

## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## WORLD

**Over a third of banks increased interest rates on trade finance operations in 2017**

The 2018 ICC Global Survey on Trade Finance showed that 35% of surveyed banks, mainly large financial institutions, indicated that they increased interest rates on international trade finance operations and, in turn, put upward pressure on the cost of trade financing for the banks' clients. Also, it noted that 38% of participants kept interest rates unchanged year-on-year, while 27% of surveyed banks reported a decrease in their operational interest rates in 2017. It considered that the rise in the trade financing costs is partly driven by bank-specific pricing strategies and not mainly by the increase in the key benchmark rates of the countries where the banks operate. In parallel, the 2018 survey indicated that 73% of surveyed banks expect trade finance to grow in the coming 12 months, while 5% of respondents anticipated that it would decline. Specifically, 89% of surveyed banks in Africa anticipated a growth in trade finance in the coming 12 months, followed by participants in Asia Pacific (81%), those in North America (78%), Latin America (74%), the Middle East (68%), Western Europe (67%) and Central & Eastern Europe (59%). The survey was conducted between December 2017 and February 2018, and was compiled from the responses of 251 banks in 91 countries.

*Source: International Chamber of Commerce*

**Sukuk issuance down 15% to \$44bn in first half of 2018**

S&P Global Ratings indicated that global sukuk issuance reached \$44.2bn in the first half of 2018, constituting a decrease of 15.3% from \$52.2bn in the same period of 2017. It noted that the issuance of foreign currency-denominated sukuk stood at \$15bn in the first half of the year, down by 45% from \$27bn in the first half of 2017. It attributed the decline to reduced issuances from Gulf Cooperation Council (GCC) countries. However, it said that sukuk issuance by Malaysia continued to support the market in the first half of the year. It indicated that new sukuk from Malaysia accounted for 50% of global sukuk issuances in the first half of 2018, reflecting the government's support for Islamic finance. It added that GCC countries represented 33% of global sukuk issuance in the covered period and other Asian countries accounted for 13% of the total, while other countries represented the remaining 4% of total sukuk issues. Further, S&P expected sukuk issuance volumes in the second half of 2018 to be constrained by tighter global liquidity conditions, lower financing needs of some GCC countries, heightened geopolitical risks in the Middle East, as well as fundamental challenges in the sukuk market. It pointed out that higher oil prices and sustained expenditure reductions by GCC countries have reduced their financing needs. As such, it projected the gross commercial long-term debt issuance of GCC countries to decline by 15% in 2018. Overall, it projected total sukuk issuance to reach between \$70bn and \$80bn in 2018 relative to \$97.9bn in 2017.

*Source: S&P Global Ratings*

## MENA

**Real estate transparency lags global trends**

Jones Lang LaSalle's 2018 Global Real Estate Transparency Index ranked Dubai as the most transparent Arab real estate market and the 40th most transparent among 100 countries and markets worldwide. Saudi Arabia followed in 54th place globally, then Abu Dhabi (55th), Egypt (57th), Bahrain (62nd), Morocco (63rd), Jordan (68th), Kuwait (70th), Qatar (71st), Lebanon (81st), Oman (82nd), Tunisia (83rd), Algeria (87th), Iraq (95th), and Libya (99th). The index aims to compare and contrast transparency conditions across real estate markets worldwide. The index scores range from 1.00 to 5.00 points, with a perfect score of 1.00 reflecting full market transparency. The Arab region's average score of 3.8 points in the 2018 survey lagged the global average score of 3.2 points and the emerging markets' average score of 3.5 points. In comparison, the average score of Gulf Cooperation Council (GCC) countries was 3.6 points, while it was 4.1 points for non-GCC Arab countries. In parallel, the survey assigns countries and markets to one of five transparency levels that are "Highly Transparent", "Transparent", "Semi-Transparent", "Low Transparency" and "Opaque". It classified Dubai, Saudi Arabia, Abu Dhabi and Egypt in the "Semi-Transparent" category, and Bahrain, Morocco, Jordan, Kuwait and Qatar in the "Low-Transparency" category. It also classified Lebanon, Oman, Tunisia, Algeria, Iraq and Libya in the "Opaque" category. Further, it downgraded Bahrain's real estate market from "Semi-Transparent" in the 2016 survey to "Low-Transparency" in the 2018 survey, while it maintained the remaining Arab economies in their 2016 transparency categories.

*Source: Jones Lang LaSalle, Byblos Research*

**Stock markets up 8% in first half of 2018**

Arab stock markets improved by 7.9% and Gulf Cooperation Council equity markets rose by 9.7% in the first half of 2018, relative to increases of 1.1% and 0.9%, respectively, in the same period of 2017. In comparison, global equities declined by 1.5%, while emerging market equities regressed by 8.7% in the covered period. Activity on the Tunis Bourse jumped by 29% in the first half of 2018, the Saudi Stock Exchange surged by 15.1%, the Khartoum Stock Exchange increased by 10%, the Egyptian Exchange rose by 8.9%, the Qatar Stock Exchange grew by 5.9% and the Abu Dhabi Securities Exchange expanded by 3.7% in the covered period. In contrast, activity on the Dubai Financial Market dropped by 16.3% in the first half of 2018, the Beirut Stock Exchange declined by 16.2%, the Muscat Securities Market regressed by 10.3%, the Palestine Exchange decreased by 5.9%, the Damascus Securities Exchange retreated by 5.2%, the Casablanca Stock Exchange regressed by 4.1%, the Amman Stock Exchange declined by 2.6%, the Bahrain Bourse decreased by 1.6% and the Iraq Stock Exchange retreated by 0.3% in the covered period. In parallel, activity on the Tehran Stock Exchange increased by 16.5% in the first half of 2018.

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

# POLITICAL RISK OVERVIEW - June 2018

## DEM REP CONGO

The Appeals Chamber of the International Criminal Court acquitted former Vice President and head of the Movement for the Liberation of Congo Jean-Pierre Bemba Gombo from war crime charges. The former Vice President is expected to return to the DRC in July 2018. Congolese exiled opposition leader and presidential candidate Moïse Katumbi organized a rally in the capital Kinshasa, and announced in a video that he will return to the city between July 24 and August 8, 2018 to promote his electoral campaign. Congolese authorities reportedly cancelled his passport following the rally. The United States imposed visa bans on several Congolese senior officials for corruption related to the country's electoral process. The World Health Organization continued to closely monitor the outbreak of the Ebola virus in the country that started in May 2018. It reported a total of 55 Ebola virus disease cases and 28 deaths from the virus as of June 24.

## EGYPT

Egyptian President Abdel Fattah al-Sisi was sworn in on June 2 for a second four-year term. The President appointed former Housing Minister Mustafa Madbouly as the country's new Prime Minister, and replaced 12 new ministers, which include the agriculture, defense, finance, interior and trade ministers. Also, the government announced its plan to withdraw around 70% of its military forces from North Sinai, as it claimed that a counter-terrorism operation launched in February was successful. The Egyptian military forces killed 47 members of the Islamic State group in North and Central Sinai.

## ETHIOPIA

A high-level Eritrean delegation headed by Foreign Minister Osman Salah met on June 26 with Ethiopian Prime Minister Abiy Ahmed and Foreign Minister Workineh Gebeyehu. The meeting between the two sides was the first in over 20 years, and raised hopes of a normalization of relations between the two countries. The United Nations, the U.S. and the African Union praised the new developments, while rebel parties and communities in the country's north criticized the move. The Cabinet submitted a resolution to Parliament on June 20 to remove three opposition groups, which are the Oromo Liberation Front, the Ogaden National Liberation Front and Ginbot 7, from the country's list of terrorist organizations. Prime Minister Abiy Ahmed met with Egyptian President Abdel Fattah el-Sisi to address concerns about the construction of the Grand Ethiopian Renaissance Dam. During the Prime Minister's visit, Egyptian authorities pardoned and released 32 Ethiopian prisoners.

## IRAN

Iran announced that it has taken steps to increase its capacity for uranium enrichment following the withdrawal of the U.S. from the nuclear deal. The European Union (EU) vowed to commit to the nuclear agreement if Iran continues to implement it. Also, the EU updated its legislation to counter sanctions imposed by the U.S. on European businesses operating in Iran. The government arrested 27 suspected terrorists that were reportedly planning attacks in Tehran and in the central city of Qom.

## IRAQ

Iraqi Prime Minister Haider al-Abadi and Shiite cleric Muqtada al-Sadr announced that they formed an alliance to create a new government following the parliamentary elections in May 2018. The outgoing parliament passed a law mandating a nationwide manual recount of votes during the elections. The outgoing parliament also cancelled the votes cast by Iraqis overseas, by internally-displaced people and by Kurdish Peshmaga fighters. The Higher Federal Court approved the partial recount and reversed the cancellation of votes. A storage site in al-Rusafa district that housed about 50% of Baghdad's ballot boxes caught fire, just days after Parliament demanded a nationwide recount of votes.

## LIBYA

Forces led by Field Marshal Khalifa Haftar captured the Ras Lanuf and Sidra oil terminals. General Haftar announced that the oil installations were handed over to the eastern-based National Oil Corporation. The Tripoli-based Government of National Accord (GNA) called on the UN Security Council to block any illegal oil exports from the country. In turn, France, Italy, the United Kingdom and the United States issued a joint statement demanding that Libya's oil resources, facilities and terminals stay under the exclusive control of the GNA. The leaders of four rival Libyan factions made little progress in resolving the country's ongoing conflict, despite their pledge to reach an agreement on the legal framework that would allow the country to hold parliamentary and presidential elections by the end of the year.

## SUDAN

The government deployed in South Darfur over 1,500 troops, which include the Rapid Support Forces militia and the Sudan Armed Forces, in order to recapture positions held by the Sudan Liberation Movement led by Abdel-Wahid al-Nur. A special report published on June 1 by the African Union Commission and the United Nations outlined a plan to downsize the mandate of the peace-keeping African Union-United Nations Mission in Darfur (UNAMID). However, the African Union's Peace & Security Council expressed concerns about the proposed reduction in the mission's operations. Also, three armed groups in Darfur appealed to the UN Security Council to reconsider its plan to downsize the mission, citing security concerns. In turn, the Security Council proceeded by extending the mandate of UNAMID for two additional weeks.

## SYRIA

Russian-backed regime forces launched attacks to recapture rebel-held areas near the Jordanian border despite U.S. warnings, threatening the "de-escalation" zone agreed upon by the U.S. and Russia. The United Nations announced that around 45,000 people fled the southern city of Daraa and headed towards the Jordanian border, after a week of heavy bombardments by regime forces. Jordanian authorities announced that the Kingdom will not receive any more Syrian refugees. Islamic State militants launched an attack on the city of al-Bukamal near the Iraqi border. Also, Israeli forces carried an airstrike targeting pro-regime forces near the city of al-Bukamal.

## TURKEY

President Recep Tayyip Erdoğan was re-elected as President of Turkey with 52.5% of votes during the country's general elections held on June 24. Also, the People's Alliance coalition, which includes President Erdoğan's Justice & Development Party and the allied Nationalist Movement Party, won a total of 344 out of 600 seats, while the Nation Alliance won 189 seats and the Peoples' Democratic Party won the remaining 67 seats. A total of 208 members of the Kurdish Peoples' Democratic Party (HDP) were detained and 57 HDP offices and booths were raided in the days leading up to the election. Turkey and the U.S. endorsed a roadmap to ensure the stability of the northern city of Manbij in Syria. The U.S. Senate passed a bill that blocks the sale of F-35 jets to Turkey in response to latter's purchase of air defense missile systems from Russia.

## YEMEN

UAE-backed Yemeni forces launched an offensive to capture the Houthi-held port city of Hodeida. Saudi Arabia intercepted two ballistic missiles over the capital city of Riyadh that the Houthi rebels launched. President Abd-Rabbu Mansour Hadi visited the UAE amid rising tensions between his government and the UAE. UN Special Envoy Martin Griffiths met with Houthi officials in Sanaa to persuade them to withdraw from the city of Hodeida.

Source: International Crisis Group, Newswires



# OUTLOOK

## MENA

### Growth at 3% in 2018 on gradual output increases

Global investment bank JPMorgan Chase projected real GDP growth in the Middle East & North Africa (MENA) region to accelerate from 2.2% in 2017 to 3% in 2018, supported by growth in oil-producing countries, in case OPEC implements gradual output increases of about one million barrels per day. It forecast oil export receipts of MENA oil producers to surge by 34% to \$712bn in 2018, or 29% of their aggregate oil GDP, in case oil prices average \$69.5 p/b this year. But it cautioned that a faster-than-anticipated normalization of output would lead to lower oil prices, weigh on external and fiscal balances, and weaken growth in the region's oil exporters. It did not expect oil prices to significantly decline below \$70 p/b this year, but it noted that if prices were to average \$60 p/b, oil export receipts of MENA oil producers would drop to \$619bn, or 25% of their hydrocarbon GDP.

In parallel, the investment bank projected the MENA region's aggregate current account balance to shift from a balanced position in 2017 to a surplus of 4.7% of GDP in 2018, on the back of higher oil export revenues, while it anticipated the region's fiscal balance to post a deficit of 2.4% of GDP this year relative to a deficit of 6.1% of GDP in 2017. It expected the fiscal positions of Iraq, Kuwait and Qatar to be in surplus, while it projected Iran and Saudi Arabia to post fiscal deficits of about 1% and 3.9% of GDP, respectively, in 2018. It anticipated that a \$10 drop in global oil prices could reduce the Kingdom's oil export receipts by \$31bn, while Iraq's oil revenues would decline by \$12bn and Iran's oil exports would decrease by about \$10bn.

Further, the investment bank considered that all MENA oil producers would benefit in case oil prices remain at current levels, despite their diverging political interests. It estimated the average fiscal breakeven oil price for MENA oil producers at \$81 p/b, and expected the latter to consent to a gradual exit from the OPEC agreement, in order to avoid a build-up of inventories, which could lead to a decline in oil prices. In parallel, it noted that the main downside risks from increased U.S. protectionist measures on the MENA region's outlook would be the potential slowdown in global growth, which would be channeled through lower commodity prices, including oil prices.

Source: JPMorgan Chase

## BAHRAIN

### Support to ease near-term funding pressures

The Institute of International Finance indicated that Saudi Arabia, Kuwait and the UAE are finalizing an integrated program to support Bahrain's economic reforms and financial stability. It noted that the \$2.5bn support came as a result of heightened pressures on the Bahraini dinar due to rising investor concerns about the country's slow pace of reforms and its ability to reduce its elevated public debt level. It added that Bahrain's access to international capital markets has become more difficult. In this context, it expected that the financial aid would include significant deposits at the Central Bank of Bahrain to support foreign currency reserves, sustained funding to finance infrastructure projects, and concessional loans to cover the government's financing needs for fiscal year 2018. It anticipated the support to reduce investors' concerns and prevent sovereign downgrades, which would pro-

vide authorities with time to lay out a fiscal consolidation framework for the 2019 budget. However, it indicated that authorities will have to present a credible set of reforms and fiscal adjustments in order to regain investors' confidence.

In parallel, Fitch Ratings expected the financial support to ease pressure on Bahrain's near-term external financing. But it noted that a durable improvement in Bahrain's financial position will depend on the scale and nature of the support, as well as on the country's ability to implement fiscal reforms. It noted that the support could also come in another form, where Saudi Arabia would allow Bahrain to increase its share of production from the offshore Abu Safa'a oil field, which could raise public revenues, narrow the budget deficit and reduce the public debt level to below 75% of GDP in the 2018-19 period. In addition, it noted that other options for support include an increase in transfers through the GCC Development Fund to enhance Bahrain's capital spending, which would improve the country's medium-term growth but would not create enough additional fiscal space, given that capital spending is a small component of the budget.

Source: Institute of International Finance, Fitch Ratings

## EGYPT

### Favorable outlook amid sustained reform implementation

The International Monetary Fund expected Egypt's near-term growth outlook to be favorable, amid the authorities' implementation of growth-enhancing reforms under the IMF-backed program. It said that the authorities' reform program has helped accelerate growth, reduce inflationary pressure and unemployment, restore market sentiment, and narrow the fiscal and external deficits. It projected Egypt's real GDP growth to accelerate from 5.2% in the fiscal year that ended in June 2018 to 5.5% in FY2018/19, supported by a recovery in tourism activity and an increase in natural gas production. It forecast the average inflation rate to decline from 20.8% in FY2017/18 to 14.4% in FY2018/19, amid the authorities' tight monetary policy.

In parallel, the IMF pointed out that the government's fiscal consolidation plan remains on track, and expected the fiscal deficit to narrow from 9.7% of GDP in FY2017/18 to 8.1% of GDP in FY2018/19. It considered that the ongoing energy subsidy reform would support fiscal consolidation and encourage more efficient energy use. It anticipated that the implementation of the recently-approved automatic fuel price indexation mechanism will help safeguard the budget from unexpected fluctuations in the exchange rate and global oil prices. It projected the public debt level to regress from 92.4% of GDP at end-June 2018 to 86.2% of GDP at end-June 2019. Further, it anticipated the current account deficit to narrow from 2.8% of GDP in FY2017/18 to 2.6% of GDP in FY2018/19. It forecast foreign currency reserves to reach \$44.8bn, or 6.1 months of import cover at the end of June 2019, compared to \$44.4bn, or 6.8 months of import cover at end-June 2018. It noted that external risks have increased in recent months, with capital inflows shifting to outflows, as tightening global financial conditions have contributed to a sell-off by investors from emerging markets. However, it expected that Egypt's healthy level of foreign currency reserves and flexible exchange rate would help weather any acceleration in capital outflows.

Source: International Monetary Fund





# ECONOMY & TRADE

## EMERGING MARKETS

### **Stronger US dollar increases credit risks for EMs with large external funding needs**

Moody's Investors Service indicated that the strengthening of the US dollar since mid-April 2018 has led to the sharp depreciation of currencies and significant declines in foreign currency reserves in several emerging and frontier markets, and has increased credit risks for economies with large external funding needs. It noted that sustained and severe shocks to external financing could have credit implications for these economies if they result in a significant erosion of their financial buffers, raise their liquidity risks or lead to a deterioration in their fiscal metrics. It said that countries with wide current account deficits, high external debt repayments and foreign-currency government debt are the most exposed to the impact of a stronger US dollar. It indicated that Argentina, Ghana, Mongolia, Pakistan, Sri Lanka, Turkey and Zambia are the most vulnerable to a stronger US dollar; while Chile, Colombia, Indonesia and Malaysia are also exposed, but that their financial and institutional buffers limit their near-term vulnerability. Further, it pointed out that EMs that have previously faced large shocks to their external financing conditions, such as Hungary, Malaysia and Russia, are more likely to experience such shocks, unless they have previously made adjustments that reduced their reliance on external funding. In contrast, it indicated that Brazil, China, India, Mexico and Russia are the least vulnerable economies to tighter external financing conditions, given their low reliance on external capital inflows.

*Source: Moody's Investors Service*

## ANGOLA

### **IMF-supported program improves outlook**

Barclays Capital indicated that Angola has formally requested from the International Monetary Fund in April 2018 a Policy Coordination Instrument (PCI), which is a non-financial program that offers policy support to the government's economic reforms in order to restore macroeconomic stability and boost real GDP growth. It expected the PCI to be in place by the fourth quarter of 2018, given that the government is already implementing policies that are in line with the IMF's recommendations. It considered that the program would strengthen the credibility of the Angolan government's policies. It said that the plan entails an up-front and sizeable fiscal consolidation, as well as greater exchange rate flexibility and improvements in the monetary policy framework over the medium term. Further, it expected that additional revenues from higher oil prices in 2018 would be used to clear domestic arrears. Barclays expected Angola's fiscal deficit to narrow from 6% of GDP in 2017 to 2% of GDP in 2018 as a result of fiscal consolidation. It projected the public debt level to peak at 72.9% of GDP in 2018, and to start declining from 2019 onwards to reach 60% of GDP by 2023. In addition, it expected the PCI to reduce Angola's financing risks, as it will help attract additional external financing to meet the country's gross financing needs of 22% of GDP this year. In parallel, it anticipated the PCI to focus on tighter monetary and liquidity policies to help restore the equilibrium in the foreign exchange market. But it said that this would take time, as authorities prefer a slower approach to lift foreign exchange restrictions.

*Source: Barclays Capital*

## OMAN

### **Sovereign ratings affirmed, outlook 'negative'**

Fitch Ratings affirmed at 'BBB-' Oman's long-term foreign-currency Issuer Default Rating (IDR), with a 'negative' outlook. It noted that the ratings are supported by the country's stronger public sector balance sheet relative to 'BBB'-rated peers, as well as a high GDP per capita, but are constrained by its undiversified economy and elevated fiscal and external account deficits. It projected Oman's fiscal deficit to narrow from 13.5% of GDP in 2017 to 6.3% of GDP in 2018, mainly due to higher non-hydrocarbon receipts, but to remain more than twice the median of 'BBB'-rated sovereigns. Further, it forecast the country's public debt level to rise from 5% of GDP at the end of 2014 to 48% of GDP at end-2019. It expected the Omani government to cover its financing needs for 2018 and 2019 through its \$6.5bn Eurobond issuance in early 2018, drawdowns from the State General Reserve fund (SGRF), and from domestic bond issues. As such, it projected the assets of the SGRF to decline from \$19.5bn at the end of 2017 to \$17.7bn at end-2019. In parallel, IHS Markit upgraded Oman's short-term sovereign credit risk rating from 20 to 15, equivalent to 'A+' on the generic scale, with a 'positive' outlook on the ratings. It also maintained the medium-term sovereign credit risk rating at 40, or 'BBB-' on the generic scale, and revised the outlook on the medium-term ratings to 'positive'. It attributed the rating actions to easing external liquidity pressures amid an improved current account balance. It forecast the current account deficit to narrow from 17.3% of GDP in 2016 to an average of 3.5% of GDP annually in the 2018-20 period, and for the immediate external financing needs to decline from 59% of foreign currency earnings in 2016 to 35% of earnings in 2019.

*Source: Fitch Ratings, IHS Markit*

## GHANA

### **Positive growth prospects amid fiscal consolidation**

The International Monetary Fund indicated that Ghana's macroeconomic conditions continue to stabilize amid positive growth prospects, improving investor confidence and declining inflation rates. It noted that the country's economic activity would be supported by elevated oil production, while it said that investor confidence has improved as reflected by the recent successful Eurobond issuance in May 2018. Also, it indicated that the inflation rate has decreased to below 10% and projected it to reach the 8% target before the end of 2018. In parallel, the Fund welcomed the government's commitment to achieving its end-year fiscal targets, and added that authorities have already stepped up structural reforms, mainly in public financial management and in strengthening the oversight of state-owned enterprises (SOEs). In parallel, it indicated that monetary policy remains adequate and expected the recent pressure on the exchange rate to be short-lived, provided that fiscal consolidation persists. Also, the Fund encouraged authorities to strengthen foreign exchange management in order to allow for more liquidity in the foreign exchange market. Further, it said that the high level of non-performing loans in some SOEs could weigh on financial stability, reduce credit growth and investment, and create contingent liabilities for the government. As such, it called on authorities to strengthen the resilience of the financial sector in order to improve medium-term economic growth.

*Source: International Monetary Fund*



# BANKING

## IRAN

### **FATF urges Tehran to address its AML/CFT deficiencies by October 2018**

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Iran has failed to implement its action plan to address its significant AML/CFT deficiencies. It added that most of the country's action plan items remain incomplete. It called on the authorities to criminalize terrorist financing, identify and freeze terrorist assets, ensure an adequate and enforceable customer due diligence process, as well as guarantee the full independence of the Financial Intelligence Unit. It added that authorities should ratify and implement the Palermo and Terrorist Finance Conventions, and clarify their capability to provide mutual legal assistance. Further, it asked authorities to make sure that banks are establishing a broader range of penalties for violations of money laundering offenses. Still, the FATF extended until October 2018 the suspension of the imposed counter measures used by international financial institutions against Iran. The FATF said that it will continue to monitor Iran's progress in addressing AML/CFT deficiencies, given the government's continued efforts to finalize and pass amendments to its AML and CFT laws. It considered that, until then, terrorism financing risks originating from Iran continue to pose a threat to the international financial system. As such, the FATF reiterated its call on its members and on all jurisdictions to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with natural and legal persons from Iran.

*Source: Financial Action Task Force*

## ANGOLA

### **BNA introduces payment restrictions for exports and imports**

Research and analytics provider IHS Markit indicated that the Banco Nacional de Angola (BNA) recently introduced payment restrictions for exporters and importers that will require them to use letters of credit in their trade activity. The BNA considered that the letters of credit will guarantee better management of the country's low foreign currency reserves, by allocating hard currency only for imports approved by the government and by ensuring that export revenues are transferred back to Angola. IHS noted that the new guidelines aim to help the country combat illicit flows that have previously led several international banks to suspend correspondent banking transactions with Angolan banks. However, it indicated that the new regulations will constitute an additional layer of bureaucracy that banks and businesses must overcome to have their foreign-currency transactions approved. It pointed out that the BNA will ask banks or businesses to provide documentation from the customs service or port authorities in order to prove that imports are in line with the issued letters of credit, before funds are released to external counterparties. But it expected this process to increase transfer delays by up to one month as the BNA processes the letters of credit. It noted that priority import products, such as medicine, basic foodstuffs and agricultural machinery, are unlikely to be affected, as their transactions would receive express approval. But it said that luxury goods, such as personal cars, are likely to face more scrutiny before receiving the BNA's approval.

*Source: IHS Markit*

## NIGERIA

### **Banks facing asset quality challenges in 2018**

Fitch Ratings indicated that the operating conditions for Nigerian banks improved in 2017, with the country emerging from a recession and with foreign-currency liquidity easing in the second half of the year. It noted that the banks' non-performing loans (NPLs) rose in 2017, reflecting the severe economic shocks over the past three years. It said that banks have restructured large problem loans and stepped up recovery efforts, but that they remained exposed to high credit concentrations. Further, it pointed out that foreign-currency liquidity risks receded last year, with banks tapping into increased US dollar inflows under the Central Bank of Nigeria's new investors-and-exporters window. It added that the banks' funding and liquidity benefit from large and stable deposit bases and large holdings of government securities. In parallel, Fitch indicated that all rated Nigerian banks were profitable in 2017, supported by strong and diversified revenue generation despite the high loan impairment charges. It added that the banks' net interest margins benefited from high yields on T-bills, while their non-interest operating income was driven by higher fees and commissions, trading income and currency translation gains. However, it expected the banks' profitability to come under pressure in 2018, due to higher provisions under IFRS 9 and lower yields on T-bills. It forecast loan growth at about 10% in 2018, due to improving macroeconomic conditions and the banks' willingness to lend amid falling yields on T-bills. It considered that the main challenge for the banks in 2018 will be how they address weak asset quality as NPLs are expected to further increase.

*Source: Fitch Ratings*

## UAE

### **Agencies take rating actions on five banks**

Fitch Ratings affirmed the long-term Issuer Default Ratings (IDRs) of Emirates Islamic Bank (EIB) at 'A+', those of Dubai Islamic Bank (DIB) and Mashreq Bank at 'A', and the ratings of Commercial Bank of Dubai (CBD) at 'A-'. It indicated that the ratings of DIB, Mashreq, and CBD are supported by the extremely high probability of government support, while those of EIB reflect the expected support from its shareholder, Emirates NBD, if needed. It added that the government's strong capacity and willingness to support the banking system is mainly underpinned by the UAE's sovereign wealth funds and sustained revenues from hydrocarbon output, as well as the moderate size of the banking sector relative to the country's GDP. In parallel, the agency maintained the Viability Ratings (VRs) of Mashreq Bank at 'bbb-', of DIB and CBD at 'bb+', and the VR of EIB at 'bb-'. It said that DIB's VR is driven by its acceptable asset quality, sound profitability and liquidity, strong domestic franchise and moderate capital ratios. It added that the VRs of EIB and CBD mainly reflect the banks' healthy liquidity, adequate management and strategy, weak asset quality and moderate capital ratios. In parallel, Capital Intelligence Ratings upgraded the long-term foreign currency rating (FCR) of Mashreq Bank from 'A-' to 'A', and affirmed at 'A+' the long-term FCR of Union National Bank. It added that Emirates NBD's proposed acquisition of Turkey's Denizbank would reduce ENBD's concentration to the Dubai sovereign, which represents 42% of the bank's gross loans, and would allow for a wider income stream.

*Source: Fitch Ratings, Capital Intelligence Ratings*

## ENERGY / COMMODITIES

### Oil prices up 35% in first half of 2018

ICE Brent crude oil front-month prices averaged \$71.1 per barrel (p/b) in the first half of 2018, constituting an increase of 34.9% from an average of \$52.7 p/b in the same period of 2017. Also, oil prices rose by 11.4% quarter-on-quarter and by 47% year-on-year to an average of \$75 p/b in the second quarter of 2018. The significant increase in oil prices was mainly driven by the OPEC and non-OPEC production cut agreement, heightened geopolitical risks in the Middle East & North Africa region and shifts in U.S. foreign policy. In parallel, OPEC and non-OPEC countries agreed on June 22, 2018 to ease their output cuts in order to compensate for involuntary cuts and potential future disruption in Iran and Venezuela's output. However, the output hike was below market expectations, which led to a marginal increase in oil prices. In this context, oil prices have been stabilizing at a relatively high range of between \$75 p/b and \$78 p/b since June 22. In addition, oil prices were supported by tightening U.S. fuel inventories due to a supply outage at a major oil facility in Alberta, Canada that supplies oil to the U.S. Further, Iran's threats of disrupting oil shipments from neighboring countries in response to U.S. sanctions have also signaled higher supply-side risks to the oil market. In fact, Iranian authorities had previously threatened in 2011 to block the Strait of Hormuz, a major oil shipping route, in retaliation for any hostile U.S. action against Iran. Overall, Brent oil prices are forecast to average \$74.8 p/b in the third quarter of 2018 and \$73.3 p/b in the fourth quarter of the year.

Source: Seeking Alpha, Thomson Reuters, Byblos Research

### Iraq's oil exports down 2% in June 2018

Iraq's crude oil exports totaled 105.6 million barrels in June 2018, constituting a decrease of 2.3% from 108.2 million barrels in May. The country's oil exports reached 3.52 million barrels per day (b/d) in June 2018 relative to 3.5 million b/d in the previous month. All exports in the covered month originated from the country's central and southern fields, as there were no shipments from the northern Kirkuk fields. Iraq's oil export receipts reached \$7.3bn in June 2018, down by 3% from \$7.6bn in May.

Source: Iraq Ministry of Oil, Byblos Research

### Saudi Arabia's oil output near record high in June 2018

Saudi Arabia raised its oil production by 700,000 b/d to 10.7 million barrels per day (b/d) in June 2018, in an effort to offset supply shortages in other countries and to moderate prices. The Kingdom's oil supply last month nearly matched its record-high production of 10.72 million b/d in November 2016. In addition, Saudi oil exports rose from 7.3 million b/d in April 2018 to about 8 million b/d in June, and are expected to increase further in July 2018.

Source: Thomson Reuters

### Middle East accounts for 10% of global oil consumption in 2017

BP estimated the Middle East region's crude oil consumption at 9.3 million barrels per day (b/d) in 2017, up by 1.4% from 9.2 million b/d in the previous year, and equivalent to 9.5% of the world's oil demand. Saudi Arabia's oil consumption averaged 3.92 million b/d, or 42.2% of the region's total demand last year, followed by Iran with 1.82 million b/d (19.5%), the UAE with one million b/d (10.8%) and Iraq with 791,000 b/d (8.5%).

Source: BP, Byblos Research

### Base Metals: Zinc prices at one-year low amid escalating U.S.-China trade tensions

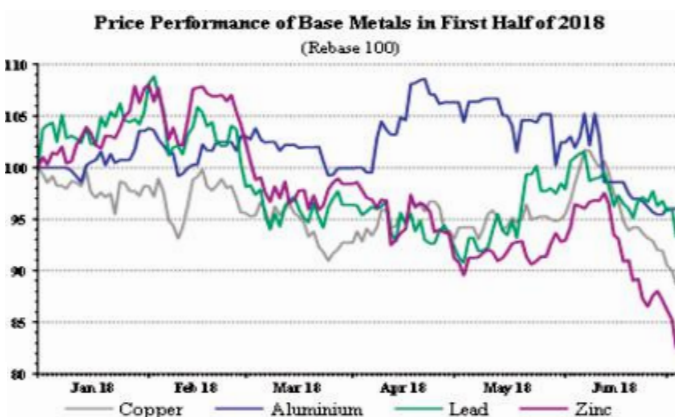
LME zinc 3-month future prices declined from an average of \$3,387 per ton in the first quarter of 2018 to \$3,105 per ton in the second quarter of the year. Also, the metal's price decreased from an average of \$3,498 per ton in February 2018 to 3,267.4 per ton in March, \$3,197.8 per ton in April, \$3,067.6 per ton in May and to an average of \$3,052.7 per ton in June 2018. Zinc prices hit a 12-month low of \$2,700 per ton on July 4, 2018. The downward trend in the metal's price so far this year is due to concerns about zinc oversupply, as well as escalating trade tensions between the U.S. and China that may constrain demand. In this context, refined zinc supply increased by 2.9% year-on-year in the first four months of 2018, while demand for the metal regressed by 0.5% year-on-year. In addition, zinc prices are projected to decline to an average of \$2,500 per ton in the second half of the year, reflecting expectations of continued trade tensions between the U.S. and China that would weigh on demand for industrial metals in coming months. However, upside risks to the metal's price outlook include plans by Chinese smelters to reduce zinc supply in order to limit the drop in the metal's price.

Source: Citi, Bloomberg, Thomson Reuters, Byblos Research

### Precious Metals: Gold prices to decrease to \$1,250 an ounce by end-2018

Gold prices averaged \$1,307 per troy ounce in the second quarter of 2018, constituting a decline of 1.7% from an average of \$1,329 an ounce in the preceding quarter, but an increase of 4% from an average of \$1,259 an ounce in the second quarter of 2017. The quarter-on-quarter decline in prices was mainly due to the recent recovery in the US dollar amid a stronger U.S. economy, as well as the easing of tensions between North Korea and the United States. The decrease in prices coincided with a 2.8% quarter-on-quarter rise in the trade-weighted US Dollar Index in the second quarter of 2018. In addition, investors in the U.S. have been selling the safe haven asset, while investors in the rest of the world have been buying the commodity. In this context, Chinese investors were the main buyers of the metal in May and June, given the depreciation of the Chinese Yuan. Still, overall demand for gold remains weak, which has limited a recovery in the metal's price. Gold prices are projected to further decline to \$1,250 an ounce by the end of the year, reflecting expectations of subdued demand growth, further U.S. interest rate hikes, and the continued increase in U.S. bond yields in coming months.

Source: Julius Bär, ABN AMRO, Thomson Reuters





# 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-	B3	B	-	B-	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
	Stable	Stable	Stable	-	Stable								
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	Positive								
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	1.75-2.00	05-Jul-18	Raised 25bps	01-Aug-18
Eurozone	Refi Rate	0.00	14-Jun-18	No change	26-Jul-18
UK	Bank Rate	0.50	21-Jun-18	No change	02-Aug-18
Japan	O/N Call Rate	-0.10	15-Jun-18	No change	31-Jul-18
Australia	Cash Rate	1.50	03-Jul-18	No change	17-Jul-18
New Zealand	Cash Rate	1.75	28-Jun-18	No change	08-Aug-18
Switzerland	3 month Libor target	-1.25-(-0.25)	21-Jun-18	No change	20-Sep-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	21-Jun-18	No change	27-Sep-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	20-Jun-18	No change	08-Aug-18
India	Reverse repo rate	6.25	06-Jun-18	Raised 25bps	01-Aug-18
UAE	Repo rate	2.25	14-Jun-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	2.50	14-Jun-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	28-Jun-18	No change	16-Aug-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	7.75	21-Jun-18	Raised 25bps	02-Aug-18
Brazil	Selic Rate	6.50	21-Jun-18	No change	01-Aug-18
Armenia	Refi Rate	6.00	26-Jun-18	No change	14-Aug-18
Romania	Policy Rate	2.50	04-Jul-18	No change	06-Aug-18
Bulgaria	Base Interest	0.00	29-Jun-18	No change	31-Jul-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	15-Jun-18	Cut 25bps	27-Jul-18



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