investment destination in Africa.

The stable outlook we assign to Morocco reflects our view that the modest ongoing fiscal consolidation should gradually reduce the government debt burden to 60% of GDP in 2024 (IMF forecast). It should, however, remain above its BBB peers, thus limiting the government's capacity to absorb shocks. Economic diversification and continued expansion in renewable energies should also strengthen growth and economic resilience, while enhancing access to foreign exchange and limiting dependence on oil imports.

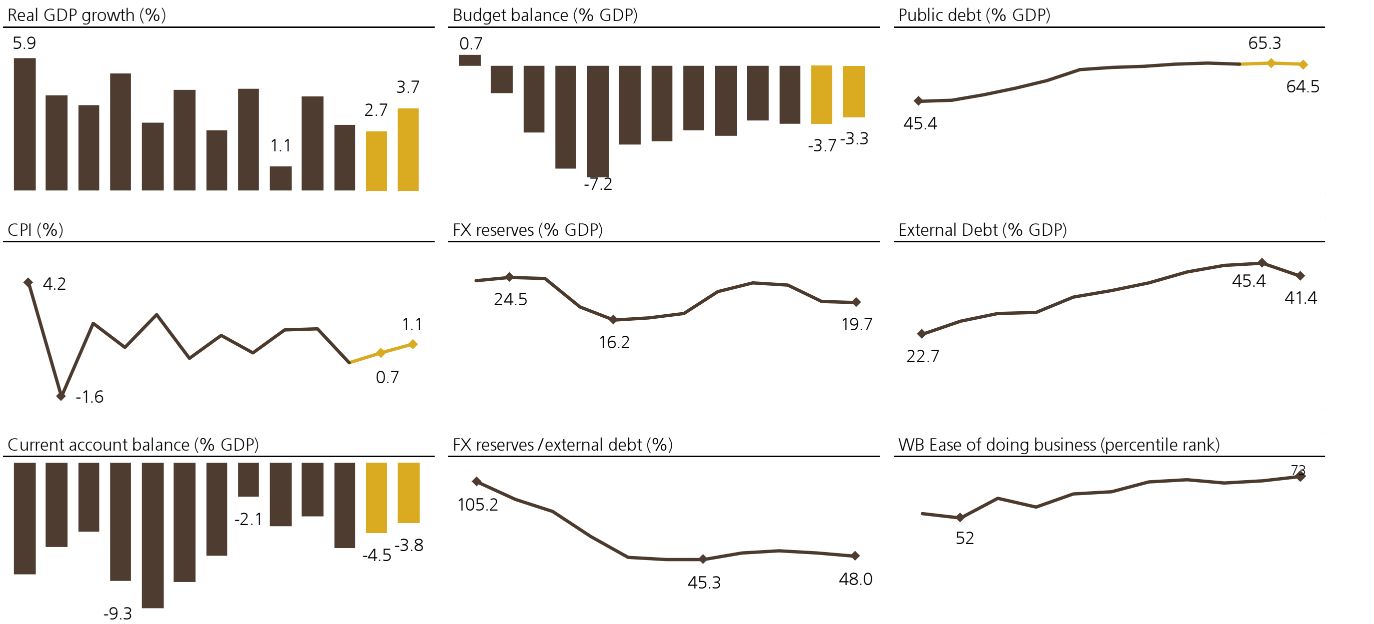
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Morocco	Stable				
Credit ratings (Moody's / S&P)	Ba1 STABLE /BBB- STABLE				

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	4.2	3.0	2.7	3.7
CPI inflation (%)	1.9	0.1	0.7	1.1
GDP per capita (PPP, USD)	8'557	8'931	9'235	9'667
Fiscal				
Budget balance (% GDP)	-3.5	-3.7	-3.7	-3.3
Public debt (% GDP)	65.1	65.0	65.3	64.5
Interest payment /gov. revenue (%)	9.6	9.4	9.5	9.2
External				
Current account balance (% GDP)	-3.4	-5.4	-4.5	-3.8
External debt (% GDP)	45.4	41.4	..	..
FX reserves (% GDP) *	23.0	19.9	19.7	..
Reserve coverage of ext. debt (%) **	50.7	48.0	..	..
Governance				
Ease of doing business (percentile rank)	71.8	69.7	70.7	73.4
WB Governance indicator (percentile rank)	41.7	41.7	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Egypt: Improving outlook amid ongoing reform efforts

We expect macroeconomic conditions to improve, supported by the government's reform commitment, investments, and growing benefits from structural reforms and improved financial conditions. The country's GDP could sustainably expand at a 5% rate, in our view, and its diversified economy reduces growth risks. That said, important growth drivers such as construction, the energy sector, foreign investments, and trade expose the economy to global business cycle dynamics. Inflation has declined thanks to a more rigorous inflation-targeting and a stronger pound. Energy exports from the Zohr gas field and service exports, mainly through tourism, help reduce external dependencies. Ongoing investment inflows should underpin Egypt's external position. Weak public finances are the key weakness of the sovereign's credit profile: The public debt-to-GDP ratio is at 85% and the fiscal deficit remains sizable at 7.2% (current fiscal year). The low share of external debt (40% of GDP), a favorable maturity profile, sufficient foreign currency reserves, and improved liquidity conditions are mitigating factors. The high unemployment rate and widespread poverty are other important risks to monitor.

We think Egypt's credit outlook is improving. But investors should monitor risks associated with global and local business cycle dynamics, energy price fluctuations, and reform fatigue, especially with regard to the consolidation of public finances. Political uncertainties and the risk of rising popular discontent or unrest are other risks to monitor. The government's ability to ease the burden of economic reforms for the poor and to distribute its benefits across the entire society, for example via job growth, is crucial in this regard.

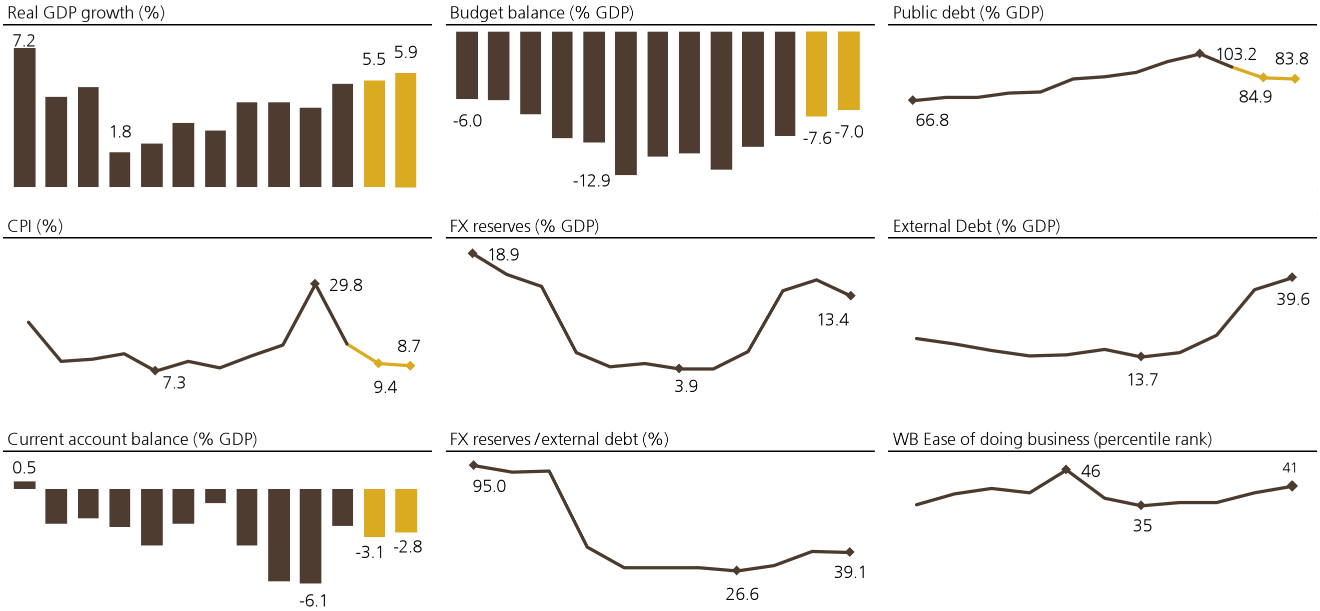
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Egypt	Improving				
Credit ratings (Moody's / S&P)		B2 STABLE /B STABLE			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	4.1	5.3	5.5	5.9
CPI inflation (%)	29.8	14.4	9.4	8.7
GDP per capita (PPP, USD)	12'667	13'358	14'023	14'800
Fiscal				
Budget balance (% GDP)	-10.4	-9.4	-7.6	-7.0
Public debt (% GDP)	103.2	92.7	84.9	83.8
Interest payment /gov. revenue (%)	36.4	43.6	44.3	42.7
External				
Current account balance (% GDP)	-6.1	-2.4	-3.1	-2.8
External debt (% GDP)	35.7	39.6	..	..
FX reserves (% GDP) *	14.0	15.5	13.4	..
Reserve coverage of ext. debt (%) **	39.3	39.1	..	..
Governance				
Ease of doing business (percentile rank)	35.6	35.6	38.8	41.0
WB Governance indicator (percentile rank)	22.6	23.7	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

Sub-Saharan Africa

South Africa: Challenging fiscal outlook amid low growth and SOE troubles

South Africa's credit profile is supported by a diversified economy, a well-developed financial sector, a liquid capital market, and strong institutions. Increasing credit constraints have, however, pushed the sovereign rating to below investment grade. GDP growth has averaged only 1.1% in the five years to 2018 due to major structural constraints and is expected to be around 0.7% this year, below trend population growth (1.6%). Income inequality is one of the highest in the world, and less than half of the working-age population is employed. This fuels social tensions and constrains policymaking. Combined with rising government support to poorly managed state-owned enterprises (SOEs), these factors have put pressure on government debt, which more than doubled to 60% of GDP in the last decade. Significant foreign participation in local-currency government debt is an important risk to monitor.

We attach a deteriorating credit outlook to South Africa. The budget deficit is likely to rise above 6% of GDP by this fiscal year-end in March 2020 due to weak growth and the financial support granted to Eskom. This will push up government debt from an already elevated level. The current administration is committed to much needed structural reforms. But progress has been limited so far due continued infighting within the ruling party and resistance to change from labor unions. The high tax burden and pressures on spending from high inequality and unemployment also limit the scope for further fiscal consolidation if economic growth remains sluggish. Key issues to watch are structural reforms, fiscal consolidation, and measures to sustainably improve the financial viability of SOEs (particularly Eskom, whose debt accounts for 9% of GDP; 14% if all SOE debt is taken into account).

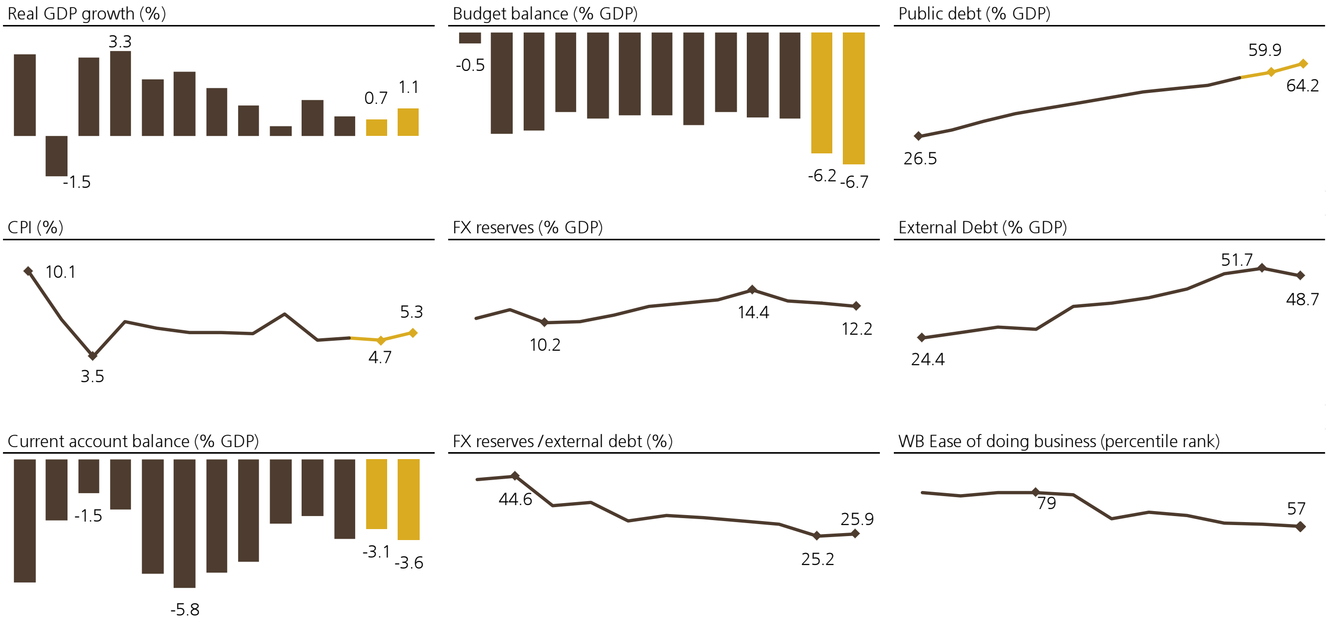
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
South Africa	Deteriorating				
Credit ratings (Moody's / S&P)	Baa3 STABLE /BB STABLE				

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	1.4	0.8	0.7	1.1
CPI inflation (%)	4.7	4.9	4.7	5.3
GDP per capita (PPP, USD)	13'396	13'630	13'754	13'965
Fiscal				
Budget balance (% GDP)	-4.4	-4.4	-6.2	-6.7
Public debt (% GDP)	53.0	56.7	59.9	64.2
Interest payment /gov. revenue (%)	12.3	12.7	13.7	14.3
External				
Current account balance (% GDP)	-2.5	-3.5	-3.1	-3.6
External debt (% GDP)	51.7	48.7	..	..
FX reserves (% GDP) *	13.0	12.6	12.2	..
Reserve coverage of ext. debt (%) **	25.2	25.9	..	..
Governance				
Ease of doing business (percentile rank)	63.8	59.0	58.5	56.9
WB Governance indicator (percentile rank)	56.9	57.1	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Ivory Coast: A growth and reform champion in Africa

Ivory Coast is the largest economy in the West African Economic and Monetary Union and the world's largest cocoa producer. Its B+ (Fitch) and Ba3 (Moody's) credit ratings are in the upper range of sub-Saharan Africa sovereign ratings. GDP growth prospects are robust (expected to remain close to 7% in the coming years), thanks to strong domestic consumption and private investments in areas such as agribusiness, mining, light manufacturing, and services. They are underpinned by improved political stability, macro stability stemming from membership in the CFA franc zone, and an increasingly resilient and diversified economy (with high potential in mining and hydrocarbon production). The government's pro-business reforms, combined with diversification efforts into higher value-added export products, are also improving economic competitiveness, as shown by the improvement in the country's ranking in the Doing Business Report from 177 in 2013 to 110 in 2020. Lastly, fiscal fundamentals are relatively strong as a result of prudent fiscal management. Creditworthiness is constrained by low income and human development levels, youth unemployment, weak although improving institutional strength, and a small economy (nominal GDP of USD 43bn in 2018) exposed to environmental and lingering political risks.

We assign a stable outlook to Ivory Coast as we see risks as being fairly balanced. Our base case scenario for the coming year is quite benign. We expect the government debt burden to remain below 50% of GDP and sustained strong growth to raise incomes and enhance economic diversification further. A reemergence of political tensions ahead of the 2020 presidential election is a key risk to watch as it could impair the growth and fiscal outlook. But widespread instability and a renewed civil war are unlikely, in our view.

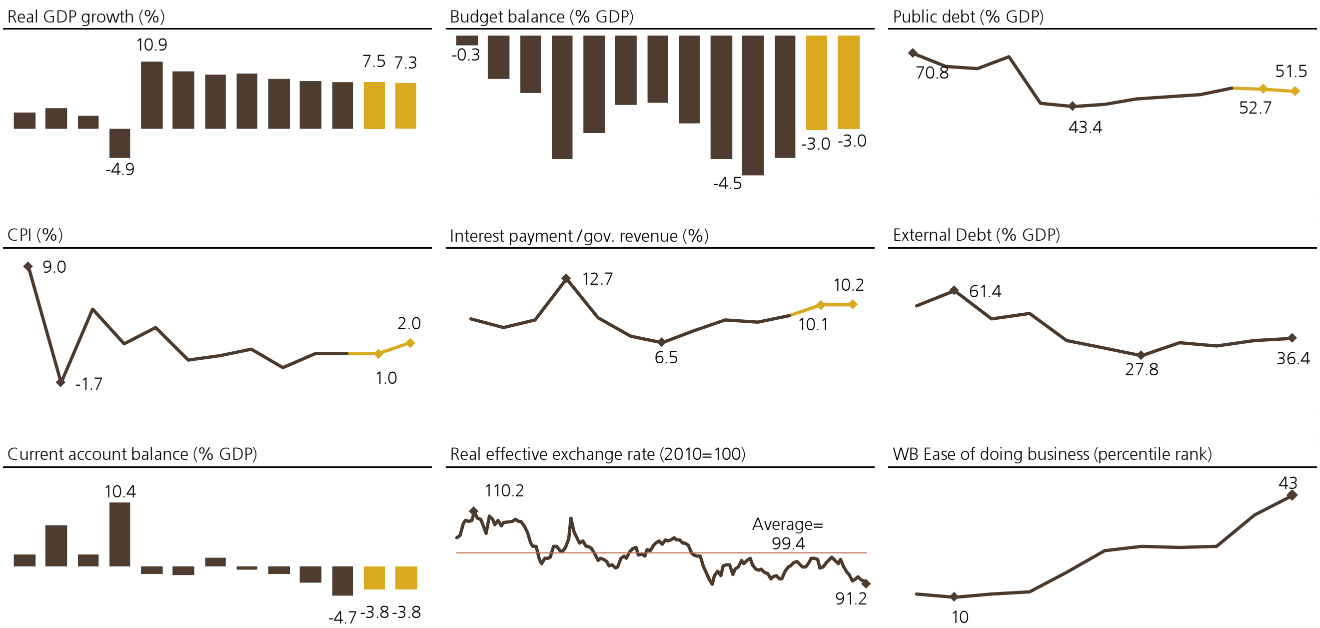
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Ivory Coast	Stable				
Credit ratings (Moody's / S&P)		Ba3 STABLE /NA			

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	7.7	7.4	7.5	7.3
CPI inflation (%)	1.1	1.1	1.0	2.0
GDP per capita (PPP, USD)	3'897	4'180	4'457	4'754
Fiscal				
Budget balance (% GDP)	-4.5	-4.0	-3.0	-3.0
Public debt (% GDP)	49.8	53.2	52.7	51.5
Interest payment / gov. revenue (%)	8.4	9.1	10.1	10.2
External				
Current account balance (% GDP)	-2.7	-4.7	-3.8	-3.8
External debt (% GDP)	35.3	36.4	..	..
Governance				
Ease of doing business (percentile rank)	26.1	26.6	36.7	43.1
WB Governance indicator (percentile rank)	29.3	33.1	..	..

Source: IMF, WB, UBS, as of 31 October 2019

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts. Source: IMF, WB, UBS, as of 31 October 2019

Kenya: Strong growth mitigates large fiscal deficits

With a GDP per capita of USD 3,383, and 44% of its population living below the poverty line, Kenya is considered a lower middle income country by the World Bank. The country has the largest and most advanced economy in East and Central Africa, where it acts as an economic and transport hub. Its diversified economy enjoys strong growth prospects of about 6%, supported by a booming service sector in financial services, telecommunications, tourism, and higher education. This is above the population growth rate (2.3% in 2018). Also, oil discoveries in the northwest will, when exploited, support export diversification. But reforms are needed to address structural headwinds such as inadequate infrastructure, weak governance, and low productivity in the agricultural sector. Beyond weak government indicators, and a history of instability around national elections—the next of which is scheduled for 2022—Kenya's credit profile is mostly constrained by weak government finances. Government debt stands at 62% of GDP; interest payments consume more than a fifth of government revenue; and short-term financing needs account for about 20% of GDP, according to Fitch. However, government liquidity risks are moderate, in our view, due to the good access to funding domestically and externally, a diversified funding base, and the elevated level of foreign-exchange reserves, covering six months of imports.

We assign a stable outlook to Kenya as the government debt burden is likely to stabilize at around 60% of GDP over the medium term. Strong economic growth should counterbalance persistent large fiscal deficits. The effective implementation of fiscal reforms that would put the government debt on a sustained downward trend needs to be monitored. It's also a precondition for a renewed agreement with the IMF, in our view.

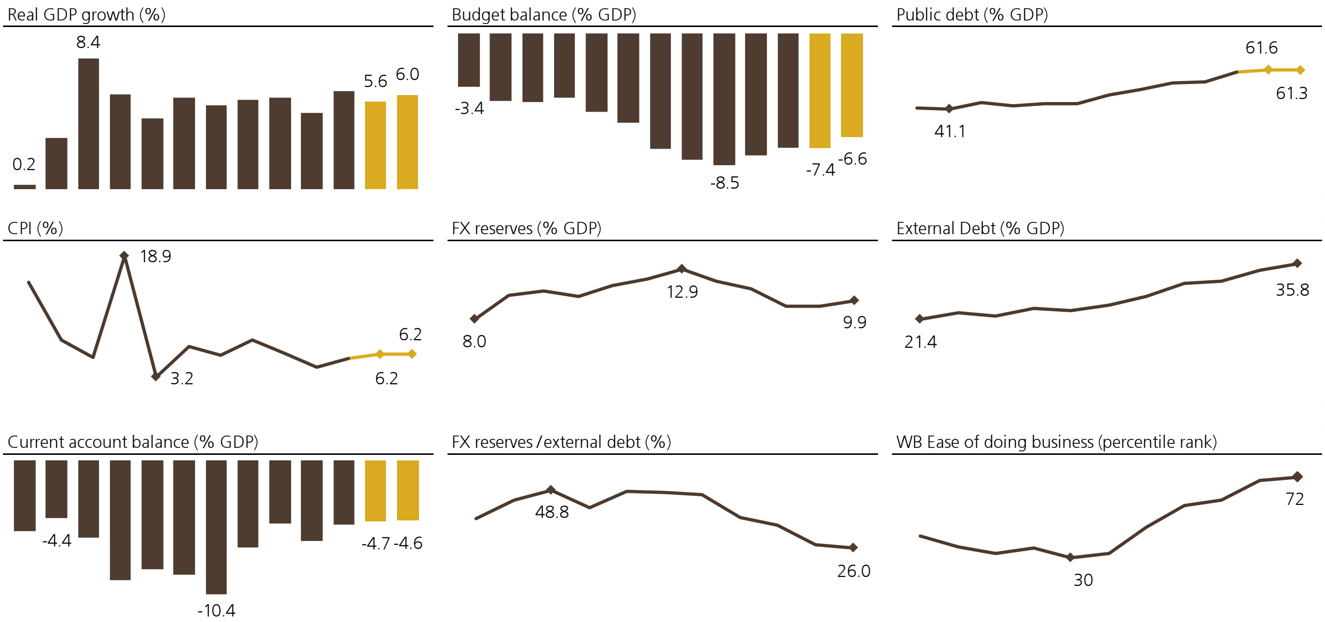
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Kenya	Stable				
Credit ratings (Moody's / S&P)	B2 STABLE /B+ STABLE				

Key Indicators	2017	2018	2019f	2020f
Growth and Inflation				
Real GDP growth (%)	4.9	6.3	5.6	6.0
CPI inflation (%)	4.5	5.7	6.2	6.2
GDP per capita (PPP, USD)	3'497	3'705	3'875	4'078
Fiscal				
Budget balance (% GDP)	-7.9	-7.4	-7.4	-6.6
Public debt (% GDP)	55.2	60.1	61.6	61.3
Interest payment /gov. revenue (%)	18.2	20.0	20.8	20.9
External				
Current account balance (% GDP)	-6.2	-5.0	-4.7	-4.6
External debt (% GDP)	34.1	35.8	..	..
FX reserves (% GDP) *	9.3	9.3	9.9	..
Reserve coverage of ext. debt (%) **	27.4	26.0	..	..
Governance				
Ease of doing business (percentile rank)	56.9	59.6	69.7	71.8
WB Governance indicator (percentile rank)	31.6	31.2	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

Nigeria: Limited growth potential caps upside

Nigeria's growth potential remains around 2%, close to its population growth. Structural hurdles to unleash the country's potential are security issues, a poor business climate, corruption, power shortages, credit conditions, and access to foreign funds. President Muhammadu Buhari is unlikely to scale up reforms, in our view. Specifically, we expect the prevailing multi-tiered foreign-exchange system to remain in place, reducing the odds of a pickup in foreign direct investments. The central bank should remain committed to keeping the naira stable under governor Godwin Emefiele. However, given the need to foster growth and job creation, monetary policy should stay accommodative. Hence, inflation is unlikely to decline to single-digit territory, making another one-off exchange rate adjustment more likely, although not a base case, in the coming quarters. A low general government debt level of 25% of GDP, with around 70% denominated in the local currency, makes Nigeria a solid debtor. The liquid domestic debt market enjoys significant, although volatile, interest from foreigners. Large oil and gas reserves and foreign-exchange reserves worth USD 44bn (as of July 2019) further underpin external buffers. At the same time, public finances remain too dependent on hydrocarbon revenues (around 45% of public revenues and 60% of current account receipts). Security issues and the lack of sufficient funds for investments in oil facilities can further aggravate the sensitivity to energy prices.

We attach a stable credit outlook to Nigeria. Upside and downside risks are roughly balanced, in our view. Local tensions, especially in areas with oil production facilities, would weigh on our growth outlook and assessment of fiscal strength. Declining energy prices would hit fiscal metrics. With regard to reforms, we see risks skewed to the upside, given muted market expectations.

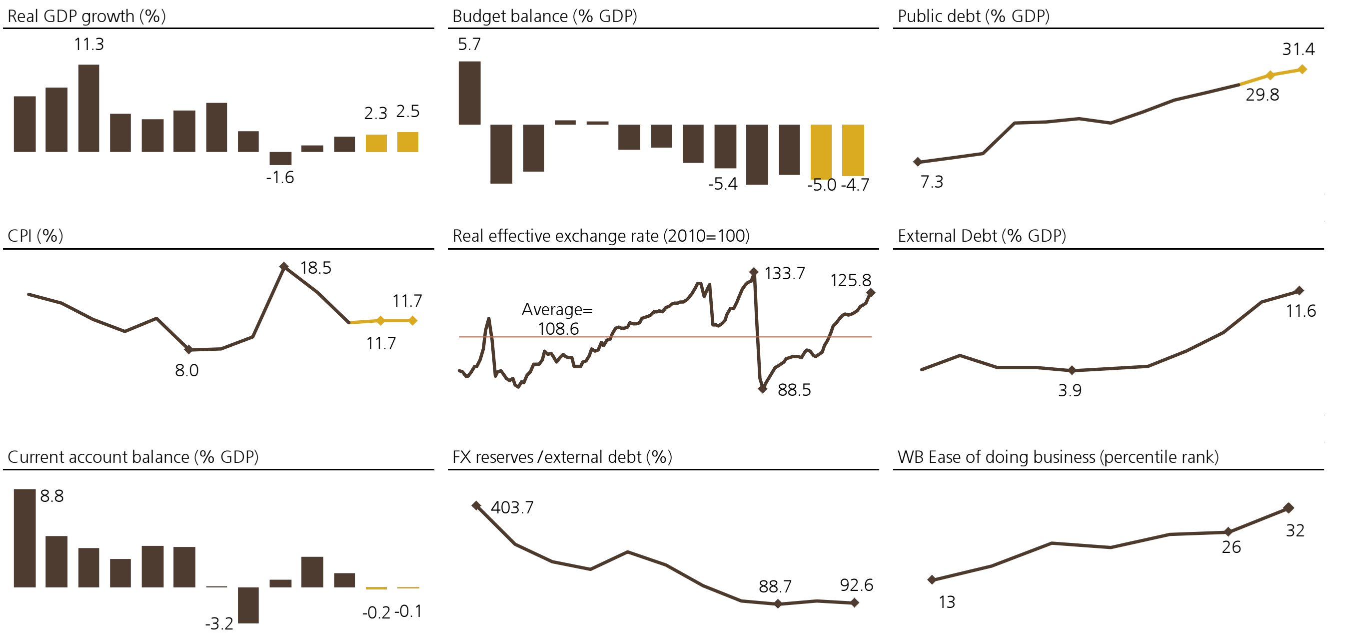
Selected indicators

Issuer Name	CIO credit outlook	CIO credit risk flags 0-2y	2-5y	5-10y	>10y
Nigeria	Stable				
Credit ratings (Moody's / S&P)		B2 STABLE /B STABLE			

Key Indicators	2017	2018	2019[f]	2020[f]
Growth and Inflation				
Real GDP growth (%)	0.8	1.9	2.3	2.5
CPI inflation (%)	15.4	11.4	11.7	11.7
GDP per capita (PPP, USD)	5'865	5'967	6'055	6'172
Fiscal				
Budget balance (% GDP)	-5.4	-4.5	-5.0	-4.7
Public debt (% GDP)	25.3	27.3	29.8	31.4
Net interest payment /gov. rev. (%)	20.5	19.7	21.0	18.3
External				
Current account balance (% GDP)	2.8	1.3	-0.2	-0.1
External debt (% GDP)	10.6	11.6	..	..
FX reserves (% GDP) *	10.5	10.8	10.1	..
Reserve coverage of ext. debt (%) **	99.6	92.6	..	..
Governance				
Ease of doing business (percentile rank)	21.8	25.0	25.5	31.9
WB Governance indicator (percentile rank)	17.4	17.0	..	..

Source: IMF, WB, UBS, as of 31 October 2019
* Latest available data
** FX reserves / external debt

Overview of key indicators



Note: Data range 2008–2020; lighter-colored data points indicate forecasts.
Source: IMF, WB, UBS, as of 31 October 2019

UBS CIO risk views

Credit risk flags

CIO attaches a credit risk flag to the instruments under its coverage. Credit risk is assessed based on the remaining tenor and / or instrument type. The flag indicates the likelihood that a holder of the instrument will not receive a coupon or principal payment when it comes due. For subordinated and hybrid instruments, which are usually callable and have a remote or no fixed maturity date, we apply one uniform credit risk flag per issuer and instrument type. The idea is to reflect the possibility of contractual trigger events or regulatory intervention occurring. Either can impose losses on bondholders regardless of the remaining term of the instrument or a specific issuer default event. Credit risk flags only indicate our view of the riskiness of a particular instrument. Credit risk flags should not be seen as recommendations to buy, hold or sell. In fact, any combination of risk flags and relative value recommendations is possible.

Very low credit risk

We believe that the probability of debt payments not being made when they come due is very low (cumulative probability of less than 2%).

Medium credit risk

We believe that the probability of debt payments not being made when they come due is low to medium (cumulative probability of non-payment between 2% and less than 20%).

High credit risk

We believe that the probability of debt payments not being made when they come due is at least one in five cumulatively.

Issuer credit outlook

We complement the instrument-specific risk information of the credit risk flags by indicating our outlook for the credit quality of an issuer over the next 12 months. Depending on instrument pricing, all combinations of an issuer credit outlook and relative valuation recommendations are possible.
Improving: We expect the credit profile of the issuer to improve, to an extent that may result in upgrades by rating agencies.
Stable: We do not expect the credit profile of the issuer to change meaningfully.
Deteriorating: We expect the credit profile of the issuer to deteriorate, to an extent that may result in downgrades by rating agencies.

UBS CIO valuation views

Relative value bond recommendations

Our relative value bond recommendations are based on an average investment horizon of six to 12 months. They reflect our assessment of a bond's attractiveness relative to comparable instruments under CIO coverage. Comparable instruments typically exhibit similar credit quality, are denominated in the same currency, belong to the same segment of the bond market, and have a similar remaining tenor until redemption.
Views on a particular instrument can change within the six- to 12-month time frame, and those that apply to one instrument do not necessarily apply to others of the same issuer. Views on a particular instrument may be withdrawn if it does not have a sizeable basket of comparable instruments under CIO coverage.

attractive

Bonds seen as “attractive” are expected to generate a total return exceeding the average return of comparable instruments. Our recommendation can stem from a positive view on the issuer’s credit profile not fully reflected in the price, unduly high risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

fair

Bonds seen as "fair" are expected to produce a total return broadly in line with the average return of comparable instruments.

expensive

Bonds seen as "expensive" are expected to earn a total return that is less than the average return of comparable instruments. Our recommendation can stem from a negative view on the issuer’s credit profile not fully reflected in the price, unduly tight risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

Sell recommendations

Sell

A Sell recommendation is assigned when the risk of an adverse outcome for an instrument exceeds what is reflected in its current valuation. Such situations can include those in which the instrument appears likely to post negative total returns until redemption, either due to a highly negative yield to maturity or an imminent call at a price below market valuations.

For details please see "Understanding bonds: A guide to CIO's credit offering", published 22 January 2019.

Appendix

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