

## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## WORLD

**Venture capital deals up 8% to \$47bn in second quarter of 2017**

Research provider Preqin indicated that the aggregate value of announced venture capital (VC) investments reached \$46.7bn worldwide in the second quarter of 2017, constituting an increase of 26.3% from \$37bn in the preceding quarter and of 8.3% from \$43.1bn in the second quarter of 2016. It added that a total of 2,062 VC deals were announced globally in the second quarter of the year, down by 19% from 2,542 deals in the preceding quarter and by 26.6% from 2,811 announced deals in the same quarter last year. It pointed out that the Angel or Seed stage of financing accounted for 28% of the total number of deals. Further, Preqin indicated that 936 VC deals, or 45.4% of the total, took place in North America in the second quarter of 2017, followed by Europe with 468 deals (22.7%), China with 253 transactions (12.3%) and India with 179 announced deals (8.7%). It added that the number of VC deals in North America regressed for the eighth consecutive quarter, and represented the lowest quarterly volume since 2009, while VC transactions in Europe decreased for the first time since the third quarter of 2016. The survey pointed out that the amount of dry powder accessible to VC fund managers, or the amount of capital available for investment in start-up companies, reached \$174.3bn at the end of May 2017, up by 24.5% from \$140bn at end-2016, and accounted for 19.2% of total dry powder held by private equity funds.

Source: Preqin

**Global debt issuance at \$3 trillion in first five months of 2017**

S&P Global Ratings indicated that the global issuance of corporate bonds, other public finance bonds and structured finance products totaled \$3 trillion in the first five months of 2017, down by 8% from \$3.3 trillion in the same period of 2016. In comparison, global debt issuance reached \$6.1 trillion in full year 2016 and \$5.4 trillion in full year 2015. Further, it anticipated global debt issuance to decrease by 5.3% in full year 2017, partly driven by macro geopolitical tensions, as well as by measures taken by the Chinese government to reduce debt issuance. S&P pointed out that issuance by non-financial institutions amounted to \$1.12 trillion, or 37.5% of total debt issues, in the first five months of 2017. Issuance from financial institutions followed with \$1.02 trillion (34.1%), then investor-placed structured finance issuance with \$460.1bn (15.4%), international public finance issues with \$196.3bn (6.6%), and U.S. public finance with \$194.9bn (6.5%). S&P indicated that the figures cover long-term debt with maturities that exceed one year and exclude debt issued by supranational institutions. In parallel, S&P anticipated that the reduction of debt issuance from China, as well as political risks in Brazil would outweigh positive issuance trends in the U.S. and Europe.

Source: S&P Global Ratings

## MENA

**Arab world outperforms developing economies in Internet penetration**

Figures released by the International Telecommunication Union (ITU) indicate that the Internet penetration rate in Arab countries reached 41.6 users per 100 inhabitants at the end of 2016, up from 39% at end-2015, and relative to 40.1% in developing economies. The Internet penetration rate in Arab states was higher than in Africa (25.1%), while it was lower than in Europe (79.1%), the Commonwealth of Independent States (66.6%), the Americas (65%) and Asia & Pacific (41.9%). The number of Internet users in the Arab world stood at 161.3 million at the end of 2016, up from 148.5 million at end-2015, and accounted for 6.5% of Internet users in developing economies. Further, the mobile broadband penetration rate in the Arab world stood at 47.6 users per 100 inhabitants at end-2016 relative to 42.8% at the end of 2015, compared to 40.9% in developing economies. The number of mobile broadband subscriptions in Arab countries was 184.7 million at the end of 2016, up from 162.8 million at end-2015, and accounted for 7.3% of subscriptions in developing economies. In addition, the fixed broadband penetration rate in Arab states was 4.8 users per 100 inhabitants at end-2016, up from 4.2% at end-2015 and relative to 8.2% in developing economies. The number of fixed broadband subscriptions in Arab economies reached 18.6 million at the end of 2016, up from 16.1 million at end-2015, and represented 3.7% of subscriptions in developing economies.

Source: International Telecommunication Union, Byblos Research

**GCC countries are the source of 91% of inter-Arab greenfield FDI**

Figures released by fDi Markets show that the cumulative value of inter-Arab greenfield foreign direct investment (FDI) reached \$324.1bn between 2003 and 2016. The UAE was largest source of inter-Arab greenfield FDI during the covered period with \$161bn, equivalent to 49.6% of the total. It was followed by Bahrain with \$38.5bn (11.9%), Kuwait with \$38bn (11.7%), Qatar with \$31.1bn (9.6%), Saudi Arabia with \$23.3bn (7.2%), Egypt with \$13.6bn (4.2%), Lebanon with \$7.8bn (2.4%), Jordan with \$3.4bn (1.1%), Oman with \$2.5bn (0.8%) and Tunisia with \$1.9bn (0.6%). Also, other Arab countries were the source of \$3.1bn in inter-Arab greenfield FDI between 2003 and 2016, or 1% of the total. In parallel, the number of inter-Arab greenfield FDI projects reached 2,552 during the covered period. The UAE was the source of 1,232 such projects in the covered period and accounted for 48.3% of the total. Saudi Arabia followed with 284 projects (11.1%), then Kuwait with 274 projects (10.7%), Qatar with 150 projects (5.9%), Lebanon with 136 projects (5.3%), Bahrain with 132 projects (5.2%), Egypt with 110 projects (4.3%), Jordan with 84 projects (3.3%), Oman with 53 projects (2.1%) and Tunisia with 47 projects (1.8%). The inter-Arab greenfield FDI figures cover cross-border projects that lead to the direct creation of jobs and capital investment. fDi Markets is a database that tracks cross-border greenfield investments across the world and is owned by the Financial Times Group.

Source: fDi Markets, Byblos Research

# POLITICAL RISK OVERVIEW - July 2017

## EGYPT

Clashes intensified between security forces and Islamic State (IS) militants in the Sinai, Nile Valley and the Red Sea Coast regions. An Egyptian assailant killed two German tourists and wounded four others at a hotel in the Red Sea resort city of Hurghada. Egyptian security forces killed 30 suspected militants during a four-day military operation in North Sinai. Libyan aid workers recovered the bodies of 19 Egyptian migrants found in Libya's eastern desert. Egypt's public prosecutor referred 292 suspected terrorists to military trial over charges of carrying out terror activities in the Sinai Peninsula and planning to assassinate President Abdel Fattah el-Sisi.

## IRAN

Tensions escalated between Iran and Pakistan after the Iran Revolutionary Guards fired three mortar shells into the Pakistani province of Balochistan. Few days later, three Iranian civilians were killed by the Pakistani militant group Army of Justice in a cross-border attack. Iran signed an agreement with Iraq to step up military cooperation and to fight against terrorism. The U.S. Department of State certified to the U.S. Congress that Iran was in full compliance with its commitments under the 2015 nuclear deal. The U.S. Administration imposed new sanctions on 18 entities and individuals involved in Iran's ballistic missile program and for facilitating Iran's military procurement. A U.S. Navy patrol boat fired warning shots toward an Iranian Navy ship in the Arabian Gulf after the Iranian vessel came near the U.S. ship.

## IRAQ

Prime Minister Haidar al-Abadi formally declared victory over Islamic State (IS) militants in Mosul on July 10, marking the biggest defeat for the militant group since it seized the city and proclaimed its self-styled caliphate three years ago. However, small-scale clashes between U.S.-backed security forces and IS militants continued around the city of Mosul in the following days. At least 30 civilians were killed by IS militants in Al-Hawija District in the Kirkuk Province. The Human Rights Watch organization condemned videos that showed Iraqi forces killing and beating detained IS militants in Mosul. It also accused Iraqi security forces of forcibly relocating at least 170 families of alleged IS members to a closed "rehabilitation camp" near Mosul as a form of collective punishment. Violence and acts of terrorism in Iraq led to 241 civilian deaths and 277 injuries in July 2017.

## DEM REP CONGO

The Independent National Electoral Commission (CENI) announced that the presidential elections are unlikely to take place in 2017 due to delays in the voter registration process. The U.S. threatened to impose further unilateral sanctions on any party that attempts to hinder the country's already delayed elections to replace President Joseph Kabila. The government sentenced Sindika Dokolo, the son-in-law of Angolan President Jose Eduardo dos Santos, to one year in prison for real estate fraud, which strained the relations between the two neighboring countries.

## LIBYA

The Prime Minister of Libya's UN-backed government Fayeaz al-Serraj announced on July 15 a new roadmap to end the country's political crisis. The roadmap calls for holding parliamentary and presidential elections in March 2018, gradually merging rival parliamentary bodies and implementing a nationwide ceasefire. Al-Serraj met his military opponent General Khalifa Haftar in France and agreed to implement a ceasefire, hold parliamentary and presidential elections next year, and secure territory against terrorism and human trafficking. The Tripoli-based Education Minister escaped an assassination attempt after gunmen opened fire on his convoy in the southern city of Sebha. At least 12 forces loyal to the Libyan National Army (LNA) were killed in clashes with rival armed groups in Benghazi despite the LNA's earlier declaration of victory in the battle for Benghazi.

## SOUTH SUDAN

Government forces recaptured the town of Maiwaut from the Sudan People's Liberation Army-In Opposition (SPLA-IO), a strategic access point to the rebel-held base of Pagak near the Ethiopian border, breaching the unilateral ceasefire that was declared by the government in May 2017. The European Union, the U.S., the United Kingdom and Norway condemned the continuing violence in the country, including the government's offensive against the SPLM-IO forces near the base of Pagak, as well as ongoing attacks by the SPLM-IO. The South Sudan National Dialogue Steering Committee (NDSC) invited former First-Vice President Riek Machar to take part in the country's National Dialogue launched by President Salva Kiir. However, Mr. Machar rejected the initiation. President Kiir earmarked SDG2.4bn to fund the NDSC activities.

## SUDAN

The United States postponed for three months its deadline to assess whether to lift U.S. sanctions against Sudan, due to divisions within the U.S. Administration and a lack of key personnel to assess the decision. In response, President Omar Hassan al-Bashir issued a presidential decree ordering the suspension of the committee that has been negotiating the lifting of the sanctions with the United States. The government supported the Sudan People's Liberation Army-In Opposition to launch attacks in South Sudan's Unity State. The government extended by four months the unilateral ceasefire in the Darfur, South Kordofan and Blue Nile states, where fighting between Sudan People's Liberation Movement-North and government troops resulted in casualties.

## SYRIA

Russia, Turkey and Iran failed to finalize an agreement on creating four "de-escalation zones" in Syria. The U.S., Russia and Jordan issued a joint memorandum on establishing "de-escalation zones" in the cities of Daraa, Quneitra and Suwayda. The U.S.-backed Syrian Democratic Forces, which include the Kurdish People's Protection Unit, made little progress in recapturing the IS-held strategic city of Raqqa. The Hay'at Tahrir al-Sham armed group, which is reportedly linked to al-Qaeda, took control of the northwestern city of Idlib following the withdrawal of rival rebels from the region. Government and Hezbollah forces launched coordinated offensives against Fateh al-Sham and the Islamic State group around the Lebanese town of Aarsal and the Syrian town of Fleita. Hezbollah and Jabhat Fateh al-Sham then agreed to a ceasefire, under which members and families of the Jabhat Fateh al-Sahm would relocate to the Idlib province.

## TUNISIA

The government continued its campaign against corruption that was launched in May 2017. Several directors of hospitals, as well as doctors and pharmacists were suspended on the suspicion of corruption. President Beji Caid Essebsi ordered the Tunisian army to protect phosphate, gas and oil production facilities.

## YEMEN

Huthi rebels reportedly fired a ballistic missile into Saudi Arabia targeting an oil facility near the port city of Yanbu. Saudi Arabia denied the missile attack, and instead reported an accidental fire at the facility. Huthi rebels carried a strike against a military ship belonging to the UAE near the coastal city of Mokha. UN envoy Ismail Ould Cheikh Ahmed failed to reach an agreement allowing the withdrawal of Huthi rebels from the port city of Hodeida, in exchange for the Yemeni government's approval to re-open the Sana'a airport and resume the distribution of government salaries. The Huthi/Saleh bloc continued to refuse to meet the UN envoy, accusing him of bias towards the Saudi-led coalition. Thousands of Yemenis protested in Aden and called on the international community to recognize the newly formed Southern Transitional Council as an official representative party of the south.

Source: *International Crisis Group, Newswires*



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# OUTLOOK

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## SAUDI ARABIA

### Economic prospects to improve from 2018 onwards

Samba Financial Group projected Saudi Arabia's real GDP to contract by 1% in 2017 relative to a growth rate of 1.4% in 2016, due to lower oil production under the OPEC agreement and to reduced government spending, as authorities continue to implement fiscal consolidation measures. It forecast hydrocarbon output to shrink by 3.5% this year compared to a growth rate of 2.4% in 2016, and for growth in non-hydrocarbon sector activity to decelerate from 0.7% in 2016 to 0.6% this year. But it expected the Kingdom's growth prospects to improve from 2018 onwards, as government spending would pick up and FDI inflows would increase, in line with the recovery in oil prices. It projected real GDP growth at 0.7% in 2018 and at 3.7% in 2021, with oil output rising by 0.5% in 2018 and 2.5% in 2021, and non-hydrocarbon sector activity growing by 0.9% in 2018 and 4.5% in 2021.


In parallel, Samba forecast Saudi Arabia's fiscal deficit to narrow from 16.7% of GDP in 2016 to 14.2% of GDP in 2017 due to the implementation of fiscal adjustment measures. It estimated the government's fiscal financing requirements at SAR303bn, or about \$80.8bn, in 2017. It noted that authorities would cover the funding gap in 2017 from drawing down government savings (44%), as well as through external debt issuance (30%) and domestic debt issuances (26%). It projected the fiscal deficit to gradually narrow to 12.2% of GDP in 2018 and 3.6% of GDP in 2021, as oil prices continue to increase, non-oil revenues expand and spending growth remains modest. In parallel, Samba projected the current account balance to shift from a deficit of \$23.6bn or 3.7% of GDP in 2016 to surpluses of \$29.7bn or 5.2% of GDP in 2017 and \$107.1bn or 15.2% of GDP by 2021, supported by the gradual recovery in oil prices and lower import spending. It projected SAMA's net foreign assets to decline from \$489.4bn or 86.1% of GDP this year, to \$480.7bn or 82% of GDP next year, and to reach \$657.7bn, or 93.2% of GDP, by 2021.

*Source: Samba Financial Group*

## NIGERIA

### Stronger policies needed amid persistent challenges

The International Monetary Fund indicated that Nigeria's economic environment remains challenging amid subdued activity, significant revenue shortfalls, high domestic bond yields, tight liquidity conditions and the banking sector's exposure to the hydrocarbon sector. It noted that the country's real GDP contracted by 0.6% in the first quarter of 2017, mainly due to lower oil production. But it said that non-hydrocarbon sector activity grew by 0.6% in the covered quarter following four consecutive quarterly contractions, supported by a rebound in the manufacturing sector and strong agricultural activity. Overall, it projected growth at 0.8% in 2017, which it did not expect to be sufficient to reduce unemployment and poverty rates. It indicated that near-term risks to economic recovery and financial stability remain elevated and include delays in policy implementation, a reversal of favorable external market conditions, possible shortfalls in agricultural and oil production, additional fiscal pressures and sustained distortions in the foreign currency market.

Further, the Fund pointed out that Nigerian authorities have implemented several measures in the context of the persistent challenges. 

It welcomed the government's Economic Recovery and Growth Plan that is driving the diversification strategy, while it said that security conditions in the Niger Delta have improved. Also, it noted that the new foreign exchange window for investors and exporters has supported portfolio inflows, increased foreign currency reserves and reduced the parallel currency market premium. It added that authorities implemented several steps in the power sector recovery plan, introduced a voluntary income and asset declaration program, moved forward with the 60-day national action plan to improve the business environment, and set up a new funding mechanism for cash calls in the hydrocarbon sector. In parallel, the IMF said that authorities need to urgently implement stronger policies and called on the government to step up front-loaded fiscal consolidation through a sustainable increase in non-oil revenues, which would allow for further infrastructure spending. It also called on authorities to maintain a tight monetary policy, adopt a unified and market-based exchange rate and accelerate the implementation of reforms.

*Source: International Monetary Fund*

## AFRICA

### WAEMU banks to face challenges in meeting new capital requirements

Fitch Ratings expected that banks in member countries of the West African Economic and Monetary Union (WAEMU) will face challenges in meeting the new regulatory capital requirements under the Basel II framework that will be phased in starting January 2018. It anticipated that the new rules will move the region's banks closer to international standards and will strengthen their creditworthiness. However, it expected the banks' concentrated exposures to single-name borrowers to remain a weakness. It noted that banks will have to meet a minimum common equity Tier One capital ratio of 7.5% and a minimum total capital ratio of 11.5%, both inclusive of a 2.5% capital conservation buffer, by the end of 2022. It said that this would constitute a significant increase from the 8% minimum total capital ratio required under the current Basel I framework. Further, the agency expected banks with a minimum common equity Tier One ratio of less than 7.5% to face dividend restrictions, as banks with the weakest ratios would be forced to retain all their earnings. It anticipated that many banks in the region would not be able to meet the 11.5% minimum total capital ratio. It said that some banks may have to raise equity, merge with stronger banks or change their mix of risk-weighted assets to address these shortfalls.

In parallel, Fitch Ratings expected the banks' high exposure to single-name borrowers to undermine their capital adequacy ratios. It said that the banks' single large exposure limit, which is set at 75% of regulatory capital by the region's banking regulator La Banque Centrale des Etats de l'Afrique de l'Ouest, is significantly higher than the Basel framework limit of 25%. It considered that the 75% regulatory limit could expose banks to losses from the default of a single borrower. It added that high single-name exposures reflect credit demand from large corporate and public sector companies, the underdevelopment of retail lending, and banks' reluctance to lend to small- and medium-sized enterprises. It did not expect these factors to change significantly in the region in the near term, while it anticipated that banks would find it difficult to reduce their concentration risks.

*Source: Fitch Ratings*



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## ECONOMY & TRADE

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### IRAQ

#### Agency assigns sovereign rating

Moody's Investors Service assigned to Iraq a long-term issuer rating of 'Caa1', with a 'stable' outlook. It indicated that the rating reflects Iraq's moderate economic and fiscal strength, very low institutional strength, as well as the country's vulnerability to political and security risks. It added that the 'stable' outlook balances the recent positive security developments and the support from the international community, with the country's still-fragile political situation and fiscal consolidation challenges. It noted that Iraq's economic activity remained strong in 2016, supported by robust oil production despite the war against Islamic State militants and the government's fiscal consolidation efforts. However, it projected Iraq's real GDP to contract by 0.4% in 2017 mainly due to lower oil production under the OPEC agreement. Further, the agency pointed out that the drop in global oil prices has negatively affected Iraq's fiscal balance. It estimated the country's fiscal deficit to have widened to 14.1% of GDP in 2016 relative to the government's target of 10.9% of GDP. But it forecast the deficit to narrow significantly in 2017, supported by higher hydrocarbon revenues. It added that Iraq's high level of foreign currency reserves of \$40bn provides the country with a fiscal buffer when other sources of funding are constrained. In addition, Moody's considered that Iraq's elevated domestic and geopolitical risks could adversely affect the government's capacity to service its debt and, in turn, weigh on Iraq's creditworthiness.

*Source: Moody's Investors Service*

### DEM REP CONGO

#### Sovereign ratings downgraded, outlook 'stable'

S&P Global Ratings downgraded the Democratic Republic of Congo's (DRC) long- and short-term sovereign credit ratings from 'B-/B' to 'CCC+/C', with a 'stable' outlook on the long-term ratings. It attributed the downgrade to the persistent currency depreciation, increasing inflation rate, and low levels of foreign currency reserves that could weaken the government's debt servicing capacity. It projected the DRC's real GDP growth to decelerate from 7.8% annually during the 2011-16 period to 2% in the 2017-20 period, as political uncertainties and institutional instability would weigh on investor confidence. Further, the agency forecast the DRC's external position to remain weak during the 2017-20 period, as it expected the political deadlock to restrict the country from accessing IMF funds. It anticipated that the persistent current account deficit, decrease in FDI inflows and the absence of external debt financing would weigh on the country's foreign currency reserves, which it projected to remain at less than one month of current account payments during the 2017-20 period. It also forecast the gross financing needs to average 109% of current account receipts and useable reserves in the 2017-20 period. In addition, S&P projected the fiscal deficit at 0.2% of GDP in the 2017-20 period amid the country's limited access to financing. It said that the narrow deficits would likely be partly financed by a drawdown of liquid assets held in the banking sector and at the Banque Centrale du Congo. It projected the public debt level to rise from 14.7% of GDP at the end of 2016 to 16.6% of GDP at end-2017 as a result of the sharp depreciation of the Congolese franc. Further, the agency expected the inflation rate to remain elevated at more than 20% during the 2018-20 period.

*Source: S&P Global Ratings*

### ARMENIA

#### Strong economic performance amid elevated external risks

Moody's Investors Service considered that Armenia's 'B1' issuer rating is supported by the country's track record of strong economic and financial management through effective fiscal and monetary policies, as well as by its debt affordability. It noted that economic activity has recovered in 2017 due to strengthening external demand and the authorities' accommodative monetary policy. It added that the government's fiscal consolidation measures would help contain the build-up in debt levels. It said that the ongoing efforts in the implementation of pension and tax reforms, trade liberalization, and increasing infrastructure investment aim to improve the country's economic activity and to address its low savings levels. However, it indicated that Armenia remains vulnerable to several external risks that include its high economic exposure to Russia, low economic resilience, high reliance on external funding and ongoing geopolitical tensions. In parallel, Moody's pointed out that upward pressure on the country's rating could stem from the sustained increase in FDI inflows, as well as higher export receipts and remittances. It added that a continued decline in the public debt level and a significant decrease in the country's geopolitical risks could improve Armenia's creditworthiness. In contrast, it anticipated that a worse-than-expected economic performance in Russia could weigh on Armenia's trade, remittances and investment inflows, as well as on foreign currency reserves.

*Source: Moody's Investors Service*

### TUNISIA

#### Economic growth to gradually improve, significant challenges persist

The International Monetary Fund considered that economic growth in Tunisia is gradually improving, as it expected the country's real GDP to grow by 2.3% in 2017, supported by a pickup in phosphate production, as well as a rebound in the agriculture and tourism sectors. However, it said that the country's growth outlook remains constrained by significant challenges, including a rising inflation rate and further deterioration in the fiscal and external balances. It noted that the average inflation rate increased to 5.5% in June 2017 as a result of strong consumption and increased wages, while it said that the public and external debt levels increased to 65% of GDP and 73% of GDP, respectively, in June. Further, it noted that Tunisian authorities have already addressed these economic pressures by implementing several measures, including greater exchange rate flexibility, tighter monetary policy and fuel price increases. It considered that exchange rate flexibility has supported the Tunisian dinar and kept foreign currency reserves at an adequate level, while a tighter monetary policy has contained inflationary pressures. It added that the government has escalated its efforts to tackle corruption, which has improved consumer confidence. The IMF called on authorities to reduce the fiscal deficit and improve the macroeconomic imbalances, mainly through reducing the public wage bill, modernizing the civil service, ensuring the sustainability of the pension system and enhancing access to credit.

*Source: International Monetary Fund*



# BANKING

## MENA

### Weakening liquidity and profitability in most banking sectors

The Institute of International Finance indicated that banking sectors in the Middle East & North Africa (MENA) region are sound, except for Iran's and Tunisia's sectors that need recapitalization and restructuring. It noted that the capital adequacy ratio of most MENA banking sectors, with the exception of Iran and Tunisia, exceed 13%, while the banks' ratios of provisions to potential losses associated with non-performing loans (NPLs) are high. It added that banks in Egypt, Jordan and Morocco remain sound and liquid, but it said that these economies are reliant on banks to finance their large fiscal deficits and to provide foreign currency liquidity. However, the IIF indicated that liquidity and profitability at most MENA banks, particularly those in oil-exporting countries, have weakened in the previous two years. It noted that resident deposit growth, especially government deposits, slowed down amid the low hydrocarbon price environment. It added that banks have offset the slowdown in domestic deposit growth partly through higher non-resident deposits and wholesale funding. In addition, it pointed out that asset quality at banks in oil-exporting MENA economies could deteriorate, while financial sector stress could increase in case oil prices fail to recover in coming years. However, it said that banks have enhanced their risk management and implemented countercyclical capital buffers and loan-loss provisions in the past 10 years to limit systemic financial sector risks. It expected liquidity conditions in Saudi Arabia, the UAE and Kuwait to improve in coming years, as global oil prices gradually increase, and as authorities would finance their fiscal deficits from external borrowing and by tapping into their foreign assets. It noted that Qatar's banking sector is sound, but is subject to risks and uncertainty from the current boycott by neighboring countries.

Source: *Institute of International Finance*

## OMAN

### Ratings on six banks downgraded

Moody's Investors Service downgraded the long-term foreign and local currency deposit ratings of Bank Muscat and HSBC Bank Oman from 'Baa1' to 'Baa2', those of Bank Dhofar, the National Bank of Oman and Oman Arab Bank from 'Baa2' to 'Baa3', and the ratings of Bank Nizwa from 'Baa3' to 'Ba1'. It also revised the outlook on the ratings of the six banks from 'stable' to 'negative'. It attributed the downgrades and the outlook revision to its similar action on Oman's sovereign ratings, which reflects the government's weakening fiscal capacity to provide support to the banking sector in case of need. The agency also affirmed at 'baa2' the baseline credit assessment (BCA) of Bank Muscat and HSBC Bank Oman, at 'ba1' that of Bank Dhofar, National Bank of Oman and Oman Arab Bank, and at 'b1' the BCA of Bank Nizwa. It noted that the affirmation of the banks' BCA reflects continued solid asset quality, healthy capital buffers and relatively low market funding reliance. Moody's added that the Omani banking sector's solvency profile is solid, with problem loans accounting for 2.1% of gross loans at end-March 2017, and added that tangible common equity represented 13.2% of risk-weighted assets.

Source: *Moody's Investors Service*

## QATAR

### Profits of five listed banks flat at \$1.4bn in second quarter of 2017

Regional investment bank EFG Hermes indicated that the aggregate earnings of five listed Qatari banks reached QAR5bn, or \$1.4bn, in the second quarter of 2017, nearly unchanged from the same period last year. The banks' net interest income declined by 10% year-on-year to QAR7.2bn, or \$2bn, in the second quarter of 2017 when including the results of Qatar National Bank's (QNB) foreign subsidiaries. Excluding QNB's foreign subsidiaries, the five banks' net interest income grew by 9% from the same period last year, supported by higher net interest spreads and a marginal rise in funding costs. Also, the banks' non-interest income reached QAR2bn, or \$546.2m, in the second quarter of the year, constituting a drop of 24.7% from the same period last year. In parallel, the banks' aggregate operating expenses declined by 27.5% annually to QAR2.8bn, or \$770.1m in the second quarter of 2017. Further, the aggregate lending of the five banks was QAR872.7bn, or \$239.8bn, at the end of June 2017, up by 10.4% from end-June 2016, driven by QNB's strong domestic lending growth and by the consolidation of Finansbank, its Turkish subsidiary. Also, the banks' aggregate deposits totaled QAR850.6bn, or \$236.7bn, at end-June 2017, up by 2% from end-March 2017 and by 11% from end-June 2016, supported by a pickup in public sector deposits. EFG noted that the increase in public sector deposits has more than offset the outflow of GCC funds. But it said that sustained outflows of deposits from the GCC could tighten liquidity conditions and increase the funding costs of Qatari banks in the second half of 2017. In parallel, the banks' non-performing loans ratio stood at 2% at the end of June 2017, nearly unchanged from 1.9% at end-June 2016.

Source: *EFG Hermes*

## BAHRAIN

### Banks' ratings downgraded

Moody's Investors Service downgraded the long-term foreign currency deposit ratings of National Bank of Bahrain (NBB) and BBK and the long-term foreign currency issuer ratings of Bahrain Islamic Bank (BISB) and Khaleeji Commercial Bank (KHCB) from 'Ba3' to 'B2'. Also, it downgraded the long-term local currency deposit ratings of NBB and BBK from 'Ba2' to 'B1' and the long-term local currency issuer ratings of BISB and KHCB from 'Ba3' to 'B1', with a 'negative' outlook on all the banks' ratings. The agency noted that the ratings' downgrades follow a similar action on Bahrain's sovereign ratings, which reflects limited government support to the banking sector. It noted that Bahraini banks are supported by their strong capital ratios, solid profitability and sound liquidity. In parallel, Moody's upgraded the baseline credit assessment (BCA) of BISB from 'b3' to 'b2', downgraded the BCAs of NBB and BBK from 'ba2' to 'b1', while it affirmed at 'b1' the BCA of KHCB. It attributed the upgrade of BISB's BCA to the bank's improved asset quality and capital base, as well as solid funding amid tightening liquidity conditions. It also said that the downgrade of the BCAs of NBB and BBK reflects the banks' elevated and increasing exposure to the sovereign through their direct holdings of government securities.

Source: *Moody's Investors Service*



# ENERGY / COMMODITIES

## Oil prices to increase by 20% to \$54 p/b in 2017

ICE Brent crude oil front-month prices have fluctuated between a low of \$45 per barrel (p/b) and a high of \$57 p/b so far in 2017, driven in part by the trend in the US dollar, additional crude oil supplies from Libya, Nigeria and the U.S., as well as expectations related to the impact of production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries. In parallel, Citi indicated that oil prices remain highly uncertain amid OPEC's production cut policy, U.S. shale output growth and Chinese oil demand, among others. It noted that the market remains focused on oil prices, mainly on the current and future levels in crude oil inventories and the rate of inventory reduction. It said that risks to the oil price outlook remain skewed to the upside, as supply disruptions and healthy demand growth would offset the increase in U.S. shale oil production, and as the market would price-in the extension of OPEC production cuts through March 2018. Citi projected Brent oil prices to average \$53 p/b in the third quarter and to rise to \$58 p/b in the fourth quarter of 2017, while it expected WTI oil prices to average \$50 p/b in the third quarter and to increase to \$55 p/b in the fourth quarter of the year. Overall, it forecast Brent oil prices to rise by 19.8% to an average of \$54 p/b in 2017, while it projected WTI oil prices to average \$51 p/b this year, up by 17.8% from a year earlier.

Source: Citi, Thomson Reuters, Byblos Research

## Middle East's demand for gold bars and coins up by 105% in second quarter of 2017

The Middle East region's net demand for gold bars and coins totaled 8 tons in the second quarter of 2017, up by 105% from 3.9 tons in the same quarter of 2016, and representing 3.3% of global demand for bars and coins. Demand for gold bars and coins from Iran and Saudi Arabia reached 2.5 tons each, representing 31.1% each of the region's total demand. The UAE followed with 1.5 tons (18.3%), then Egypt with 0.5 tons (6.3%) and Kuwait with 0.2 tons (2.5%).

Source: World Gold Council, Byblos Research

## Armenia's imports of precious stones and metals up 37% in 2016

Imports of precious stones and metals to Armenia totaled \$161.5m in 2016, constituting a rise of 36.5% from \$118.1m in the previous year, and represented 5% of the country's total imports. Imports of diamonds rose by 49.1% to \$130m in 2016, and accounted for 80.5% of imports of precious stones and metals, while gold imports dropped by 16.3% to \$19.5m last year, and represented 12.1% of the total.

Source: Customs Service of Armenia, Byblos Research

## Middle East to account for 9% of world's oil consumption in 2017

The Middle East region's crude oil consumption is expected to reach 8.85 million barrels per day (b/d) in the third quarter of 2017 and 8.5 million b/d in the fourth quarter of the year. Overall, the region's oil demand is projected at 8.49 million b/d this year, which would reflect an increase of 0.7% from 8.43 million b/d in 2016, and would be equivalent to 8.7% of the world's aggregate oil demand.

Source: Citi, Byblos Research

## Base Metals: Copper prices to increase in 2017 and 2018

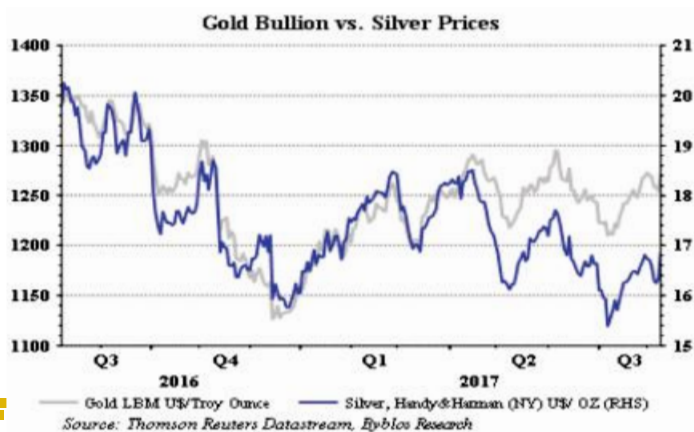
LME Copper three-month future prices reached \$6,515 a ton in intra-day trading on August 9, 2017, its highest level since December 2014, due to a weaker US dollar, higher Chinese demand for the refined metal amid sustained low inventory levels, supply disruptions in the Grasberg mine in Indonesia, and the awaited reforms to China's scrap import regulations. In fact, LME copper stockpiles are expected to decrease from 185,000 tons in 2016 to 13,000 tons in 2017. In turn, the metal's average price is forecast to rise from \$4,869 a ton in 2016 to \$5,850 a ton in 2017 and \$6,225 a ton in 2018. Downside risks to the price outlook include expectations of rising output over the 2018-19 period as new supply from Panama, Peru, and the Democratic Republic of Congo comes online, as well as a slowdown in Chinese demand. In parallel, the Bloomberg Industrial Metals Total Return Sub-Index rose by 4.1% in July and by 10.7% in the first seven months of 2017, while the Copper Sub-Index grew by 6.8% last month and by 14.2% from end-2016.

Source: Barclays, Citi, Thomson Reuters, Bloomberg Indexes

## Precious Metals: Silver prices to decline in 2017 on higher inventory levels

Silver prices averaged \$16.1 a troy ounce in July 2017, down by 4.6% from an average \$16.9 an ounce a month earlier and by 19.1% from \$20 an ounce in July 2016, constituting the metal's lowest monthly average since March 2016. Overall, silver prices are projected to decline by 1.8% to \$16.8 an ounce in 2017, with the metal's price dropping from \$17.2 an ounce in the second quarter of 2017 to \$16.3 an ounce in the third quarter and \$16 an ounce in the fourth quarter of the year. The price decline in silver prices this year reflects expectations of a drop in jewelry demand in Asia, which would result in higher silver inventory levels. However, upward pressure on the metal's price in 2017 could arise from developments in the political rift between Qatar and other Arab countries, which would drive demand for the safe haven asset, as well as a favorable outlook on industrial consumption for 2017, the metal's largest demand segment. In addition, global physical silver demand is expected to decline by 1% to 1,012 million ounces in 2017, mainly due to a decrease in coin & bar demand. Industrial usage for the metal is projected to account for 55% of total physical silver demand in 2017, followed by jewelry (21.3%), coins & bars (18.8%) and silverware (4.9%). In parallel, silver mine production is forecast to decrease by 1.5% this year and to account for 85.6% of total supply.

Source: Citi, Thomson Reuters, Byblos Research





# 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>Africa</b>													
Algeria	-	-	-	-	BB+	-2.5	17.3	2.5	-	-	-	-12.3	-
Angola	B Negative	B1 Negative	B Negative	-	B+ Negative	-5.8*	61.3	36.7**	103.4	13.2	199.5	-3.8	1.2
Egypt	B- Stable	B3 Stable	B Stable	B- Stable	B- Stable	-9.3	91.4	31.4	120.2	11.8	287.5	-6.6	3.4
Ethiopia	B Stable	B1 Stable	B Stable	-	B+ Stable	-3.1*	56.9	33.3**	188.9	9.5	1134.2	-10.0	2.8
Ghana	B- Stable	B3 Stable	B Stable	-	B+ Negative	-5.0*	71.7	40.2	120.3	13.5	491.9	-6.0	7.5
Ivory Coast	-	Ba3 Stable	B+ Stable	-	B+ Stable	-4.5*	52.1	31.7**	70.9	5.7	186.5	-4.0	3.0
Libya	-	-	B Stable	-	B- Negative	-16.4	78.2	-	-	-	-	-10.6	-
Dem Rep Congo	CCC+ Stable	B3 Stable	-	-	CCC Stable	-1.0*	24.3	20.0**	40.0	3.1	645.5	-3.8	4.6
Morocco	BBB- Stable	Ba1 Positive	BBB- Stable	-	BBB Stable	-3.5	64.3	32.3	98.4	10.9	155.2	-2.6	2.5
Nigeria	B Stable	B1 Stable	B+ Negative	-	B+ Negative	-4.5*	15.7	7.4	29.5	1.2	69.4	1.4	1.4
Sudan	-	-	-	-	CC Negative	-2.5	55.2	47.5	-	-	-	-4.7	-
Tunisia	-	Ba3 Negative	B+ Stable	-	BB+ Stable	-5.9	67.0	71.2	162.3	14.2	482.5	-8.6	2.3
Burkina Faso	B- Stable	-	-	-	B+ Stable	-3.6*	33.3	23.1**	-	-	-	-7.2	-
Rwanda	B Stable	B2 Stable	B Positive	-	B+ Stable	-2.8*	41.4	40.0**	187.3	6.4	455.6	-10.9	3.7
<b>Middle East</b>													
Bahrain	BB- Negative	B1 Negative	BB+ Negative	BB+ Stable	BBB- Negative	-12.0	90.0	191.5	233.7	31.9	2601.2	-1.3	-1.2
Iran	-	-	-	BB- Stable	BB- Positive	0.7	29.2	2.0	-	-	-	5.3	-
Iraq	B- Stable	Caa1 Stable	B- Stable	-	CC+ Stable	-4.2	60.0	38.8	-	-	-	-4.4	-
Jordan	BB- Negative	B1 Stable	-	BB- Negative	BB+ Stable	-2.9	95.8	68.4	166.7	17.5	195.7	-8.6	3.5
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	AA- Stable	3.5	19.8	38.5	60.8	2.7	159.2	-8.2	-7.6
Lebanon	B- Stable	B2 Negative	B- Stable	B Negative	B- Stable	-8.5	151.6	178.3	192.2	19.7	157.9	-19.4	6.8
Oman	BB+ Negative	Baa2 Negative	BBB Negative	BBB+ Stable	BBB Negative	-10.9	40.9	41.3	97.6	10.2	181.5	-9.6	0.0
Qatar	AA- CWN***	Aa2 Negative	AA CWN***	AA- Negative	AA- Stable	-7.0	50.2	130.0	265.7	27.0	664.0	-2.3	-3.0
Saudi Arabia	A- Stable	A1 Stable	A+ Stable	A+ Stable	AA- Stable	-9.3	19.9	21.9	73.0	7.2	33.9	0.2	0.8
Syria	-	-	-	-	C Negative	-	-	-	-	-	-	-	-
UAE	-	Aa2 Negative	-	AA- Stable	AA- Stable	-2.6	19.1	57.4	67.9	7.5	287.9	3.5	0.5
Yemen	-	-	-	-	CCC Negative	-6.0	77.4	20.3	-	-	-	-4.2	-



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. 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-	-3.8	53.1	92.7	189.3	34	513.7	-3.2	2.7
	-	Stable	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-3.7	49.3	3.8	56.6	4.6	48.3	1.3	0.0
	Stable	Negative	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-6.4	67.8	21.2	131.5	10.9	168.4	-1.5	1.6
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-6.3	21.8	113.0	316.0	68.8	801.7	-4.0	9.5
	Negative	Negative	Stable	-	Negative								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BBB	-1.3	24.5	-	91.0	13.8	145.8	2.3	1.3
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.6	40.6	53.0	160.8	22.3	281.5	-2.8	2.2
	Stable	Stable	Stable	-	Positive								
Russia	BB+	Ba1	BBB-	-	BB+	-3.6	17.1	33.2	124.9	27.9	162.5	3.3	1.0
	Negative	CWN***	Negative	-	Negative								
Turkey	BB	Ba1	BB+	BB+	BB-	-2.9	29.8	53.4	202.1	41.6	498.1	-4.8	0.8
	Negative	Negative	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-3.0	89.8	144.5	226.4	32.1	827.4	-3.6	1.7
	Negative	Stable	-	-	Stable								

\* 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	1.00-1.25	26-Jul-17	No change	20-Sep-17
Eurozone	Refi Rate	0.00	20-Jul-17	No change	07-Sep-17
UK	Bank Rate	0.25	03-Aug-17	No change	14-Sep-17
Japan	O/N Call Rate	-0.10	20-Jul-17	No change	21-Sep-17
Australia	Cash Rate	1.5	01-Aug-17	No change	05-Sep-17
New Zealand	Cash Rate	1.75	09-Aug-17	No change	27-Sep-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Jun-17	No change	14-Sep-17
Canada	Overnight rate	0.75	12-Jul-17	Raised 25bps	06-Sep-17
<b>Emerging Markets</b>					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.50	14-Jun-17	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	22-Jun-17	No change	29-Sep-17
South Korea	Base Rate	1.25	13-Jul-17	No change	31-Aug-17
Malaysia	O/N Policy Rate	3.00	13-Jul-17	No change	07-Sep-17
Thailand	1D Repo	1.50	05-Jul-17	No change	16-Aug-17
India	Reverse repo rate	6.00	02-Aug-17	Cut 25bps	04-Oct-17
UAE	Repo rate	1.50	14-Jun-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.00	15-Mar-17	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	06-Jul-17	Raised 200bps	28-Sep-17
Turkey	Base Rate	8.00	27-Jul-17	No change	14-Sep-17
South Africa	Repo rate	6.75	20-Jul-17	Cut 25bps	21-Sep-17
Kenya	Central Bank Rate	10.00	17-Jul-17	No change	20-Sep-17
Nigeria	Monetary Policy Rate	14.00	25-Jul-17	No change	26-Sep-17
Ghana	Prime Rate	21.00	24-Jul-17	Cut 150bps	25-Sep-17
Angola	Base rate	16.00	31-Jul-17	No change	31-Aug-17
Mexico	Target Rate	7.00	22-Jun-17	Raised 25bps	10-Aug-17
Brazil	Selic Rate	9.25	26-Jul-17	Cut 100bps	06-Sep-17
Armenia	Refi Rate	6.00	27-Jun-17	No change	15-Aug-17
Romania	Policy Rate	1.75	04-Aug-17	No change	29-Sep-17
Bulgaria	Base Interest	0.00	01-Aug-17	No change	01-Sep-17
Kazakhstan	Repo Rate	10.50	17-Jul-17	No change	21-Aug-17
Ukraine	Discount Rate	12.50	03-Aug-17	No change	14-Sep-17
Russia	Refi Rate	9.00	28-Jul-17	No change	15-Sep-17



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