

# COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

### EMERGING MARKETS

#### Private equity funds for emerging markets raise \$8.3bn in first four months of 2018

Research provider Preqin indicated that 388 private equity (PE) funds raised a total of \$114.6bn to invest in emerging markets (EMs) in 2017, compared to 639 EM-focused PE funds that raised \$105.3bn in 2016. The aggregate capital raised in 2017 by EM-focused PE funds represented the second highest level since 2008. Also, the number of PE funds with a primary focus on EMs accounted for 32% of total PE funds, while the aggregate capital raised by EM-focused funds constituted 23% of private equity fundraising worldwide last year. On a regional basis, it noted that PE funds with a primary focus on Emerging Asia secured \$101.5bn in 2017, or 88.6% of total capital raised, followed by funds targeting Central & Eastern Europe with \$5.3bn (4.6%), diversified EM funds or funds that divide their investments into 20 or more EMs with \$4.4bn (3.8%), funds with a primary focus on Latin America with \$2.6bn (2.2%), PE funds targeting Africa with \$0.7bn (0.6%) and funds with a primary focus on the Middle East with \$100m (0.1%). In parallel, Preqin indicated that 49 EM-focused PE funds raised a total of \$8.3bn in the first four months of 2018. Further, the survey pointed out that there are 970 EM-focused PE funds seeking to raise an aggregate of \$338bn in capital as at April 2018.

Source: Preqin

### KUWAIT

#### Profits of listed companies up 5% to \$1.8bn in first quarter of 2018

The cumulative net profits of 146 companies listed on Boursa Kuwait totaled KD536.2m, or \$1.77bn, in the first quarter of 2018, constituting an increase of 5.4% from KD508.7m, or \$1.68bn in the same quarter of 2017. Listed banks generated net profits of \$932m and accounted for 52.5% of aggregate net earnings in the covered period. Financial services companies followed with \$229m (13%), then telecommunications firms with \$203.1m (11.4%), industrial companies with \$174m (9.8%), real estate firms with \$119.1m (6.7%), insurers with \$43m (2.4%), consumer services firms with \$23.6m (1.3%), consumer goods companies with \$16.8m (0.9%), oil & gas firms with \$13.2m (0.7%), healthcare providers with \$8.7m and basic materials firms with \$8.5m (0.5% each), and technology corporations with \$2.9m (0.2%). Further, the net earnings of oil & gas firms rose by 2.7 times year-on-year in the first quarter of 2018, followed by healthcare providers (+41.2%), banks (+15.1%) and technology firms (+6%). In contrast, profits of basic material firms regressed by 64.4%, followed by consumer goods companies (-21.7%), real estate firms (-8.2%), consumer services companies (-4.4%), insurers (-3.8%), industrials (-1.9%), telecommunications firms (-1.6%) and financial services companies (-0.8%).

Source: KAMCO

### MENA

#### Stock markets up 7.4% in first five months of 2018

Arab stock markets improved by 7.4% and Gulf Cooperation Council equity markets rose by 8.3% in the first five months of 2018, relative to decreases of 1.8% and 2.6%, respectively, in the same period of 2017. In comparison, global equities declined by 0.7%, while emerging market equities regressed by 4.6% in the covered period. Activity on the Tunis Bourse jumped by 21.9% in the first five months of 2018, the Saudi Stock Exchange surged by 12.9%, the Egyptian Exchange rose by 9.3%, the Khartoum Stock Exchange increased by 8.4%, the Abu Dhabi Securities Exchange expanded by 4.7%, the Qatar Stock Exchange grew by 4.2% and the Iraq Stock Exchange improved by 2.3% in the covered period. In contrast, activity on the Dubai Financial Market dropped by 12% in the first five months of 2018, the Muscat Securities Market declined by 9.7%, the Damascus Securities Exchange and the Palestine Exchange decreased by 5.6% each, the Bahrain Bourse regressed by 4.9%, the Beirut Stock Exchange declined by 2.8%, the Amman Stock Exchange retreated by 1.4% and the Casablanca Stock Exchange regressed by 0.4% in the covered period. In parallel, activity on the Tehran Stock Exchange was unchanged in the first five months of 2018.

Source: Local stock markets, Dow Jones Indices, Byblos Research

#### Arab technology startups attract \$2.4bn in equity funding between 2013 and 2017

Figures released by ArabNet, a hub for Arab digital professionals and entrepreneurs, show that investment funds based in the Middle East & North Africa (MENA) region invested \$649.5m in 272 technology startups in 14 Arab countries in 2017. The UAE attracted 60 investments for a total amount of \$465m in 2017, followed by Lebanon with 58 investments (\$53m), Jordan with 49 deals (\$39m), Saudi Arabia with 38 deals (\$38m), Tunisia with 19 investments (\$20m), Egypt with 16 deals (\$14m), Kuwait with 14 investments (\$7m) and Morocco with six deals (\$6m). In parallel, MENA-based investment funds invested \$2.43bn in 1,091 technology startups in the 14 Arab countries between 2013 and 2017. The UAE attracted 298 deals for a total of \$1.58bn in the covered period, followed by Jordan with 169 deals (\$128m), Lebanon with 162 investments (\$179m), Saudi Arabia with 148 deals (\$157m), Tunisia with 145 deals (\$32.1m), Egypt with 46 investments (\$274m), Palestine with 36 deals (\$19m) and Morocco with 25 investments (\$25.7m). The survey noted that the number of deals increased by a compound annual growth rate of 17% during the 2013-17 period, while the value of transactions rose by 35% between 2013 and 2017. Further, it pointed out that venture capital funds represented 26% of investors in startups in the MENA region over the 2004-17 period, followed by accelerators (24%), corporate investors (18%), seed funds (13%), angel networks (11%) and growth capital funds (9%).

Source: ArabNet

# POLITICAL RISK OVERVIEW - May 2018

## DEM REP CONGO

L'International Organisation de La Francophonie, which aims to develop a political and economic solidarity between the French-speaking countries, concluded after an audit that the country's electoral register is reliable, and that the Independent National Electoral Commission has made efforts to achieve an inclusive register with a national coverage rate of over 90%. President Joseph Kabila appointed three new judges to the Constitutional Court, including two of his allies, which raised concerns that their appointment could allow the president to run in the presidential elections scheduled for December 2018. Main opposition leaders Felix Tshisekedi and Moise Katumbi announced their intention to designate a single candidate for the December 2018 elections.

## EGYPT

The government's announcement of an increase in metro fares by up to three times triggered protests across Cairo, and resulted in the closure of several metro stations and the detention of 10 protesters. President Abdel Fattah al-Sisi prepared to be sworn in for a second term as the country's President, as security forces arrested several of his opponents, including activists and journalists. Prosecutor-General Nabil Sadeq referred 278 defendants associated with the Muslim Brotherhood to military court on terrorism charges. The Egyptian military arrested 20 Islamic State militants and killed 19 as part of a large-scale operation that it launched in February in the Sinai province.

## ETHIOPIA

Ethiopia, Egypt and Sudan agreed to appoint a committee to conduct an independent and long-delayed joint study on the construction of the Grand Ethiopian Renaissance Dam. The State of Amhara pardoned 3,591 prisoners as part of the government's reform plan. The government also dropped charges against 749 detainees, including opposition leader and Ethiopian-British dual national Andargachew Tsige. Authorities initiated peace talks with exiled opposition group Oromo Democratic Front, after which the latter indicated its plan to return to the country. The Somali state police allegedly attacked civilians in the neighboring Oromia state.

## IRAN

The U.S. withdrew from the nuclear deal with Iran, despite attempts by France, Germany and UK to persuade the U.S. to remain in the deal. The U.S. will reimpose nuclear-related sanctions on Iran gradually, while it announced that it will provide firms with a period of 90 or 180 days to exit agreements with Iran. Also, the U.S. Treasury announced new sanctions against Iranian individuals, notably the Governor of the Central Bank of Iran. The remaining signatories on the deal began efforts to persuade Iran to remain committed to the JCPOA, while the EU announced steps to preserve its business interests in Iran. Israel claimed to have hit Iranian assets in Syria, in response to Iranian rockets fired at Israeli forces in the Golan Heights. Morocco cut ties with Iran, accusing the latter of training and providing weaponry to the Western Sahara independence movement Polisario Front.

## IRAQ

Cleric Moqtada al-Sadr's coalition won the largest number of seats in the recent parliamentary elections, followed by Hadi al-Ameri's Fatah Alliance and incumbent Prime Minister Abadi's Nasr coalition. Political violence escalated before and after the elections. After the vote, claims of electoral fraud triggered violence mainly in Kurdistan, as unidentified armed men raided the Kirkuk election office and prevented 186 ballot boxes from being sent to Baghdad. The Suleimaniya headquarters of the Gorran Movement, a Kurdish opposition group, came under heavy attack by the Patriotic Union of Kurdistan Peshmerga forces. The Iraqi air force maintained its strikes on Islamic State positions around the Syrian towns of Hajin and Dhashishah, while Islamic State militants claimed numerous attacks in the Diyala province.

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## LIBYA

The leaders of four rival Libyan factions met in Paris and reiterated their commitment to hold the parliamentary and presidential elections on December 10, 2018. Violence continued as two Islamic State militants attacked the electoral commission in Tripoli, resulting in the death of 13 staff members and three security officers, while militias pushed the government-aligned Presidential Guard out of two bases. The head of the Tripoli-based UN-backed Presidency Council Faiez Serraj passed a decree granting more autonomy to the Special Deterrence Force. Airstrikes by the Libyan National Army targeted Derna Protection Force militants in the eastern city of Derna.

## SUDAN

The Justice and Equality Movement, the Sudan Liberation Movement-Minni Minnawi and the Sudan Liberation Movement-Transitional Council extended by three months the unilateral ceasefire in Darfur. The Sudanese army deployed more troops in North, South and Central Darfur in preparation for a large-scale offensive against the Sudan Liberation Movement-Abdel Wahid al-Nur in the Jebel Marra area. A senior official at the Ministry of Oil & Gas announced that the country has run out of strategic reserves of fuel due to a lack of foreign currency. Saudi Arabia agreed to provide oil to Sudan for the next five years to fill Sudan's fuel consumption gap.

## SYRIA

The Israel-Iran confrontation escalated over the role of the latter in Syria. Israel hit Iranian military targets in Syrian territories near the Golan Heights. Iran denied responsibility for the rockets that were launched on the Golan Heights. The regime said that the Israeli airstrikes hit Syrian military sites and not Iranian assets. Regime forces continued to eliminate the remaining opposition in central Syria, by striking deals with opposition forces, while civilians and rebel fighters were displaced to Idlib and Turkish-dominated areas in the north. Regime-aligned forces took control of all areas surrounding Damascus after pushing out Islamic State (IS) militants from the south. Turkey finalized the establishment of military observation posts in the the province of Idlib. The U.S.-backed Syrian Democratic Forces resumed operations to take control of the remaining territories held by IS militants in the east of the Euphrates River.

## TURKEY

Government security forces continued their operations against militants of the Kurdistan Worker's Party and intensified the crackdown on the pro-Kurdish Peoples' Democratic Party. Turkey said that it will maintain its military presence in Afrin in Syria. Government sources reported that about 150,000 Syrian refugees returned to Syria from Turkey over the past 18 months. A joint Turkish, Iraqi and U.S. task force continued the arrests and detentions of suspected Islamic State militants. The government criticized the U.S. withdrawal from the nuclear deal with Iran. The opening of the U.S. embassy in Jerusalem exacerbated already strained relations with the U.S., which prompted Turkey to recall its ambassadors to the U.S. and Israel, and to request the departures of the Israeli ambassador and consul to Ankara.

## YEMEN

Fighting intensified between the UAE-aligned forces and Houthi rebels, as UAE naval forces destroyed two Houthi vessels near the port city of Hodeida. The Saudi-led coalition carried an airstrike on the presidential palace in the capital city of Sanaa. Saudi Arabia intercepted over the capital city of Riyadh two ballistic missiles launched by Houthi rebels. The UAE deployed around 300 soldiers, along with tanks and artillery, to the Yemeni island of Socotra, which led the President Abd-Rabbu Mansour Hadi to criticize the move.

Source: International Crisis Group, Newswires

June 7, 2018

# OUTLOOK

## GCC

### Fiscal risks recede on higher oil prices

Goldman Sachs indicated that the recent increase in global oil prices has significantly reduced fiscal risks in Gulf Cooperation Council (GCC) economies and limited their need to issue debt denominated in foreign currency. It noted that GCC governments based their 2018 budgets on oil prices in the \$45 p/b to \$55 p/b range, which is well below its forecast of \$75 p/b in 2018. However, under its oil price assumptions, the bank expected the fiscal deficits of many GCC countries to narrow significantly this year in case oil prices remain at their current level and governments adhere to their 2018 expenditure plans.

In addition, Goldman Sachs said that Oman's \$6.5bn bond issuance, Qatar's \$12bn issuance and the UAE's \$1bn debt issuance earlier this year would more than cover their fiscal deficits in 2018 in case of an oil price of \$75 p/b. As such, it considered that any additional issuance this year would serve to increase the countries' foreign assets, unless they deviate significantly from their 2018 expenditure plans. However, it noted that Saudi Arabia, Bahrain and Kuwait would still need to finance their deficits this year, and would face a trade-off between drawing down from their foreign assets or seeking global markets to finance their 2018 budgeted expenditures. It considered that Saudi Arabia's debt level would rise at a much slower pace with an average oil price of \$75 p/b, which would leave room to finance the remaining expenditures from reserves or from domestic debt issuance. Also, it expected that Bahrain would have the largest fiscal deficit regionally in 2018, given its high fiscal oil break-even price. It added that Bahrain's \$1bn issuance in 2018 would be just enough to cover its deficit in case of higher oil prices, but would not leave much room for any fiscal slippage. In parallel, it expected Kuwait to post a small fiscal deficit this year despite higher oil revenues, given that the country's deficit largely stems from the mandatory share of revenues that are held at the Future Generations Fund.

*Source: Goldman Sachs*

## EGYPT

### Higher oil prices to increase inflationary pressure and delay monetary easing cycle

Regional investment bank EFG Hermes expected the recent increase in global oil prices to pose temporary downside risks to Egypt's growth outlook amid, ongoing fiscal consolidation and energy subsidy cuts. It noted that higher oil prices will increase inflationary pressure and delay the easing of the monetary cycle until next year. It said that a higher inflation rate could slow down the recovery of private consumption, while the uncertainty about the future direction of interest rates could push the recovery of the capital expenditures cycle beyond early 2019. Still, it noted that macroeconomic risks at the current oil price range of \$75 p/b to \$80 p/b would still be largely manageable. It anticipated Egypt's inflation rate to remain within the Central Bank of Egypt's target of 13% +/- 3% this year, in case the government presses ahead with its planned 30% to 35% increase in fuel prices and 50% rise in electricity tariffs. But it said that the government could opt for higher-than-budgeted subsidy cuts to provide additional fiscal space to mitigate the rise in oil prices, which could push the inflation rate higher.

Further, EFG Hermes considered that the increased burden from higher oil prices on the fiscal and external accounts is relatively manageable at current oil prices. But it said that oil prices above the \$75 p/b to \$80 p/b range could magnify the risks and lead the government to miss its overall budget targets, which would require a much stronger policy response. It indicated that a more aggressive fiscal response to maintain the improvement in the fiscal trajectory could slow down the recovery of private consumption. In parallel, it noted that the interruption of the monetary easing cycle and the uncertainty over the direction of monetary policy might prompt corporates to delay their capital expenditures cycles for a few months. Overall, it maintained its positive view on Egypt's growth outlook, as it considered that the economy's accelerating growth has been driven by factors that it considered to be largely immune to the combination of higher inflation and elevated interest rates. As such, it projected Egypt's real GDP to grow from 4.7% in the fiscal year that ends in June 2018 to 5.2% in FY2018/19, supported by a strong rebound in the tourism sector, rising oil and gas production, as well as public investment stimulus.

*Source: EFG Hermes*

## ALGERIA

### Economy facing significant challenges

The International Monetary Fund indicated that Algeria continues to face significant challenges as a result of the sharp decrease in global oil prices since 2014. It noted that Algerian authorities are facing wide fiscal and current account deficits, declining foreign currency reserves and a slowdown in economic activity, despite the considerable fiscal consolidation measures implemented in 2017. It projected real GDP growth to accelerate from 1.6% in 2017 to 3% in 2018 on the back of sustained fiscal consolidation, but to decelerate to 2.7% in 2019. Also, it expected non-hydrocarbon sector activity to grow by 3.4% in 2018 and 2.9% in 2019, compared to 2.6% in 2017. The Fund noted that authorities have adopted a medium-term budget framework that includes higher fiscal spending in 2018, along with a resumption of fiscal consolidation over the medium term, the monetization of fiscal deficits, temporary restrictions on imports, as well as structural reforms that aim to diversify the economy. However, it anticipated such a policy mix to weaken Algeria's medium-term growth prospects, weigh on fiscal and external imbalances, increase inflationary pressure, deplete foreign currency reserves and heighten financial stability risks.

In addition, the IMF forecast the fiscal deficit to slightly widen from 8.8% of GDP in 2017 to 9% of GDP in 2018, but to narrow to 4.8% of GDP in 2019 in case of higher non-hydrocarbon revenues, improved public spending efficiency, and sustained subsidy reforms. Also, it expected the government's debt level to rise from 27% of GDP at the end of 2017 to 34.8% of GDP at end-2018 and 39.9% of GDP at end-2019. In parallel, it projected the current account deficit to narrow from 12.9% of GDP last year to 9.7% of GDP in 2018 in case of higher hydrocarbon production and prices. It anticipated foreign currency reserves to decrease from 19.1 months of imports at the end of 2017 to 16.2 months of import coverage at end-2018 and to 13.5 months of imports at the end of 2019.

*Source: International Monetary Fund*





# ECONOMY & TRADE

## AFRICA

### Debt servicing costs surge on wider deficits and changes in government financing

S&P Global Ratings indicated that the debt-servicing costs of 11 out of 17 rated Sub-Saharan African (SSA) sovereigns that are under the Heavily Indebted Poor Country (HIPC) Initiative have increased significantly since 2011. The HIPC, which is an initiative of the World Bank and the International Monetary Fund mainly, is a debt-relief program for countries that are unable to service their debt. The agency said that the initiative reduced the debt stocks of HIPC recipients in SSA but failed to permanently reduce their debt-servicing costs. It indicated that the average net general government debt level of these economies rose from 18% of GDP at the end of 2011 to 53% of GDP at end-2017, while their average debt servicing cost grew from 4% of revenues in 2011 to 11% of receipts over the same period of the year. It considered that the increase in the debt burden mainly reflects the cost of financing the sizeable fiscal deficits, as well as the change in the types of borrowing across HIPC recipients. It said that the countries' average fiscal deficit widened from 1.2% of GDP in 2011 to 5.5% of GDP in 2016, due to higher recurrent fiscal spending and lower fiscal revenues amid subdued economic activity in the region. In addition, S&P noted that HIPC recipients in SSA have increasingly resorted to costlier commercial sources of borrowing and have expanded their domestic debt issuance. But it forecast the public debt level and interest payments of these economies to stabilize at 50% of GDP and 10.5% of revenues, respectively, in the 2018-21 period, due to stronger activity amid higher commodity prices and easing drought conditions. It said that these countries are vulnerable to several external risks, including tighter global financing conditions.

Source: S&P Global Ratings

## TUNISIA

### Risks to macroeconomic stability increase

The International Monetary Fund considered that Tunisian authorities remain committed to the implementation of urgent economic reforms in order to reduce the country's macroeconomic and fiscal imbalances. It indicated that the economy showed signs of recovery, with real GDP growing by 2.5% in the first quarter of 2018, its highest level since 2014, supported by strong agricultural production and exports. Also, it noted that the current account deficit narrowed as a result of a more flexible exchange rate, while foreign direct investments recovered in the covered quarter. Still, the Fund considered that risks to the country's macroeconomic stability are more pronounced. It noted that the annual inflation rate reached 7.7% in April 2018, its highest level since 1991. It added that the country's external environment has become less favorable in recent months amid higher global oil prices and greater risk aversion in global financial markets. As such, it called on authorities to adopt significant measures to reduce inflation and narrow the fiscal deficit. In parallel, Fitch Ratings affirmed at 'B+' Tunisia's long-term foreign currency issuer default rating, and revised the outlook on the rating from 'stable' to 'negative'. It attributed the outlook revision to rising pressure on the country's external account, as well as higher uncertainties about the authorities' ability to reduce macroeconomic imbalances amid political and social tensions.

Source: International Monetary Fund, Fitch Ratings

## BAHRAIN

### Growth forecast at 3.2% in 2018 on improved activity, fiscal measures still needed

The International Monetary Fund projected Bahrain's real GDP growth at 3.2% in 2018, supported by a recovery in oil production, higher refinery and aluminum output capacity, continued GCC-funded projects, as well as strong activity in the financial, hospitality and education sectors. Also, it noted that the country's fiscal deficit narrowed from 18% of GDP in 2016 to 14% of GDP in 2017 due to higher global oil prices and the authorities' fiscal consolidation measures, and expected it to narrow to 11% of GDP in 2018. Still, it forecast the deficit to remain wide in the medium term. Further, it said that the public debt level increased to 89% of GDP at end-2017, and anticipated it to continue to rise in the medium term. In addition, it indicated that the current account deficit was unchanged in 2017 at 4.5% of GDP, while foreign exchange reserves remain low at 1.5 months of prospective non-oil imports at end-2017. The IMF considered that authorities need to implement further revenue and expenditure measures. It encouraged authorities to implement the planned value-added tax, as well as additional revenue measures such as a corporate income tax. It considered that sustained structural reforms are key for supporting growth, given fiscal constraints. In parallel, S&P Global Ratings affirmed at 'B+' Bahrain's long-term foreign and local currency issuer credit rating, with a 'stable' outlook. It noted that the ratings are supported by the country's net external asset position, as well as by expectations of financial support from its allies in case of need.

Source: International Monetary Fund, S&P Global Ratings

## QATAR

### Ratings affirmed, outlook revised to 'stable'

Fitch Ratings affirmed Qatar's long-term foreign currency Issuer Default Rating (IDR) at 'AA-', and revised the outlook on the rating from 'negative' to 'stable'. It attributed the outlook revision mainly to public sector liquidity injections that reversed the outflow of non-resident funding, to a narrowing of the fiscal deficit and to the country's resilient economic activity. It noted that, following outflows of \$30bn between June and October 2017, the banking sector received \$10bn in non-resident funding. It also estimated Qatar's net foreign assets at \$236bn, or 141% of GDP, in 2017, down from \$250bn in 2016, but still above the level of most 'AA'- and 'A'- rated peers. Further, the agency noted that the fiscal deficit narrowed from 6.3% of GDP in 2016 to 2.8% of GDP in 2017, and expected it to shift to a surplus of 2.9% by 2019 due to higher global oil prices, the implementation of the value-added and excise taxes in 2019, and expectations of limited spending growth. In addition, it considered that the Qatari government does not need further international funding, following the issuance of a \$12bn international bond in April 2018 that will cover the sovereign's net financing requirements in the 2018-19 period. Still, it expected the public debt level to be broadly stable in 2018 despite the international bond issuance. In addition, the agency projected Qatar's real GDP growth to accelerate from 1.6% in 2017 to 2.3% in 2018, which would allow the government to implement fiscal reforms and would reduce the need to support the private sector.

Source: Fitch Ratings



# BANKING

## GCC

### Surge in domestic bank mergers unlikely

Fitch Ratings indicated that a surge in banking merger and acquisition (M&A) deals in Gulf Cooperation Council (GCC) countries is unlikely, despite banks announcing several domestic M&A deals since early 2017. It noted that the banks' main objective behind these operations is to create domestic market leaders as opposed to the traditional objective of realizing cost savings. It said that the National Bank of Abu Dhabi merged with First Gulf Bank in March 2017 to create First Abu Dhabi Bank, the largest bank in the UAE. It added that the Saudi British Bank and Alawwal Bank announced in May 2018 a non-binding agreement to merge, which would potentially create the country's third largest bank. Also, it indicated that other possible bank M&As in the region include a three-way merger between Qatar's Masraf Al Rayan, International Bank of Qatar and Barwa Bank, a merger between Oman's Arab Bank and Alizz Islamic Bank, as well as the Kuwait Finance House's merger with Bahrain's Ahli United Bank and its strong franchise in Kuwait. In parallel, Fitch noted that acquisitions outside the immediate region remain an attractive option for many GCC banks, and expected the banks to continue such activities in coming years. It said that such acquisitions allow the banks to diversify their businesses, given their narrow and concentrated operating environments and limited domestic growth opportunities.

*Source: Fitch Ratings*

## TURKEY

### Agency places 25 banks on rating watch negative

Fitch Ratings placed on rating watch negative (RWN) the long-term issuer default ratings (IDRs) and the viability ratings (VRs) of 25 Turkish banks. It attributed its decision to increased risks to the banks' asset quality, profitability and capitalization metrics as a result of the currency and interest rate volatility. It added that the banks' reliance on external foreign currency wholesale funding and the higher local currency funding costs have weighed on most banks' funding and liquidity profiles. It anticipated that the depreciation of the local currency, higher interest rates and weaker economic growth would weigh on borrowers' ability to service foreign currency loans, which it estimated at 37% of the sector's total loans. It noted that the banks' loans-to-deposits ratio stood at 127% at the end of March 2018, with 55.4% of the banks' external debt maturing within 12 months, and considered that the available liquidity is at adequate levels to cover the banks' external servicing requirements. In parallel, Fitch said that the RWN on the IDRs of four state-owned commercial banks and two development banks also reflects the lower probability of support in foreign currency from the Turkish government, due to the deterioration of the country's external balance. It pointed out that the IDRs of 11 foreign-owned banks are one notch above the sovereign and that the RWN on these ratings reflects the limited ability of the banks to service their foreign currency obligations in case of significant deterioration in Turkey's external position. Further, the agency anticipated a downgrade to all the banks' VRs if there is a significant growth in NPLs or in problematic loans, if their share of foreign currency loans rises, if foreign currency wholesale funding increases, or if the banks' capital metrics deteriorate significantly.

*Source: Fitch Ratings*

## OMAN

### Profits of banks up 4.5% in first quarter of 2018

The aggregate earnings of the National Bank of Oman, Bank Muscat, Bank Sofar and Bank Dhofar totaled OMR80m, or \$207.8m, in the first quarter of 2018, up by 4.5% from the same period of 2017, due to higher net interest income and lower provisions. The banks' net interest income grew by 4.5% year-on-year to OMR133m in the first quarter of the year, while their provisions decreased by 41% to OMR11m in the covered quarter. The drop in provisions is attributed to the implementation of the expected credit loss (ECL) provisioning models under international accounting standard IFRS 9, which replaced the Central Bank of Oman's stringent rules in the first quarter of the year. Further, the banks' non-interest income declined by 3.1% year-on-year to OMR61m in the first quarter of 2018. In parallel, the aggregate lending of the four banks reached OMR16.56bn, or \$43bn, at the end of March 2018, up by 4.8% from end-March 2017, mainly driven by Bank Sohar's credit growth. In parallel, the banks' customer deposits grew by 1% from end-March 2017 to OMR15.08bn, or \$39.2bn, at the end of March 2018. As such, the banks' loans-to-deposits ratio stood at 110% at end-March 2018 compared to 106% at end-March 2017. Also, the banks' aggregate non-performing loans ratio reached 3.13% at end-March 2018 compared to 2.75% a year earlier, mainly due to a deterioration in the National Bank of Oman's asset quality. Further, the banks' capital adequacy ratio was 16% at the end of March 2018.

*Source: EFG Hermes*

## NIGERIA

### Capital ratio at 3.4% under high stress scenario

Moody's Investors Service conducted a scenario analysis to measure the solvency of Nigerian banks under a base-case scenario and an alternative stress scenario during the 2018-19 period. It noted that the base-case scenario reflects its current macroeconomic forecasts for Nigeria, while the stress scenario measures the banks' capacity to withstand high stress conditions and includes a set of assumptions for loan and asset growth and income reductions, among other variables. Under its base-case scenario, it expected the banks' capital ratio to remain almost stable at about 17% of their risk-weighted assets during the next two years. It said that these estimates are driven by an increase in loan losses as a result of higher non-performing loans and risk-weighted assets that would be offset by higher pre-provision income, which would keep the banks' capital ratio almost stable. Under its stress scenario, the agency expected the impact on the banking sector to be more severe, and projected the banks' capital ratio to decrease sharply to about 3.4% of their risk-weighted assets at end-2019. It considered that these results would be worse than those of regional peers, and would be mainly driven by a more pronounced increase in NPLs and a significant rise in loan-loss provisions over the next two years. In parallel, it indicated that the introduction of international accounting standard IFRS 9 in 2018 will have negative implications on the capitalization of Nigerian banks, and will reduce the average tangible common equity-to-risk-weighted assets ratio of Nigeria's 10 largest banks by 150 basis points to 15% in the next two years. In addition, it expected the banks' capital buffers to be supported by lower dividend payouts and low lending levels in the 2018-19 period.

*Source: Moody's Investors Service*



## ENERGY / COMMODITIES

### Oil prices to average \$82.5 p/b in third quarter of 2018

ICE Brent crude oil front-month prices have been trading at between \$75 per barrel (p/b) and \$78 p/b for the last two weeks, and closed at \$75.4 p/b on June 6, 2018. Crude oil prices declined from their three-year high of \$79.8 p/b reached on May 23, on prospects of easing output cuts by Saudi Arabia and Russia. In addition, U.S. crude oil production hit a record high of 10.8 million barrels per day (b/d) last week and surged by 28% since mid-2016. The rise in U.S. oil output widened the WTI-Brent spread to more than \$10 p/b. However, concerns about Venezuela's declining oil exports have limited the recent drop in oil prices. Goldman Sachs noted that the current tight oil market has led OPEC and non-OPEC members to consider increasing their output. But it said that the magnitude of such a response is uncertain. It added that even if OPEC members increase their output by one million barrels per day, it would only offset some unexpected and involuntary declines. It noted that further disruptions in Venezuela and Iran's production could partially offset the potential Saudi-Russian output growth, and could require additional increases in production in 2019, which could further reduce the already limited spare capacity next year. As such, Goldman Sachs maintained its forecast for Brent crude oil prices at an average of \$82.5 p/b for the third quarter of 2018. In parallel, the Bloomberg Brent Crude Oil Total Return Sub-Index grew by 4.6% in May 2018 and by 19.8% from end-2017.

Source: Goldman Sachs, Thomson Reuters, Bloomberg

### OPEC compliance at 163% in May 2018

Oil output by members of the Organization of Petroleum Exporting Countries (OPEC) fell to a 13-month low of 32 million barrels per day (b/d) in May 2018, due to lower production in Venezuela, supply disruptions in Nigeria and sustained strong compliance from other OPEC members. The May production level reflects a compliance rate of 163% to the output cuts under the OPEC agreements compared to a 162% rate in April. Also, Venezuela's compliance rate reached 649% in May as the ongoing economic crisis led to a sharp drop in oil production.

Source: Thomson Reuters

### Middle Eastern consumer demand for gold down 3% in first quarter of 2018

The Middle East region's consumer demand for gold, which includes demand for jewelry and bars & coins, totaled 61 tons in the first quarter of 2018, down by 3.1% from 62.9 tons in the same quarter of 2017. It was equivalent to 8.2% of global consumer demand for the precious metal. Consumer demand for gold in Iran was 20 tons in the first quarter of 2018 and represented 32.8% of the region's total demand, followed by the UAE with 12.2 tons (20%) and Saudi Arabia with 10 tons (16.4%).

Source: World Gold Council, Byblos Research

### Steel output up 4% in first four months of 2018

Global steel production reached 575.2 million tons in the first four months of 2018, constituting an increase of 4% from 553.1 million tons in the same period of 2017. Chinese steel production totaled 289 million tons in the covered period and accounted for 50.2% of global output. India followed with 35.4 million tons, or 6.2% of the total, then Japan with 35.1 million tons (6.1%) and the United States with 27.7 million tons (4.8%).

Source: World Steel Association, Byblos Research

### Base Metals: Copper prices rise amid fears of supply disruptions

LME copper three-month future prices averaged \$6,944.2 per metric ton in the first five months of 2018, constituting a rise of 20.2% from an average of \$5,777.2 per ton in the same period of 2017. Also, the metal's price reached its highest level since mid-February 2018 to close at \$7,220 per ton on June 6, 2018, as investors continued to raise concerns about potential supply disruptions. In fact, labor union leaders at Escondida, the world's largest copper mine in Chile that accounts for around 5% of global copper supply, submitted wage and bonus demands in the context of rising copper prices, sparking fears of a possible strike. Wage talks last year at the Escondida mine failed to reach a labor deal and led to a 44-day strike that resulted in an 8% drop in the mine's copper annual output. The likelihood of further strikes is increasing, as salary demands and additional bonuses would be the biggest one-off payment ever made by a Chilean mining company and are considered to be very ambitious. A weaker US dollar also supported the rally in the metal's price. In this context, copper prices are expected to increase from an average of \$6,198.7 per ton in 2017 to an average of \$7,040 per ton this year, and to an average of \$6,750 per ton over the 2019-20 period.

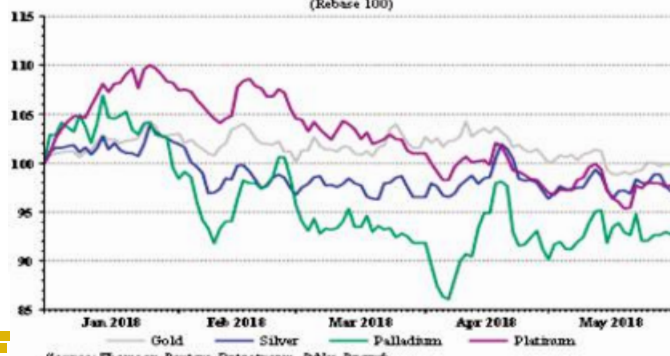
Source: Citi, Thomson Reuters, Byblos Research

### Precious Metals: Production deficit in platinum market to widen by 10 times in 2018

Platinum prices averaged \$951.1 per troy ounce in the first five months of 2018, down by 1.5% from \$965.2 an ounce in the same period of 2017. Also the metal's price has been declining so far this year, as it decreased from an average of \$988 an ounce in each of January and February 2018 to \$953.7 per ounce in March, \$924 an ounce in April and to \$904 per ounce in May 2018. The drop in the metal's price is mainly attributed to a decline in automotive demand so far in 2018, mainly in Western Europe, as well as to a decrease in investment demand. However, platinum prices are forecast to recover in coming months and to average \$981 an ounce in full year 2018, driven by expectations of higher platinum demand in the electronics and chemical sectors, and lower mine production, especially in South Africa. In fact, global supply is projected to decline by 1.5% to 7.65 million ounces in 2018, as a decline in South African and North American mine production would be partly offset by higher Russian mine output. In parallel, global demand for platinum is projected to rise by 1.4% to 7.9 million ounces this year. As such, the production deficit in the platinum market is expected to widen by 10 times from 38,000 ounces in 2017 to 380,000 ounces this year.

Source: GFMS Thomson Reuters, Byblos Research

Price Performance of Precious Metals in First Five Months of 2018  
(Rebase 100)





# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
Africa													
Algeria	-	-	-	-	BB+	-2.5	17.3	2.5	-	-	-	-12.3	
	-	-	-	-	Negative								
Angola	B-Stable	B3 Stable	B Stable	-	B-Stable	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B	B3	B	B	B+	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
	Stable	Stable	Positive	Positive	Positive								
Ethiopia	B	B1	B		B+	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
	Stable	Stable	Stable	-	Stable								
Ghana	B-	B3	B	-	BB-	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
	Positive	Stable	Stable	-	Stable								
Ivory Coast	-	Ba3	B+	-	B+	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-16.4	78.2	-	-	-	-	-10.6	-
	-	-	Stable	-	Stable								
Dem Rep Congo	CCC+	B3	-	-	CCC	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
	Stable	Negative	-	-	Stable								
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
	Stable	Positive	Stable	-	Stable								
Nigeria	B	B2	B+	-	BB-	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
	Stable	Stable	Negative	-	Stable								
Sudan	-	-	-	-	CC	-2.5	55.2	47.5	-	-	-	-4.7	-
	-	-	-	-	Negative								
Tunisia	-	B2	B+	-	BB-	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
	-	Stable	Negative	-	Negative								
Burkina Faso	B	-	-	-	B+	-3.6*	33.3	23.1**	-	-	-	-7.2	-
	Stable	-	-	-	Stable								
Rwanda	B	B2	B+	-	B+	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
	Stable	Stable	Stable	-	Stable								
Middle East													
Bahrain	B+	B1	BB-	BB	BB+	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
	Stable	Negative	Stable	Stable	Negative								
Iran	-	-	-	BB-	BB-	0.7	29.2	2.0	-	-	-	5.3	-
	-	-	-	Negative	Positive								
Iraq	B-	Caa1	B-	-	CC+	-4.2	60.0	38.8	-	-	-	-4.4	-
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	B3	B-	B	B-	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
	Stable	Stable	Stable	Stable	Stable								
Oman	BB	Baa3	BBB-	BBB	BBB-	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
	Stable	Negative	Negative	Stable	Negative								
Qatar	AA-	Aa3	AA-	AA-	A+	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
	Negative	Negative	Stable	Negative	Negative								
Saudi Arabia	A-	A1	A+	A+	AA-	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-6.0	77.4	20.3	-	-	-	-4.2	
	-	-	-	-	Negative								



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Current Account Receipts (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Asia</b>													
Armenia	-	B1	B+	-	B-								
	-	Positive	Positive	-	Stable	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
China	A+	A1	A+	-	A								
	Stable	Stable	Stable	-	Stable	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
India	BBB-	Baa2	BBB-	-	BBB								
	Stable	Stable	Stable	-	Stable	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
Kazakhstan	BBB-	Baa3	BBB	-	BBB								
	Negative	Stable	Stable	-	Stable	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB-	Baa2	BBB	-	BBB								
	Stable	Stable	Stable	-	Stable	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
Romania	BBB-	Baa3	BBB-	-	BBB-								
	Stable	Stable	Stable	-	Stable	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
Russia	BBB-	Ba1	BBB-	-	BBB-								
	Stable	Positive	Positive	-	Stable	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
Turkey	BB-	Ba2	BB+	BB+	BB-								
	Stable	Stable	Stable	Negative	Stable	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
Ukraine	B-	Caa2	B-	-	B-								
	Stable	Positive	Stable	-	Stable	-3.0	89.8	144.5	226.4	32.1	827.4	-3.6	1.7

\* including grants for Sub-Saharan African countries

\*\* to official creditors

\*\*\*Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are estimates for 2017





## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	1.50-1.75	02-May-18	Raised 25bps	13-Jun-18
Eurozone	Refi Rate	0.00	26-Apr-18	No change	14-Jun-18
UK	Bank Rate	0.50	10-May-18	No change	21-Jun-18
Japan	O/N Call Rate	-0.10	26-Apr-18	No change	15-Jun-18
Australia	Cash Rate	1.50	05-Jun-18	No change	19-Jun-18
New Zealand	Cash Rate	1.75	10-May-18	No change	28-Jun-18
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Mar-18	No change	21-Jun-18
Canada	Overnight rate	1.25	30-May-18	No change	11-Jul-18
<b>Emerging Markets</b>					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.75	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	22-Mar-18	No change	21-Jun-18
South Korea	Base Rate	1.50	24-May-18	No change	12-Jul-18
Malaysia	O/N Policy Rate	3.25	10-May-18	No change	11-Jul-18
Thailand	1D Repo	1.50	16-May-18	No change	20-Jun-18
India	Reverse repo rate	6.25	06-Jun-18	Raised 25bps	01-Aug-18
UAE	Repo rate	2.00	22-Mar-18	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	2.25	15-Mar-18	Raised 75bps	N/A
Egypt	Overnight Deposit	16.75	17-May-18	Cut 100bps	28-Jun-18
Turkey	Repo Rate	17.75	07-Jun-18	Raised 125bps	24-Jul-18
South Africa	Repo rate	6.50	24-May-18	Cut 25bps	19-Jul-18
Kenya	Central Bank Rate	9.50	28-May-18	No Change	N/A
Nigeria	Monetary Policy Rate	14.00	22-May-18	No change	24-Jul-18
Ghana	Prime Rate	17.00	21-May-18	Cut 100bps	23-Jul-18
Angola	Base rate	18.00	24-May-18	No change	20-Jul-18
Mexico	Target Rate	7.50	17-May-18	No change	21-Jun-18
Brazil	Selic Rate	6.50	17-May-18	No change	21-Jun-18
Armenia	Refi Rate	6.00	15-May-18	No change	27-Jun-18
Romania	Policy Rate	2.50	07-May-18	Raised 25bps	04-Jul-18
Bulgaria	Base Interest	0.00	01-Jun-18	No change	29-Jun-18
Kazakhstan	Repo Rate	9.00	04-Jun-18	Cut 25bps	09-Jul-18
Ukraine	Discount Rate	17.00	12-Apr-18	No change	12-Jul-18
Russia	Refi Rate	7.25	27-Apr-18	Cut 25bps	15-Jun-18



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