

## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## WORLD

**Import-facilitating measures cover \$734bn of trade merchandise**

The World Trade Organization indicated that the Group of 20 major economies have put in place 59 new trade-restrictive measures between mid-October 2019 and mid-May 2020, compared to 28 restrictive measures between mid-May 2019 and mid-October 2019. It added that 28 measures were coronavirus-related between mid-October 2019 and mid-May 2020, out of which more than 90% were export restrictive measures. But it noted that the G-20 cancelled about 36% of all virus-related trade restrictions by mid-May. The distribution of the 31 trade-restrictive measures that are unrelated to the virus shows that import-related restrictions accounted for 84% of total measures, while export-related restrictions represented 16% of the total. In parallel, the WTO said that the G-20 economies imposed 95 trade-facilitating measures in the covered period, compared to 36 new measures between mid-May 2019 and mid-October 2019. It added that 65 measures were related to the coronavirus. The distribution of the 30 trade-liberalizing measures that are unrelated to the virus shows that 90% were import-related trade-facilitating procedures, while export-related measures represented 6.7% of the total. Import-restrictive measures that are unrelated to coronavirus covered an estimated \$417.5bn of trade merchandise, which is equivalent to 2.1% of world merchandise imports, while import-facilitating measures that are unrelated to COVID-19 covered \$734bn of global trade, and accounted for 3.8% of world merchandise imports.

Source: World Trade Organization

## EMERGING MARKETS

**Infrastructure spending at \$43 trillion in 2021-40**

Global reinsurer Swiss Re projected global spending on infrastructure in emerging markets (EMs) at \$43 trillion in the 2021-40 period compared to \$23 trillion in advanced economies. It anticipated infrastructure expenditures to reach \$35 trillion in Emerging Asia, or 4.2% of the region's GDP, and to account for 81.4% of total EM spending on infrastructure in the covered period. It also expected spending on infrastructure in Africa and Latin America at \$3 trillion each in the 2021-40 period, which would constitute 4.3% and 2.3% of each region's GDP, respectively. Further, it projected infrastructure expenditures in Emerging Europe to reach \$2 trillion, equivalent to 3% of the region's GDP in the covered period. It expected China to be the largest spender on infrastructure in the next 20 years, and to account for 54% of aggregate spending on infrastructure in EMs. It also forecast India to be the second largest investor in infrastructure among EMs in the covered period, representing 8% of EM infrastructure spending. It indicated that infrastructure spending in Africa in the 2021-40 period will be driven by Nigeria, Egypt and Ethiopia. On a sectoral basis, it anticipated the energy sector to attract 34% of infrastructure investments in EMs in the next 20 years, while it expected spending on roads to account for 33% of the total. It added that about 33% of investments in energy will be in renewable sources, mainly in wind energy and solar photovoltaic.

Source: Swiss Re

## MENA

**Investments in startups up 35% to \$659m in first half of 2020**

The online platform MAGNiTT indicated that 144 venture capital (VC) firms, angel investors, accelerators and funds invested \$659m in startups based in the Middle East & North Africa (MENA) region in the first half of 2020, which constitutes an increase of 35% from the same period of 2019. It noted that investments in UAE-based startups stood at around \$390m, or 59% of investments in the region's startups in the first half of 2020, followed by startups in Egypt (19%), Saudi Arabia (15%), Jordan (2%), and Kuwait (1%). It added that the five largest deals amounted to \$321.5m, or around 50% of the region's investments in the covered period. Further, it pointed out that there were 251 deals in startups based in the MENA region in the first half of 2020, down by 8% from the same period of last year. It said that the number of deals in startups in Egypt and in the UAE each represented 25% of total transactions in the region, followed by Saudi Arabia (18%), Oman (12%), and Jordan (6%). It indicated that the financial technology (fintech) sector attracted 16% of the number of deals in the MENA region in the first half of 2020, followed by the e-commerce sector (14%), delivery & transport (10%), and the information technology and food & beverage sectors (6% each). In addition, it noted that 31% of investors in MENA startups in the first half of 2020 were from outside the region. MAGNiTT is an online platform for startups across the MENA region that connects entrepreneurs directly with ecosystem stakeholders, including funders and mentors.

Source: MAGNiTT

## GCC

**Fixed income issuance up 1% to \$79bn in first half of 2020**

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached \$79.1bn in the first half of 2020, constituting an increase of 0.8% from \$78.5bn in the same period of 2019. Fixed income issuance in the covered period consisted of \$35.5bn in sovereign bonds, or 45% of the total, followed by \$21.4bn in corporate bonds (27%), \$14.8bn in sovereign sukuk (18.7%), and \$7.4bn in corporate sukuk (9.4%). Further, aggregate issuance by GCC sovereigns amounted to \$50.3bn in the first half of 2020, or 63.6% of total fixed income issuance in the region; while aggregate bonds and sukuk issued by corporates in the GCC reached \$28.8bn, or 36.4% of the total. GCC sovereigns issued \$1.7bn in sukuk in January, \$10.2bn in bonds and sukuk in February, \$4.2bn in sukuk in March, \$27.3bn in bonds and sukuk in April, \$3.4bn in bonds and sukuk in May, and \$3.5bn in bonds and sukuk in June 2020. In parallel, companies in the GCC issued \$3.3bn in bonds and sukuk in January, \$10.9bn in February, \$1.5bn in March, \$1.7bn in April, \$6.8bn in May, and \$4.6bn in June 2020. Further, Saudi Arabia issued \$1.7bn worth of sovereign sukuk and \$750m in sovereign bonds, and the UAE issued \$1bn in sukuk in June. In parallel, corporate issuance in the covered month included \$1.8bn in sukuk and \$1.2bn in bonds issued by UAE-based companies, \$487.6m in sukuk issued by Kuwait-based firms, and \$232.2m in bonds issued by Qatar-based corporates.

Source: KAMCO

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# POLITICAL RISK OVERVIEW - June 2020

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## EGYPT

The Libyan Government of National Accord (GNA) and Turkey rejected President Abdel Fatah al-Sisi's roadmap for political settlement in Libya, as they considered that the initiative favors General Khalifa Haftar. President al-Sisi threatened military intervention in Libya if Turkey and the GNA-aligned forces advance to the strategic city of Sirte, as this move would be a direct threat to Egypt's security. Negotiations between Egypt, Ethiopia and Sudan about the Grand Ethiopian Renaissance Dam project broke down due to disagreements about drought mitigation, the arbitration mechanism, and the legal status of the final agreement.

## ETHIOPIA

The killing of a popular ethnic Oromo singer and activist sparked large-scale protests in the capital Addis Ababa and in the Oromia region, which resulted in clashes between security forces and protesters that led to at least 52 deaths. The speaker of the upper house, who is also a top official in the Tigray People's Liberation Front, resigned from her post in protest against the decision to postpone the August 2020 elections due to the COVID-19 pandemic. Still, the upper house voted to extend by nine to 12 months the terms of the federal and regional parliaments, which are set to end in October 2020. Despite the vote, the Tigray regional parliament decided to proceed with regional elections in August, a move that the electoral board condemned.

## IRAN

The International Atomic Energy Agency (IAEA) noted that Iran continues to exceed the limits for uranium enrichment and stockpiling set under the Joint Comprehensive Plan of Action. It also expressed concerns about Iran's lack of cooperation to allow inspectors access to two nuclear sites. The U.S. and Iran exchanged prisoners, which prompted President Donald Trump to announce that a new deal between the two countries is possible. The U.S. sanctions announced in December 2019 against shipping company Islamic Republic of Iran Shipping Lines and China-based E-Sail Shipping Company came into effect. The U.S. sanctioned the captains of the five Iranian vessels that delivered fuel to Venezuela, as well as nine companies linked to the Iranian metal industry.

## IRAQ

Parliament approved the ministers of Prime Minister Mustafa Al-Kadhimi's new Cabinet, but voted against the government's plan to reduce the salaries of ministers and parliamentarians. Protests erupted following the government's reduction of citizens' pensions. The U.S. announced that it will reduce its military presence in the country in the coming months and will support Iraq's energy sector, while Iraq reaffirmed its commitment to protect U.S. and coalition forces. Suspected Iran-backed militias launched rocket attacks on Baghdad International Airport, Camp Taji and the Green Zone near the U.S. embassy. A new Shiite militia, Zulfiqar Forces, condemned the strategic dialogue between the U.S. and Iraq and threatened to attack U.S. targets in the country. Security forces launched a military operation against Islamic State militants in Kirkuk, Diyala and Salah al-Din provinces.

## LIBYA

Forces loyal to the UN-backed Government of National Accord (GNA) reclaimed control of the city of Tripoli and captured the city of Tarhuna, the last outpost of the Libyan Arab Armed Forces (LAAF) in the west of the country, after the LAAF and Russian military aides pulled out from the area. The GNA also carried an offensive against the city of Sirte, but the LAAF's foreign backers repelled the attack. Egyptian President Abdel Fattah al-Sisi threatened military intervention in Libya over the advances of the GNA in Sirte, and considered that an attack on the city would constitute crossing a "red line". President al-Sisi proposed a roadmap for negotiations between the LAAF and GNA that was welcomed by allies, but was rejected by the GNA and Turkey.

## SUDAN

The transitional government and rebel groups failed to reach a comprehensive peace deal. Representatives of the Sudanese Revolutionary Front and the South Sudanese mediation team met in the capital Khartoum to hold talks with the Sudanese government in order to "narrow the differences on outstanding issues". Security forces prevented a cross-border attack into Sudan by a militia allegedly supported by the Ethiopian army. In response, Sudan and Ethiopia agreed to continue cooperation and to exercise restraint. Tens of thousands of people took to the streets in several cities demanding faster reforms and greater civilian rule. In parallel, foreign donors pledged about \$1.8bn to support Sudan's economic and political transformation at the Sudan Partnership Conference that took place in Berlin on June 25.

## SYRIA

Al-Qaeda linked group Hurras al-Din clashed with Syrian regime forces in the Idlib province. Russia led airstrikes on Idlib for the first time since the March ceasefire agreement with Turkey. The Democratic Union Party and the umbrella group of the Syrian Kurdish opposition parties, the Kurdish National Council, announced an initial agreement of "Kurdish unity" in the northeast of Syria. Hundreds of protesters in Sweida in the southwest of Syria demonstrated against soaring food prices. President Bashar El Assad dismissed Prime Minister Imad Khamis, in a bid to calm protesters. Israel reportedly launched several airstrikes on suspected Iranian and Iran-linked targets in the center, the south, and the east of Syria, as well as near the Iraqi border. The U.S. imposed new sanctions against Syrian individuals and organizations under the Caesar Syria Civilian Protection Act.

## TUNISIA

The ongoing conflict in Libya increased political polarization in Tunisia. Members of Parliament accused in a plenary session Rached Ghannouchi, the Speaker of Parliament and the leader of the moderate Islamist party Ennahdha, of undermining Tunisia's neutrality in the Libyan conflict. In response, the opposition Free Destourian Party tabled a motion to refuse any military intervention in Libya, which Parliament rejected. Mr. Ghannouchi called for the dismissal of the Achaab Movement and Tahya Tounes parties from the coalition government because they supported the motion and he refused to sign the document of the "stability and solidarity pact" proposed by Prime Minister Elyès Fakhfakh.

## TURKEY

The Turkish army targeted heavily the Kurdistan Workers' Party positions in northern Iraq. Small-scale clashes between Turkish security forces and the People's Protection Units persisted in northeastern Syria. In parallel, Turkish military forces prevented a Greek vessel, which is operating under the European Union's naval mission to enforce the arms embargo on Libya, from inspecting a cargo ship heading to Libya from Turkey. The incident-raised tensions between Turkey on one side and Greece and the EU on the other side. Turkish military forces conducted naval and air exercises in the Mediterranean Sea, and held joint submarine drills with Italy near Libya's coast.

## YEMEN

Huthi rebels conducted an offensive in the Marib province and consolidated their control over the country's north. The Saudi-led coalition reportedly intercepted several Huthi drones and missiles that it claimed were aimed at civilian targets in Saudi provinces along the Yemeni-Saudi border. Also, Huthi rebels reportedly launched missiles at the Saudi Defence Ministry, at a military base in Riyadh, and at other military positions in the Jizan and Najran cities. The UAE-backed Southern Transitional Council and the Hadi government agreed on June 22 on a ceasefire in the Abyan province, and noted that they plan to resume talks on the enforcement of the November 2019 Riyadh Agreement.  
*Source: International Crisis Group, Newswires*



# OUTLOOK

## WORLD

### **Output to deteriorate by 4.6% in 2021 in case of second COVID-19 wave**

The International Monetary Fund indicated that the COVID-19 outbreak has had a larger-than-anticipated negative impact on global economic activity in the first half of 2020, and projected in its baseline scenario global real GDP to retreat by 4.9% in 2020 and to grow by 5.4% in 2021. It also considered two scenarios to outline uncertainties about the progression of the pandemic, whereby the first scenario anticipates a second outbreak of the virus in early 2021, while the second scenario expects post-lockdown measures in the second half of 2020 to contain the virus and generate a more rapid normalization of economic activity.

Under the first scenario, it anticipated global output to deteriorate by 4.6% in 2021 from the baseline scenario. It projected real GDP in advanced economies to decline by 4.8% next year from the baseline, while it forecast output in emerging markets (EMs) to decrease by 4.5% in 2021 due to tighter financial conditions and more limited fiscal responses. Further, it anticipated governments to implement additional measures under the first scenario, which would increase public spending in 2021. It expected the public debt level of EMs at 73.7% of GDP at the end of 2021 relative to 66.7% of GDP in the baseline scenario, while it forecast the government debt level of advanced economies at 143.5% of GDP at end-2021 compared to 132.3% of GDP in the baseline scenario.

Under the second scenario, the Fund expected global real GDP to grow by 0.6% in 2020 from the baseline scenario. It anticipated the recovery in activity to pick up in 2021 as it projected global output next year at 3.2% above the baseline, amid a relative loosening of financial conditions. It projected real GDP in advanced economies to increase by 3.2% next year relative to the baseline, while it forecast output in EMs to improve by 3.1% in 2021. It projected the public debt level of EMs at 59.2% of GDP at the end of 2020 relative to 63.1% of GDP under the baseline scenario, while it anticipated the debt level of advanced economies at 127% of GDP compared to 131.2% of GDP under the baseline scenario.

*Source: International Monetary Fund*

## EMERGING MARKETS

### **Economic activity could expand by 6% in 2021**

Goldman Sachs expected economic growth in emerging markets (EMs) to recover sharply towards the end of 2020 and into 2021, following a steep contraction in the second quarter of the year. It forecast real GDP in EMs to contract by 1.1% this year and to grow by 6% in 2021. It attributed the recovery to the easing of lockdown measures and to the restart of the global economy.

It indicated that the COVID-19 crisis had a substantial adverse impact on Central and Eastern Europe, the Middle East & Africa (CEEMEA) region. It estimated economic activity in the CEEMEA region to have contracted by about 10% in the first half of 2020. It forecast real GDP to shrink by between 4% and 5% on average in the CEEMEA region in 2020, and to expand by 5% in 2021. However, it anticipated the crisis to have a lasting adverse impact on economic activity in EMs, especially on the CEEMEA region, with elevated unemployment and a persistent output gap. As such, it projected the majority of central banks in

the CEEMEA region to further ease monetary policy in the short term and to delay any tightening until 2022. However, it noted that monetary easing might be constrained in some CEEMEA countries that face risks to exchange rate stability and relatively weak external and/or fiscal balance sheets, such as Turkey, South Africa and much of the countries in Sub-Saharan Africa.

In parallel, it forecast real GDP to contract by 8.2% in Latin America in 2020 and to grow by 4.5% in 2021. It expected the impact of the crisis to be very severe on economic activity and on public health, despite sizeable fiscal stimulus packages and decisive monetary easing, as the region accounts currently for about 25% of global cases of the coronavirus. It indicated that the short-term outlook for Latin America remains highly volatile, given the uncertainty related to the future of the pandemic, and to several idiosyncratic risks such as political and fiscal risks in Brazil, lagging policy response in Mexico, and complex debt restructurings in Argentina and Ecuador.

*Source: Goldman Sachs*

## AFRICA

### **Real GDP to contract by 3.4% in 2020 with protracted pandemic**

The African Development Bank Group (AfDB) indicated that the COVID-19 outbreak has reversed previous robust growth projections for African countries and weighed on the latter's economic prospects. It considered two possible scenarios due to the fluidity of the pandemic, whereby the baseline scenario assumes that the virus has a substantial impact but of shorter duration, while the worst-case scenario anticipates a detrimental impact of the virus over a protracted period of time with the pandemic continuing beyond the first half of 2020. Under its baseline scenario, it projected real GDP in Africa to retreat by 1.7% in 2020, compared to a previous forecast of a 3.9% growth this year. Under the worst-case scenario, it forecast real GDP to decline by 3.4% this year. As such, it estimated that African countries will incur, in 2020, GDP losses of \$145.5bn under the baseline scenario and of \$189.7bn under the worst-case scenario. It anticipated that the most affected African economies will be those with poor health-care systems, those that rely heavily on the tourism sector, on international trade, and on commodity exports, as well as countries with high debt burdens and elevated dependence on international financial flows. It expected nonresource-intensive economies to be more resilient to the shock.

In parallel, the AfDB anticipated that the pandemic will trigger expansionary fiscal spending across African economies and will weigh on revenues, which would at least double the already wide fiscal deficits. It forecast the region's fiscal deficit at 8% of GDP in 2020 in the baseline scenario and at 9% of GDP in the worst-case scenario. It projected the debt level in many African economies to grow by up to 10 percentage points of GDP in 2020 and cautioned that the rising share of commercial debt in Africa and the high share of African debt denominated in foreign currency will weigh on the debt profiles of many African countries. In addition, it forecast the region's current account deficit to widen from 4.3% of GDP in 2019 to 6.8% of GDP in 2020 under the baseline scenario and to reach 8.1% of GDP under the worst-case scenario, mainly due to weaker remittance inflows and foreign direct investments, as well as to lower foreign aid.

*Source: African Development Bank*





# ECONOMY & TRADE

## EMERGING MARKETS

### COVID-19 triggers rating actions on non-investment grade sovereigns

Moody's Investors Service indicated that it has taken 50 rating actions on non-investment grade sovereigns that are rated 'Ba1' and lower in the first half of 2020. It added that the outbreak of the coronavirus triggered 29 rating actions. Consequently, it said that 76 emerging and frontier market sovereigns are rated 'Ba1' and lower at end-June 2020, out of which about 40% are in the Middle East & Africa (ME&A), and around 25% are in Latin America. It noted that about 40% of sovereigns in the ME&A and 50% in the Asia-Pacific region have 'negative' outlooks or ratings under review for downgrade. It pointed out that the credit impact of the pandemic manifested through lower growth and a sharp weakening of fiscal and debt metrics, through the collapse in global oil prices, and through reduced access to financing. It anticipated the pandemic to result in unprecedented real GDP contractions in emerging and frontier market economies in 2020. It expected the recovery in economic activity in 2021 to vary widely across regions depending on the governments' policies, the structure of each economy and the rebound in commodity prices. Further, it forecast fiscal deficits to widen significantly in all regions in 2020 and to range between a deficit of about 6% of GDP in the ME&A region and of around 8.5% of GDP in Asia-Pacific. As such, it projected the debt-to-GDP ratios across most regions to increase by about 10 to 15 percentage points of GDP by end-2020. In parallel, it indicated that the pandemic caused a significant increase in external vulnerabilities and liquidity risks for non-investment-grade sovereigns, amid elevated gross borrowing requirements and large external funding needs.

Source: Moody's Investors Service

## AFRICA

### Debt distress to rise across region in 2020

Fitch Ratings indicated that the government's debt level of the 19 sovereigns it rates in Sub-Saharan Africa (SSA) is rising at a faster pace and to higher levels than in other emerging market (EM) economies, which increases the risk of widespread debt distress across the region in 2020. It noted that the coronavirus pandemic and the collapse in global oil prices have further exacerbated public finance imbalances in SSA economies. It forecast the SSA region's median government debt level to rise from 57% of GDP at the end of 2019 to 71% of GDP at end-2020, relative to a median debt level of 57% of GDP for other EMs. It projected the debt level to be the highest in Cabo Verde at 157% of GDP at end-2020, followed by the Republic of the Congo (115% of GDP), Mozambique (113% of GDP), Zambia (110% of GDP), and Angola (108% of GDP). Further, it expected the region's median debt servicing to rise from 12.8% of public revenues in 2019 to 16.4% of revenues in 2020. It projected the region's public debt level to continue to increase, even after the coronavirus shock recedes, in the absence of substantial fiscal consolidation. In parallel, it forecast the median net external debt level at 41% of GDP at end-2020, broadly in line with other EMs, due to the high share of concessional debt. In parallel, Moody's Investors Service indicated that the wider impact of the pandemic on global trade, commodity prices and financial markets will pose severe economic, financial and social challenges to African sovereigns.

Source: Fitch Ratings, Moody's Investors Service

## NIGERIA

### Exchange rate unification is key to addressing external imbalances

Crédit Suisse indicated that Nigeria's economy is facing a double shock from the outbreak of the coronavirus pandemic and from the significant deterioration in the country's terms of trade. It said that authorities had to resort to portfolio inflows and to drawdowns of foreign currency reserves in order to finance the wide fiscal and current account deficits, which increased the country's vulnerability to the pandemic and to the collapse in oil prices. It added that foreign currency reserves declined from \$38.1bn at the end of 2019 to \$36bn at end-March 2020. It noted that the current account deficit reached 3.6% of GDP in 2019, its widest level since 2000, largely because of the existence of multiple exchange rate windows, which facilitated a sharp increase in imports. As such, it considered that the unification of the exchange rates is the key to contain imports, stop the drawdown of foreign currency reserves and restore investors' confidence in Nigerian assets. It forecast the current account deficit to narrow to 0.3% of GDP this year, as it expected imports to decrease from 21.2% of GDP in 2019 to 11.6% of GDP in 2020. In parallel, it projected the fiscal deficit to widen to 6.8% of GDP in 2020, which will be financed from the International Monetary Fund's \$3.4bn emergency financial assistance, as well as from the financial support from the World Bank and other international financial institutions. It noted that exchange rate adjustment will come at the expense of the economy, which it projected to contract by 4% in 2020 following a growth rate of 2.2% in 2019.

Source: Crédit Suisse

## TURKEY

### Pressure on reserves raises external vulnerabilities

Fitch Ratings indicated that the coronavirus pandemic will affect Turkey's sovereign credit profile by increasing external financing risks. It noted that gross foreign currency reserves fell from \$106bn at end-2019 to \$90bn towards the end of June. It pointed out that the decline in reserves since the end of February, along with weak credibility of monetary policy and negative real interest rates, exacerbate external pressures. It noted that rapid capital outflows in March and April contributed to a 15% depreciation of the Turkish lira against the US dollar over the same period, even though it has appreciated by 5% since early May. It pointed out that Turkey's net reserves, excluding swap operations, stand at -\$28bn, which underlines the pressure on reserves and increases external vulnerabilities. It considered that the decline in net reserves has reduced Turkey's already limited scope to adopt a more managed approach to its exchange rate. Still, the agency indicated that the private-sector's external debt rollover rates and the banks' foreign-currency deposits have remained robust, reflecting a resilient external financing position of banks and corporates, which account for 44% and 41%, respectively, of Turkey's \$173bn external financing requirements over the next 12 months. Further, it anticipated Turkey's balance of payments to stabilize in the second half of 2020, in case the government resumes external debt issuance and given low maturing private-sector external debt. Also, it projected the current account balance to shift from a surplus of 1.1% of GDP in 2019 to deficits of 1.2% of GDP in 2020 and of 1.5% of GDP in 2021.

Source: Fitch Ratings

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# BANKING

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## GCC

### Coronavirus and oil price shocks to affect banks' profitability in 2020

Moody's Investors Service indicated that the outbreak of the coronavirus and the decline in global oil prices will severely impact the profitability of banks in Gulf Cooperation Council (GCC) economies in 2020. But it considered that the banks' adequate capitalization will continue to support their solvency. It noted that the anticipated economic contraction in GCC countries this year will weigh on the banks' lending activity, reduce their interest and fee income, and moderately increase their funding costs. It projected the banks' loan portfolio to contract by up to 5% in 2020 compared to a growth rate of 7% in 2019. Further, it said that the economic recession will significantly weaken the repayment capacity of corporate and household borrowers, which will increase non-performing loans and, in turn, will require higher provisioning charges. It expected the banks' loan-loss provisions to more than double in 2020 from \$11.7bn in 2019. In parallel, it anticipated the banks' net profits to decline by more than 20% this year from net earnings of about \$34.7bn in 2019, as a result of higher provisions and lower interest income. Further, it said that the deterioration in profitability, along with a further weakening of the banks' asset quality, could weigh on the capitalization of some GCC banks this year. But it anticipated the contraction in lending activity and lower dividend payouts to offset the pressure on the banks' capital from weaker profitability. It forecast the banks' capital buffers to remain adequate, with their tangible common equity (TCE) exceeding 14% of their risk-weighted assets by end-2020, compared to a TCE ratio of about 15.3% at end-2019.

Source: Moody's Investors Service

## SAUDI ARABIA

### Low oil prices and coronavirus weigh on banks

Fitch Ratings affirmed at 'A-' the long-term Issuer Default Ratings (IDRs) of National Commercial Bank (NCB), Al Rajhi Bank and Samba Financial Group (SAMBA), and at 'BBB+' the ratings of Riyad Bank and Banque Saudi Fransi (BSF). It downgraded the IDR of the Saudi British Bank (SABB) from 'A-' to 'BBB+'. Further, it affirmed at 'a-' the Viability Ratings (VR) of NCB, Al Rajhi Bank and SAMBA, and at 'bbb+' the VRs of Riyad Bank and BSF, while it downgraded the VR of SABB from 'a-' to 'bbb+'. The agency has a 'stable' outlook on the IDRs of Riyad Bank, BSF and SABB, while it maintained on Rating Watch Negative (RWN) the IDRs of NCB, Al Rajhi Bank and SAMBA, as well as the VRs of all six banks. Further, it pointed out that the RWN on the banks' ratings reflects heightened risks of a severe and prolonged deterioration in the operating environment of the banks. In parallel, in its periodic review of the ratings of 11 Saudi banks, Moody's Investors Service expected the banks to face increased downside risks to their asset quality, profitability, and/or solvency in the next two years, due to lower global oil prices, reduced government spending and coronavirus-related disruptions. Also, it noted that the banks' ratings continue to benefit from a very high probability of government support in case of need, resulting in a rating uplift of between one to four notches. It said that most of the banks' ratings are supported by their strong capital base, stable funding profile and solid profitability.

Source: Fitch Ratings, Moody's Investors Service

## ANGOLA

### Depreciation of kwanza increases inflationary pressure and public debt level

Citi Research indicated that the fall in global oil prices in March 2020 has exacerbated the pressure on the Angolan kwanza, as reflected by a widening of the spread between the parallel and official exchange rates. It noted that the official exchange rate reached AOA580 per US dollar at the end of June 2020, while the kwanza was trading at AOA790 per dollar on the parallel market. It added that oil companies in Angola are selling US dollars directly to local banks at an exchange rate that ranges between the official and the parallel rates, which has created a multiple exchange rate regime. Further, it pointed out that the depreciation of the kwanza has had a twofold macroeconomic impact on the Angolan economy. First, it indicated that the weaker currency contributed to a surge in the inflation rate, which averaged around 19.3% so far in 2020. Second, it said that Angola's debt ratios increased significantly, given that a considerable portion of the debt stock is denominated in US dollars. It added that the high debt servicing costs have raised the possibility of a sovereign debt default. In addition, it considered that there is very little that the Banco Nacional de Angola (BNA) can do to limit the depreciation of the kwanza given its low level of foreign currency reserves and the low oil price environment, and if external debt servicing obligations continue to be high. Still, it pointed out that the BNA has recently announced that it would possibly tighten its monetary policy to prevent the currency from reaching AOA1,000 per dollar by end-2020.

Source: Citi Research

## ALGERIA

### Lack of exchange rate adjustment since 2014 depletes foreign currency reserves

Citi Research indicated that Algerian authorities have not made significant adjustments to the exchange rate policy in response to the oil price shocks in late 2014 and in March 2020, and have instead allowed a limited devaluation of the Algerian dinar. It considered that inflationary pressure that could result from currency weakness is a longstanding concern for Algeria and for other North African governments, as it could trigger social unrest. It noted that the lack of a significant adjustment to the exchange rate has led to a sharp depletion of the country's foreign currency reserves. It pointed out that Banque d'Algérie's foreign currency reserves declined from a peak of \$200bn in late 2014 to around \$60bn currently. But it said that the country's foreign reserves are still elevated compared to the reserve levels of other African oil-exporters, and added that the central bank could maintain its exchange rate policy for some time. Still, it noted that Banque d'Algérie should not wait until foreign currency reserves reach their "cut-off point", but should instead gradually adjust the exchange rate in order to avoid a sharp and disruptive currency devaluation. Further, it indicated that the deterioration in Algeria's economic activity following the coronavirus outbreak, along with the global economic slowdown, are likely to speed up the draw-down of foreign currency reserves this year, which would further narrow the window of opportunity for Banque d'Algérie to adjust its exchange rate policy.

Source: Citi Research



# ENERGY / COMMODITIES

## Brent prices at \$41 p/b in second half of 2020

ICE Brent crude oil front-month prices have been trading at around \$43 per barrel (p/b) so far in July, and reached \$43.3 p/b on July 8, 2020, their highest level since March 2020. The increase in prices followed Saudi Aramco's decision to lift the prices of its crude oil exports to Asia, Europe and the U.S. for August, constituting the third consecutive monthly rise in its pricing. Also, prices were supported by the sharp decline in U.S. oil output, which is contributing to the easing of the global oil glut. In parallel, the U.S. Energy Information Administration estimated that global oil consumption in June increased by 10 million barrels per day (b/d) from April's levels, while global supply declined by 12 million b/d over the same period, which points to shifting dynamics in the global oil market. It noted that the rise in consumption was due to the easing of lockdown measures worldwide, while the decline in oil supply was driven by the production cut agreement between OPEC and non-OPEC countries, as well as by output reductions in the U.S. and Canada. It forecast global oil supply to increase in the coming quarters, while it anticipated that OPEC's voluntary supply cuts, along with the lingering effects of low oil prices on U.S. production, will constrain the rise in supply. As such, it expected global oil inventories to decline by 1.8 million b/d through the end of 2021, eliminating most of the surplus that accumulated in early 2020. Consequently, it projected Brent prices to average \$41 p/b in the second half of 2020 and to rise to an average of \$50 p/b in 2021.

Source: U.S. EIA, Oilprice, Refinitiv, Byblos Research

## Middle East has 48% of proven oil reserves

BP estimated the Middle East region's proven crude oil reserves at 833.8 billion barrels at the end of 2019, nearly unchanged from 2018, and equivalent to 48.1% of the world's proven oil reserves. Saudi Arabia held 297.6 billion barrels, or 35.7% of the region's reserves. Iran followed with 155.6 billion barrels (18.7%), then Iraq with 145 billion barrels (17.4%), Kuwait with 101.5 billion barrels (12.2%), and the UAE with 97.8 billion barrels (11.7%).

Source: BP, Byblos Research

## Nigeria's oil receipts up 2% in first quarter of 2020

Nigeria's receipts from the export of crude oil and condensate totaled \$1.27bn in the first quarter of 2020, declining by 1% from \$1.28bn in the preceding quarter and rising by 2.2% from \$1.2bn in the first quarter of 2019. Export revenues consisted of \$824.8m from crude oil exports (65%), \$242.4m from gas exports (19%), and \$204.1m in other receipts (16.1%). The authorities transferred \$544.6m in hydrocarbon revenues to the Federation Account in the first quarter of 2020, while they used \$726.7m to pay global oil companies to guarantee current and future oil production.

Source: Nigerian National Petroleum Corporation

## U.S. holds largest gold reserves in the world

The U.S. Federal Reserve held about 8,133.5 tons of official gold reserves as of the beginning of July 2020, equivalent to 23.3% of global gold reserves. Germany's Deutsche Bundesbank followed with 3,363.6 tons (9.6%), then the International Monetary Fund with 2,814 tons (8.1%), Bank of Italy with 2,451.8 tons and Banque de France with 2,436 tons (7% each), the Central Bank of the Russian Federation with 2,299.2 tons (6.6%), and the Peoples' Bank of China with 1,948.3 tons (5.6%).

Source: World Gold Council

## Base Metals: Copper prices recover by 35% since March 2020

LME copper cash prices averaged \$5,495 per ton in the first half of 2020, constituting a decrease of 6.1% from the second half of 2019 and a drop of 11% from the first half of 2019. The decline in prices was mainly due to the impact of the coronavirus pandemic on the demand for metals and on global economic activity. However, copper prices have been gradually increasing from a three-year low in March 2020 and averaged \$5,755 a ton in June, up from an average of \$5,241 per ton in May and of \$5,052 a ton in April 2020. Further, prices closed at \$6,230 per ton on July 8, their highest level since January 20 this year, up by 34.7% from the March low. The upward trend in prices began when the copper market started to price-in supply disruptions amid coronavirus-related mine closures globally. The recovery in prices was also driven by improving demand prospects, notably from China, as well as by stimulus from central banks around the world, which boosted market sentiment. Chinese imports of copper reached 436,030 tons in May, which constituted an increase of more than 20% from May 2019. Julius Baer anticipated that real demand for copper in China will recover to last year's levels in the remainder of 2020. In addition, concerns about increasing supply risks, specifically in Chile, the world's largest producer of the metal, accelerated the rise in copper prices recently.

Source: Julius Baer, Refinitiv

## Precious Metals: Palladium prices to average \$2,400 per ounce in fourth quarter of 2020

Palladium prices averaged \$2,123 per troy ounce in the first half of 2020, which constitutes an increase of 51% from \$1,408 an ounce in the same period of 2019, due to an undersupplied palladium market amid persistent production disruptions. However, prices were on a downward trend in the first half of 2020, as they declined from an average of \$2,278 per ounce in the first quarter to \$1,967 an ounce in the second quarter of the year, mainly a result of weakening autocatalyst demand from the coronavirus pandemic. Palladium prices are expected to recover in the second half of 2020 and to average \$2,400 per ounce in the fourth quarter of the year, mainly supported by higher autocatalyst demand, mostly from China, as well as by production disruptions in South Africa, which has seen a rise in coronavirus infections. Norilsk Nickel, the world's largest palladium producer, expected global palladium output to drop by 1.3 million ounces this year to around 6.3 million ounces. The metal's price is projected to increase from an average of \$1,538 per ounce in 2019 to \$2,224 an ounce in 2020, and to average \$2,188 per ounce in 2021.

Source: BMO Capital Markets, Refinitiv, Byblos Research





# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General govt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Govt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Africa</b>													
Algeria	-	-	-	-	B+	-5.2	36.9*	2.2	-	-	-	-9.1	-
Angola	CCC+	B3	B	-	CCC	2.4	88.1	45.7**	50.5	26.7	102.2	1.3	1
Egypt	B	B2	B+	B+	B+	-9.5	92.6	37.1	51.8	45	115.4	-2.4	3
Ethiopia	B	B2	B	-	B+	-3	61.1	31.8**	27.2	3.6	146.2	-6.5	4.1
Ghana	B	B3	B	-	BB-	-7	59.6	27.9**	38.9	31.9	121.8	-3.2	6
Côte d'Ivoire	-	Ba3	B+	-	B+	-4	52.2	35.9**	-	-	-	-3.4	-
Libya	-	-	-	-	CCC	-7.4	-	-	-	-	-	2	-
Dem Rep Congo	CCC+	Caa1	-	-	CCC	-0.5	15.7	12.9**	4.4	3	104.1	-0.5	2.8
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.7	65.2*	33.2	30.6	7.4	93	-4.5	2.1
Nigeria	B-	B2	B	-	B-	-4.5	28.4	8.8**	67.6	22.8	104.2	2.1	0.7
Sudan	-	-	-	-	CC	-8.5	163.2	161.2	-	-	-	-11.5	-
Tunisia	-	B2	B	-	BB-	-4.6	77	83.1	-	-	-	-11.2	-
Burkina Faso	B	-	-	-	B+	-4.7	43	23.8**	21	4.6	145.4	-7.5	2.8
Rwanda	B+	B2	B+	-	B+	-2.6	40.7	40.1**	13.2	5.1	102.8	-7.8	2.9
<b>Middle East</b>													
Bahrain	B+	B2	BB-	BB-	BB-	-8.4	100.2	189.9	201.7	22.3	327.6	-3.6	0.4
Iran	-	-	-	B	BB-	-4.1	30.0	2.0	-	-	-	-0.4	-
Iraq	B-	Caa1	B-	-	CC+	-5.2	50.2	32.1	3.7	2.2	100.9	-6.7	1.0
Jordan	B+	B1	BB-	B+	BB+	-4.0	94.8	72.1	63.6	9.4	151.0	-8.2	4.5
Kuwait	AA-	Aa2	AA	AA-	AA-	9.5	17.8	45.8	32.8	0.55	87.9	7.4	-5.5
Lebanon	SD	Ca	C	SD	CCC	-11.7	157.8	191.3	136.8	50.1	136.2	-28.2	2.8
Oman	BB-	Ba3	BB	BBB-	BBB-	-9.9	61.3	99.6	44.9	4.5	140.3	-8.7	1.5
Qatar	AA-	Aa3	AA-	AA-	A+	6.1	52.7	106.7	60.9	3.4	173.9	4.6	-1.0
Saudi Arabia	A-	A1	A	A+	A+	-7.9	23.7	30.4	8.0	1.2	36.9	3.5	0.3
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
UAE	-	Aa2	-	AA-	AA-	-0.8	19.2	68.7	-	-	-	5.9	-0.8
Yemen	-	-	-	-	CC	-5.1	54.7	18.1	-	-	-	0.7	-



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Gvt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Asia</b>													
Armenia	-	Ba3	BB-	-	B-	-1.8	48.5	81.7	-	-	-	-6.2	-
	-	Stable	Negative	-	Stable								
China	A+	A1	A+	-	A	-4.8	50.5	-	40.0	2.1	64.2	0.4	0.8
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa2	BBB-	-	BBB	-6.6	69.8	-	39.5	19.4	90.7	-2.5	1.6
	Stable	Stable	Stable	-	Negative								
Kazakhstan	BBB-	Baa3	BBB	-	BBB	0.5	21.9	-	25.7	4.7	87.4	0.6	1.5
	Stable	Positive	Stable	-	Stable								
Pakistan	B-	B3	B-	-	CCC	-6.5	72.1	30.4	50.1	28.3	144.3	-6.1	0.87
	Stable	URD***	Stable	-	Stable								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB	-	BBB	0.1	20.5	-	26.0	2.0	100.8	3.9	1.9
	Positive	Stable	Positive	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-2.9	36.6	-	25.8	4.2	95.1	-4.6	2.4
	Negative	Stable	Stable	-	Negative								
Russia	BBB-	Baa3	BBB	-	BBB-	2.8	14.0	-	17.2	2.6	57.4	7.0	-1.3
	Stable	Stable	Stable	-	Stable								
Turkey	B+	B1	BB-	B+	B-	-3.6	29.1	-	84.3	5.9	176.4	-3.6	1.0
	Stable	Negative	Stable	Stable	Stable								
Ukraine	B	Caa1	B-	-	B-	-2.3	63.9	-	59.3	9.3	129.2	-3.7	1.0
	Stable	Stable	Stable	-	Stable								

\* Central Government

\*\* External debt, official debt, debtor based

\*\*\* Under Review for Downgrade

Source: International Monetary Fund; IHS Markit; S&P Global Ratings; Byblos Research - The above figures are estimates for 2018





## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.00-0.25	10-Jun-20	No change	29-Jul-20
Eurozone	Refi Rate	0.00	04-Jun-20	No change	16-Jul-20
UK	Bank Rate	0.10	18-Jun-20	No change	06-Aug-20
Japan	O/N Call Rate	-0.10	16-Jun-20	No change	15-Jul-20
Australia	Cash Rate	0.25	07-Jul-20	No change	04-Aug-20
New Zealand	Cash Rate	0.25	24-Jun-20	No change	23-Sep-20
Switzerland	SNB Policy Rate	-0.75	18-Jun-20	No change	24-Sep-20
Canada	Overnight rate	0.25	03-Jun-20	No change	15-Jul-20
<b>Emerging Markets</b>					
China	One-year Loan Prime Rate	3.85	22-Jun-20	No change	20-Jul-20
Hong Kong	Base Rate	0.86	15-Mar-20	Cut 64bps	N/A
Taiwan	Discount Rate	1.125	18-Jun-20	No change	N/A
South Korea	Base Rate	0.50	28-May-20	Cut 25bps	16-Jul-20
Malaysia	O/N Policy Rate	1.75	07-Jul-20	Cut 25bps	10-Sep-20
Thailand	1D Repo	0.50	24-Jun-20	No change	05-Aug-20
India	Reverse repo Rate	4.00	22-May-20	Cut 40bps	N/A
UAE	Repo Rate	1.50	16-Mar-20	No change	N/A
Saudi Arabia	Repo Rate	1.00	16-Mar-20	Cut 75bps	N/A
Egypt	Overnight Deposit	9.25	25-Jun-20	No change	13-Aug-20
Jordan	CBJ Main Rate	2.50	16-Mar-20	Cut 100bps	N/A
Turkey	Repo Rate	8.25	25-Jun-20	No change	23-Jul-20
South Africa	Repo Rate	3.75	21-May-20	Cut 50bps	23-Jul-20
Kenya	Central Bank Rate	7.00	25-Jun-20	No change	29-Jul-20
Nigeria	Monetary Policy Rate	12.50	28-May-20	Cut 100bps	20-Jul-20
Ghana	Prime Rate	14.50	15-May-20	No change	27-Jul-20
Angola	Base Rate	15.50	07-May-20	No change	24-Jul-20
Mexico	Target Rate	5.00	25-Jun-20	Cut 50bps	13-Aug-20
Brazil	Selic Rate	2.25	17-Jun-20	Cut 75bps	05-Aug-20
Armenia	Refi Rate	4.50	16-Jun-20	Cut 50bps	28-Jul-20
Romania	Policy Rate	1.75	29-May-20	Cut 25bps	N/A
Bulgaria	Base Interest	0.00	01-Jul-20	No change	03-Aug-20
Kazakhstan	Repo Rate	9.50	08-Jun-20	No change	20-Jul-20
Ukraine	Discount Rate	6.00	11-Jun-20	Cut 200bps	23-Jul-20
Russia	Refi Rate	4.50	19-Jun-20	Cut 100bps	24-Jul-20



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